PHOENIX MECANO

Annual Report 2005

Key figures Phoenix Mecano Group

		2005	2004	2003	2002	2001
Key financial figures						
Gross sales[1]	EUR million	315.0	310.2	326.1	323.8	342.0
Change	%	1.5	– 4.9	0.7	– 5.3	– 0.3
Operating cash flow[1, 2]	EUR million	44.7	46.7	44.3	38.1	41.1
Change	%	– 4.2	5.4	16.1	– 7.1	– 38.1
in % of sales	%	14.2	15.0	13.6	11.8	12.0
Operating result[1, 2]	EUR million	27.5	27.9	22.5	12.7	17.3
Change	%	– 1.5	24.2	77.5	– 26.6	– 62.8
in % of sales	%	8.7	9.0	6.9	3.9	5.1
Result before interest and tax[1]	EUR million	23.8	27.9	22.7	– 27.9	8.5
Change	%	– 15.0	22.9	181.5	– 428.8	– 81.7
Result of the period	EUR million	– 8.8	14.9	14.8	– 38.1	4.9
Change	%	– 159.4	0.6	138.7	– 872.3	– 85.4
in % of sales	%	– 2.8	4.8	4.5	– 11.8	1.4
in % of equity	%	– 6.3	9.3	10.1	– 29.4	2.7
Total assets	EUR million	285.0	311.1	301.7	299.0	367.3
Equity	EUR million	140.9	160.0	146.0	129.5	179.9
in % of total assets	%	49.4	51.4	48.4	43.3	49.0
Net indebtedness	EUR million	22.0	41.8	59.7	89.0	103.6
in % of equity	%	15.6	26.1	40.9	68.7	57.6
Cash flow from operating activities	EUR million	38.1	35.1	35.1	37.2	34.3
Free cash flow	EUR million	25.1	19.1	22.2	16.6	– 8.3
Investments in tangible assets	EUR million	13.3	15.3	13.0	21.7	37.7
Number of employees						
Number of employees[1] Annual average	Personnel	3 753	3 915	3 879	3 935	4 080
Gross sales per employee[1]	EUR 1 000	83.9	79.2	84.1	82.3	83.8
Personnel expenses per employee[1]	EUR 1 000	25.7	24.5	26.6	26.9	25.8
Share indicators						
Share capital (bearer shares at nominal CHF 1.00)	Number	1 100 000	1 100 000	1 100 000	1 100 000	1 100 000
Entitled to dividend[3]	Number	1 074 051	1 098 442	1 098 657	1 094 662	1 097 238
Operating result per share[1]	EUR	25.6	25.4	20.5	11.5	15.7
Result of the period per share	EUR	– 8.2	13.5	13.5	– 34.6	4.5
Change	%	– 160.7	0.2	139.0	– 864.0	– 85.2
Equity per share	EUR	131.2	145.7	132.7	117.7	163.5
Dividend/par value repayment	CHF	4.00[4]	4.00	4.00	6.00[5]	3.00[5]
Market price						
highest	CHF	366	440	403	504	1 120
lowest	CHF	280	310	148	201	280
year-end price	CHF	340	335	400	242	415

[1] The figures for 2004 and 2005 refer to the continued operations, i. e. without the discontinued OMP product area.

[2] Before restructuring expenses and other exceptional charges

[3] As at the balance sheet date, the company owns 25 949 own shares which are not entitled to dividend.

[4] Proposal to the General Meeting of shareholders of 26 May 2006

[5] In line with a decision taken by the Annual General Meeting of shareholders held on 7 June 2002, the share capital was reduced by CHF 9.9 million. The first part payment of the capital reduction totalling CHF 3.00 per share was distributed to shareholders in 2002. The second payment of CHF 6.00 was paid in 2003.

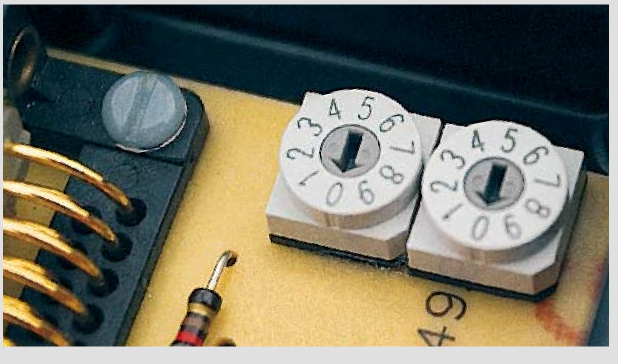
Phoenix Mecano Group at a glance – Business partners

Enclosures

Enclosures made of aluminium, plastic and glass-fibre-reinforced polyester, machine control panels and suspension systems protect sensitive electronics in a wide range of industrial applications.

Companies:
Rose Systemtechnik, Bopla Gehäuse Systeme, Kundisch

ELCOM/EMS[1]



Coding switches, inductive components and plug connectors are key components used in industrial electronics and control systems.

Companies:
Hartmann Codier, PTR Messtechnik, Götz-Udo Hartmann, Hartmann Elektronik, Phoenix Mecano Digital Elektronik

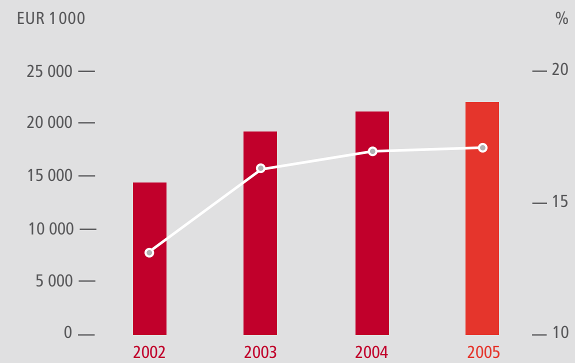
Mechanical components

Aluminium profile assembly systems, linear positioning systems, industrial clamps and linear drives are key individual components in mechanical engineering and electrically adjustable healthcare furniture.

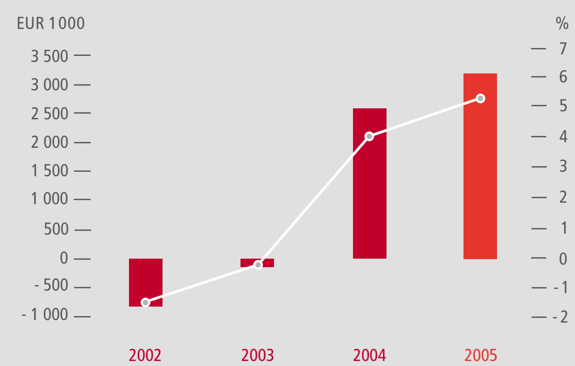
Companies:
RK Rose + Krieger, Dewert Antriebs- und Systemtechnik, Eldrive

[1] Electrotechnical components

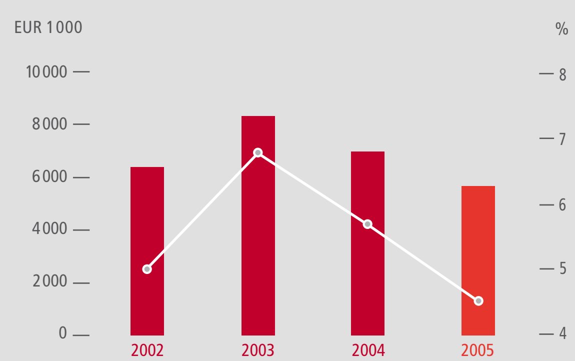
	2005 EUR 1 000	2004 EUR 1 000	2003 EUR 1 000	2002 EUR 1 000
Gross sales	127 596	123 956	118 304	112 059
Investments in tangible assets	4 400	6 410	3 302	2 876
Operating result[1]	21 901	21 127	19 377	14 724
Margin	17.2 %	17.0 %	16.4 %	13.1 %



	2005 EUR 1 000	2004 EUR 1 000	2003 EUR 1 000	2002 EUR 1 000
Gross sales	59 756	62 683	56 491	54 928
Investments in tangible assets	3 468	3 170	3 567	6 479
Operating result[1]	3 173	2 538	– 130	– 802
Margin	5.3 %	4.0 %	– 0.2 %	– 1.5 %



	2005 EUR 1 000	2004 EUR 1 000	2003 EUR 1 000	2002 EUR 1 000
Gross sales	126 214	122 234	120 820	127 428
Investments in tangible assets	4 379	3 668	3 090	4 076
Operating result[1]	5 632	7 259	8 269	6 326
Margin	4.5 %	5.9 %	6.8 %	5.0 %



[1] Before restructuring costs and other special charges.

Operating result in EUR 1000 — Margin in %

Team spirit is a crucial element in all divisions and at all levels of Phoenix Mecano. Parent companies that are responsible for specific products run the Group's production facilities and distribution companies around the world. Phoenix Mecano offers its customers system solutions that are tailored to their specific requirements. Today's market demands products that can only be the fruit of close collaboration between specialists in various sectors and subsidiaries. Tomorrow's market will be no different.

Team spirit holds the key to future success. At Phoenix Mecano it is an established fact of daily life.

Ulrich Hocker, Chairman of the Board of Directors / **Benedikt Goldkamp,** CEO

Dear Shareholders,

2005 was an eventful year for the Phoenix Mecano Group. It witnessed some major successes, and also some failures; but more than anything it was a year in which we plotted our course for the future. If we cast our minds back, the consumer behaviour in the European markets was cautious yet at the same time capital goods enjoyed special economic situation driven exclusively by exports. The greatest challenge came in early 2005 with the restructuring of our telecom business – customer specific switch gear cabinets for mobile phone base stations, encompassed in our Italian subsidiary OMP. In addition, we further consolidated and expanded the market presence of our component parts divisions in the Far East, India, Latin America and Eastern Europe.

Liquidation of Italian subsidiary OMP

In late 2004, following several years of losses caused by market changes, the Board of Directors adopted a restructuring package for OMP, a subsidiary that we acquired in 2000. This included a short-term production transfer to Eastern Europe combined with painful staff cuts in Italy. The aim was to stabilise business to enable us to assess strategic alternatives for the business field from a secure position. This attempt at stabilisation was only partially successful. Despite massive cost cutting, the objective of a sustainable turnaround was not achievable in the very short time available. The Board of Directors immediately decided to examine the possibility of a complete exit from the business field and began to make the appropriate preparations. Thanks to the production transfer measures implemented in the first half of the year, it was possible to sell off parts of the company – in Hungary, in particular – as part of the now necessary liquidation of OMP and thereby to avoid fines in connection with existing long-term supply commitments. During the preparations for the liquidation, independent auditors detected administrative weaknesses in the warehouse accounting system. We can only assume that such short-comings had gone undetected in previous years, the extent of which is now impossible to quantify due to the time that has passed.

The equity was adjusted accordingly on 1 January 2005 – a reduction of around EUR 6 million (4 %) in the equity base – with no effect on income. Following the exit from the telecom business, the Board of Directors decided to integrate the remaining activities of the ECM division into the Electrotechnical Components division.

This division in its expanded form now includes, in addition to electrotechnical components, the EMS (Electronics Manufacturing Services) activities of subsidiaries Phoenix Mecano Digital Elektronik and Hartmann Elektronik. This expansion of the product and service portfolio called for a corresponding name change: the division now trades under the new name ELCOM/EMS and has supplemented its traditional electrotechnical components with circuit board equipment, backplanes, electronic coin testing systems and the development of customised electronic applications right down to complete subsystems. This increases the potential for synergies with the Enclosures and Mechanical Components divisions, which will be able to use the skills of the ELCOM/EMS division for system orders.

Switch to cleaner materials

A notable challenge involved the switch to products containing no or few harmful substances. Under the European Union's ROHS (Restriction of Hazardous Substances) Directive, companies supplying products ultimately intended for end consumers are prevented from using a number of substances classified as hazardous to human health. The Directive is expected to enter force on 1 July 2006.
As a component supplier, we often cannot tell how our products will ultimately be used; we therefore decided well in advance of the Directive's entry into force to apply its provisions worldwide for almost all of our products. Due to the costly product certification process, component suppliers in specific sectors such as medical technology and the automotive and aerospace industries are in many cases obliged to continue to use ROHS-listed substances until the cleaner versions of the end products have successfully cleared the certification process. The switch to cleaner materials required considerable logistical effort and significant investment on our part, which have now been made. For example, new injection moulding equipment for plastic components had to be developed, new soldering lines for lead-free solders introduced and clear, traceable packaging labelling established. In some cases, the old stock had to be written down or scrapped entirely. The Phoenix Mecano Group now fully complies with the new standards and does not simply meet the requirements stipulated by law, but goes further by applying the stringent European hazardous substances reduction standards everywhere in the world.

Growth in overseas markets

Phoenix Mecano's organic growth was driven largely by the customer segment mechanical engineering and related products, such as electronic control systems. Geographically, the volume was heavily concentrated in the rising markets of the Far East, India and Eastern Europe. In some instances the Group made considerable gains in direct business in these regions. At least as important, however, was the indirect business which our export-oriented customers in Germany and Switzerland, for example, conducted with end customers from these regions. Despite sound development in Europe, the positive development of our Enclosures division and to a lesser degree our Mechanical Components division was indirectly nourished by the investment boom in these emerging countries.
Phoenix Mecano now has subsidiaries in every one of the world's continents for the first time in its over 30-year history, following a 70% takeover of sales company Dewert Australia. Dewert markets drive technology from the Mechanical Components division and more than doubled its sales in 2005. In the future, the Phoenix Mecano Group plans to market more of its products via this successful channel in the growing Australian market.

New capacity

Phoenix Mecano's value-added strategy includes not only the development and construction of modern technical components but also consultation, customer specific adaptations and system integration. Many customers in the mechanical engineering sector would like to reduce the number of suppliers they work with by ordering complete modules and subsystems rather than individual parts. Phoenix Mecano picked up on this trend early on and has geared its sales practice to these requirements. In 2005, system engineering factory capacity at the Swiss sales company Phoenix Mecano Komponenten

AG was expanded with a view to further optimising service quality. A similar project on an even bigger scale is planned for 2006 at our subsidiary Rose&Krieger in Germany. In the future, systems comprising aluminium profiles, pipe connection parts and linear tables will be increasingly pre-assembled at this site from existing component kits; it will then be possible to integrate them into the complex facilities of end customers within a few hours. Naturally, further investment is taking place in manufacturing capacity at low-wage facilities. The Phoenix Mecano Group takes great pains to build up the technical skills present at its Eastern European, Tunisian and Asian plants and to exploit the rising skills levels of its employees in these places. In 2006 there are plans to expand in Tunisia and to begin manufacturing aluminium die casting parts in India.

Outlook

After several years of near-stagnation, bolstered only by the success in exports, there is renewed promise of growth in the key markets of Germany and Switzerland. This was already apparent in the increase in incoming orders received by the Phoenix Mecano Group in late 2005. The short-term indicators point to a cyclical recovery. The current challenge for Phoenix Mecano is to take advantage of the potential this affords whilst at the same time working hard at long-term competitiveness. The structural changes imposed on industrial companies by globalisation are resulting in challenges which are here to stay and which must be met by innovation and by adapting to new circumstances. As far as the brighter economic climate is concerned, the decision to suspend OMP's activities came not a moment too soon, since it is only thanks to this decision and the consistent and smooth implementation of liquidation measures that resulted from it that resources have been freed up to exploit the potential of the 2006 financial year for the Group as a whole. Against this background, the Board of Directors expects to see positive development in all three of the Group's divisions. In 2006, the Group will be focusing on its internal growth potential; however, smaller acquisitions to round off the production portfolio are also a possibility. Providing an outlook for the year 2006 is clearly difficult due to the short-term nature of the business. However, thanks to our strong market shares and continual improvements at all levels of value creation, prudent optimism is also warranted for the medium and long terms.

Thank you to our staff

The rising prices of raw materials, global competition and the short-term ordering habits of customers have placed heavy demands on Phoenix Mecano employees over the past year. However, this challenging climate has proved that the company's long-term strategy and its continuity-based staffing policy have resulted in a strong team that has performed to the maximum under heavy pressure. For this reason, we would like to extend a very big thank you to all of our staff members. In the future, international cooperation, intercultural understanding and the local knowledge of our front-line staff in our markets in Europe, Asia and the Americas will continue to play a decisive role in the success of our value-added strategy. Our group is now highly international in composition and is therefore dependent on global teamwork. With the well trained team at our disposal, we are confident that we can convert the opportunities offered by globalisation into growth and market success.

Ulrich Hocker,
Chairman of the Board of Directors

Benedikt Goldkamp,
Delegate of the Board of Directors/CEO

Strategy

- Reduction of entrepreneurial risk by combining customer-specific project development with standard components.
- More and more customers are benefiting from the forward-looking value-added strategy.

Phoenix Mecano distinguishes itself by strong positions in niche markets. The focus on standard components and their adaptation to customer-specific needs guarantees cost-effective, yet highly efficient, solutions, whilst ensuring low entrepreneurial risk. Our broad customer base and the production solutions developed together with our clients ensure close, lasting customer relations.

Standard components tailored to customers' requirements

A growing number of customers are opting to outsource development, assembly and/or production tasks. Phoenix Mecano is taking advantage of this opportunity. The Group's three divisions manufacture standard components adapted to meet customers' specific needs. This adaptation is expanded when necessary to include special-purpose solutions, sub systems and complete modules. These services form the core of the Phoenix Mecano Group's forward-looking value-added strategy. Over the years, extensive skills have been developed in this area which are currently concentrated in the ELCOM/EMS division. Our customers have the highest demands when new solutions are developed. We meet this challenge with business excellence in project execution.

The Group's decentralised structure, with subsidiaries distributed throughout the world, each with its own management, enables quick decision-making and guarantees early detection of market trends.

Since niche products and system components are only subject to the demand for cost savings in a second stage, concentrating on these products results in a better margin. The availability and top quality of products are more important to customers than the price.

Products are developed together with our customers, and concentrating on a broad base of similar customer needs enables cost-effective production. The limited technical complexity of the products in question enables production to be shifted to low-wage countries. Strategic decisions on production facilities create positive conditions here for especially competitive manufacturing processes. The watchword applying to all Phoenix Mecano products is that they should be amongst the best products of their kind available.

Sales take place worldwide, directly at local level through the Group's sales companies. Here too, products are adapted to the local market and refined from a catalogue part into customer-specific products.

The success of both our individual companies and the entire Group rests on the training and commitment of our employees at all levels and in all countries. Phoenix Mecano encourages its staff members to actively take advantage of basic and continuing training opportunities and offers them development opportunities within the Group as far as possible.

Acquisition strategy

Phoenix Mecano applies very strict criteria for growth through acquisitions. Instead of acquiring companies that need turning around, it only takes over successful companies. Furthermore, the products of the acquired companies must meet the same high standard as Phoenix Mecano's products. In principle, it must be possible to integrate acquisitions using Phoenix Mecano's existing management team. To this end, Phoenix Mecano has a superbly efficient international distribution network plus broad know-how regarding the cost-effective production of series parts.

Corporate Vision, Mission and Values

Strategic success factors are necessary, but not sufficient explanations for corporate progress. After all, viewed from a global perspective, companies like Phoenix Mecano function in an extremely heterogeneous world in which they deliberately exploit regional differences. But to act fairly and with foresight across all borders, Phoenix Mecano has formulated selected values and objectives to serve as a corporate vision, a mission and values against which any decisions made by the management have to be held up. Each of these points is presented individually and explained on our homepage (www.phoenix-mecano.com).

Report by the Executive Committee

- Incoming orders for continued operations up 2.7%
- Double-digit sales growth in overseas markets

Discontinuation of operations from the OMP product area
Phoenix Mecano decided to discontinue the operations in the customer-specific switchgear cabinets and electronic packaging solutions in Italy and Hungary (OMP product area). No lasting turnaround was achieved, despite huge cost reductions. Individual sub sectors of these operations were disposed of up until 31 December 2005. The OMP S. r. l. subsidiary in Italy is currently being liquidated and the process is expected to be complete in 2006. The discontinued OMP product area represented a total charge of EUR 25.3 million on the 2005 financial statements of the Phoenix Mecano Group. Operating loss totalled EUR 11.2 million (previous year EUR 7.6 million) and the restructuring and discontinuation of operations cost EUR 14.1 million. Included in these costs were the devaluation losses on fixed assets, value adjustments and losses on inventories, severance payments and provisions for contractual risks and liquidation costs. The amount is based on significant estimations and the actual costs incurred between now and the completion of the liquidation process and the income to be realised may differ from the estimations.

During the preparations for the Group's withdrawal from OMP, shortcomings in stock bookkeeping were unearthed in the OMP S. r. l. (I) subsidiary, which did not just affect the current financial year. Because of missing basic documentation and reliable secondary information, no sufficiently reliable effects could be predicted on the balance sheet dates before 31 December 2004. As at 31 December 2004, there was a discrepancy of EUR 6.4 million with the capital stock posted on the balance sheet at OMP S. r. l. (I). This discrepancy correspondingly reduced the Group's consolidated equity as at 1 January 2005. The established shortcomings referring to the 2005 financial year have been successfully corrected.

A change of name for the Electrotechnical Components division
The remaining operations of the Electronics Contract Manufacturing division that did not belong to OMP were transferred to the Electrotechnical Components division, renamed ELCOM/EMS. The following comments relate to the Group's continued operations.

Dynamic growth in overseas markets
2005 was characterised by cautious consumer behaviour in Europe, a special economic situation in the capital goods sector driven by exports and dynamic growth in southeast Asia. An assessment from a regional perspective shows clear double-figure sales growth in the Group's overseas markets, above all in North America, Brazil, China and southeast Asia. In Europe, the Group's sales were down slightly by 0.8 %, particularly on the British and French markets. The share of sales made in Europe as a percentage of total sales dropped from 84.8 % to 82.9 %.

There was an economic upturn in Europe at the end of the year which is reflected in the increase in orders received by the Phoenix Mecano Group.

The Group's consolidated gross sales rose by 1.5 % in 2005 from EUR 310.2 million to EUR 315.0 million. Corrected for differences in foreign exchange rates, the growth in sales totalled 1.3 %. The changes in the scope of consolidation scope only had a minor effect with a 0.2 % increase in sales.

Incoming orders amounting to 318.6 million were up 2.7 % on those made in the previous year, which totalled EUR 310.3 million. Incoming orders for the entire year 2005 made up 101.2 % of gross sales. In the fourth quarter of 2005, the book-to-bill ratio was 105.8 %.

Whist the Phoenix' Mecano Group's two largest divisions, Enclosures and Mechanical Components, increased their sales by 2.9 % and 3.3 % respectively, the newly created ELCOM/EMS division recorded a decline in sales of 4.7 %. The divisions' previous operations and the Electronics Manufacturing Services (EMS) operations recently included in this division lagged behind the previous year. These EMS activities are integrated in the results of the two subsidiaries Hartmann Elektronik GmbH (D) and Phoenix Mecano Digital Elektronik GmbH (D). The drop in sales from previous operations can be attributed partly to the Group's withdrawal from unprofitable market segments for inductive components and partly to weaker demand for terminal blocks and series terminals during the first half of 2005. The discontinuation of the OMP product area had a negative impact on individual projects from the EMS sector.

Stable operating profitability
Operating profitability remained more or less stable in 2005 despite pricing pressure and rising raw material prices. Phoenix Mecano Group's operating profits before restructuring expenses totalled EUR 27.5 million and was thus only

slightly lower – 1.5 % – than the figure for the previous year. The operating income margin decreased slightly from 9.0 % to 8.7 %. Both the Enclosures and the ELCOM/EMS divisions increased their contribution to earnings – the ELCOM/EMS division's result was up 25 % on the previous year. However, the Mechanical Components division recorded a drop in its result.

In addition to the discontinuation of operations in the OMP product area, restructuring measures in the ELCOM/EMS and Mechanical Components divisions were also required. The expenses incurred for these measures were EUR 3 million for the ELCOM/EMS division and EUR 0.8 million for the Mechanical Components division. They generated a result before interest and tax of EUR 23.8 million, which was 15 % less than the previous year's result of EUR 27.9 million. Restructuring expenses were incurred in the ELCOM/EMS division for the closure of a production facility in Berlin and for the relocation of production from Germany to cheaper production sites. This resulted in devaluation losses on property owned by the company in Germany which was no longer used to its full potential. In the Mechanical Components division, a production facility was closed in the US and production was relocated to Hungary and China.

The use of materials by the Phoenix Mecano Group increased over-proportionally to sales by 4.1 % and the share of materials used rose from 38.9 % to 39.8 % (in % of gross sales). The main reason for this was the sharp increase in the prices of raw materials, which could not be fully passed on to the market by increasing prices. Staff costs, however, remained more or less stable (0.6 % increase). The annual average number of employees dropped by 162 to 3 753 employees. The reluctance to invest is reflected in further reduced amortisation and depreciation. Other operating expenses, however, rose by 2.4 %. The increase can mainly be attributed to devaluation losses on capitalised development services and production facilities in the Mechanical Components division and to rising energy costs and third-party development expenditure.

Result of the period totalling EUR 16.4 million from continued operations

Despite a slightly improved interest result, the financial result dropped by EUR 0.3 million to EUR – 2.5 million. The reason for this decrease was book losses on currency and interest hedging deals. In the reporting year, tax costs rose from EUR 3.3 million to EUR 4.8 million, essentially because of the non-capitalisation of tax losses carried forward. A period result of EUR 16.4 million was attained from continued operations, compared to EUR 22.5 million in the previous year. Owing to a loss from discontinued operations totalling EUR 25.3 million, a loss for the period from continued and discontinued operations of EUR 8.8 million was recorded.

Optimisation of capital expenditure and further reduction of net indebtedness

Net operating assets were further reduced in all three divisions in 2005. This reduction, along with a better profit margin, led to a significant increase in the profitability of the Enclosures and ELCOM/EMS divisions. The reduction in profitability in the Mechanical Components division was limited thanks to the reduction in capital expenditure. Despite the outward flow of funds linked to the discontinuation of operations in the OMP product area, free cash flow increased from EUR 19.1 million to EUR 25.1 million mainly as a result of optimised capital expenditure. These freed-up funds helped to reduce the Group's net indebtedness significantly from EUR 41.8 million to EUR 22.0 million. Moreover, the Board of Directors launched a share buyback programme in 2005.

A solid equity ratio

The equity ratio fell only slightly to 49.4 %, compared to 51.4 % in the previous year, despite the loss of EUR 8.8 million over the period under review arising as a result of the withdrawal from OMP and the buyback of own shares totalling EUR 5.1 million. This comfortable capital structure gives the Group the necessary scope for its development in 2006, both to refinance the loan of CHF 100 million that will fall due and to pursue the company's development.

Investments below the long-term average

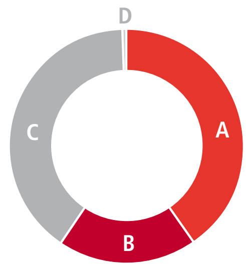
Total investments in tangible assets for continued operations totalled EUR 12.4 million, compared to EUR 13.7 million in the previous year. Investments in buildings were mainly made for the expansion of assembly capacity for system engineering in Stein am Rhein. Investment activities in 2005 focused on the modernisation of production facilities.

Important key financial figures

Gross sales by division[1]

		2005 EUR 1 000	2004[2] EUR 1 000	Change in %
A	Enclosures	127 596	123 956	2.9
B	ELCOM/EMS	59 756	62 683	– 4.7
C	Mechanical components	126 214	122 234	3.3
D	Other	1 400	1 294	8.2
	Total	**314 966**	**310 167**	**1.5**

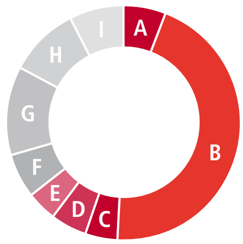
2005 in %



Gross sales by region[1]

		2005 EUR 1 000	2004[2] EUR 1 000	Change in %
A	Switzerland	18 594	19 125	– 2.8
B	Germany	142 156	143 127	– 0.7
C	Great Britain	13 631	14 461	– 5.7
D	France	16 399	17 678	– 7.2
E	Italy	13 321	13 383	– 0.5
F	Benelux	19 220	17 698	8.6
G	Rest of Europe	37 680	37 640	0.1
H	North and south America	30 465	27 102	12.4
I	Middle and far East	23 500	19 953	17.8
	Total	**314 966**	**310 167**	**1.5**

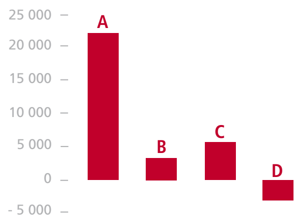
2005 in %



Operating result before restructuring expenses by division[1]

		2005 EUR 1 000	2004[2] EUR 1 000	Change in %
A	Enclosures	21 901	21 127	3.7
B	ELCOM/EMS	3 173	2 538	25.0
C	Mechanical components	5 632	7 259	– 22.4
D	Other	– 3 171	– 2 975	– 6.6
	Total	**27 535**	**27 949**	**– 1.5**

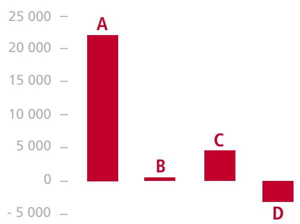
2005 EUR 1 000



Result before interest and tax by division[1]

		2005 EUR 1 000	2004[2] EUR 1 000	Change in %
A	Enclosures	21 901	21 127	3.7
B	ELCOM/EMS	201	2 538	– 92.1
C	Mechanical components	4 839	7 259	– 33.3
D	Other	– 3 171	– 2 975	– 6.6
	Total	**23 770**	**27 949**	**– 15.0**

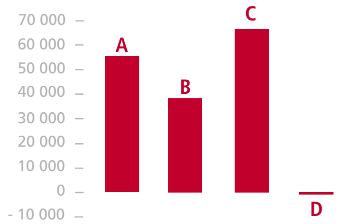
2005 EUR 1 000



Net operating assets by division[1]

		2005 EUR 1 000	2004[2] EUR 1 000	Change in %
A	Enclosures	55 525	60 726	– 8.6
B	ELCOM/EMS	38 842	46 092	– 15.7
C	Mechanical components	66 514	68 949	– 3.5
D	Other	– 313	– 176	– 104.2
	Total	**160 568**	**175 591**	**– 8.6**

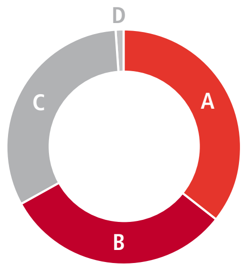
2005
EUR 1 000



Number of employees by division[1] (Average over the year, including trainees)

		2005	2004[2]	Change
A	Enclosures	1 275	1 266	9
B	ELCOM/EMS	1 264	1 424	– 160
C	Mechanical components	1 138	1 108	30
D	Other	76	117	– 41
	Continued operations	**3 753**	**3 915**	**– 162**

2005
in %



Investments in tangible assets[1]

	2005 EUR 1 000	2005 in %	2004[2] EUR 1 000	2004 in %
By type of investment				
Land and buildings	1 139	9.2	1 397	10.2
Machinery and equipment	6 727	54.3	6 427	46.9
Tools	2 221	17.9	3 584	26.1
Advance payments and construction in progress	2 301	18.6	2 303	16.8
Total	**12 388**	**100.0**	**13 711**	**100.0**
By division				
Enclosures	4 400	35.5	6 410	46.7
ELCOM/EMS	3 468	28.0	3 170	23.1
Mechanical components	4 379	35.4	3 668	26.8
Other	141	1.1	463	3.4
Total	**12 388**	**100.0**	**13 711**	**100.0**

[1] The figures relate to continued operations.

[2] Figures from the previous year were adapted as a result of changes in the organisation of the divisions.

ENCLOSURES

Rose Systemtechnik in Porta Westfalica (Germany) employs 290 people from four different countries.

Dynamic sales growth in overseas markets

Successful project work in the Oil and Gas division

Again, a slightly over-proportional increase in the operating result

Capital expenditure significantly improved

Internationalisation of sales activities

In 2005, sales by the Enclosures division rose by 2.9 %, on which there were only minor currency effects. In Germany, the Group's main market, sales rose by 1.9 % and in the Benelux countries they rose by 14.0 % (above all in the Oil and Gas division). However, it was the sales markets in North America and southeast Asia that contributed most to the growth in sales in 2005. As a result, the share of overseas sales in total sales rose from 10.9 % to 12.4 %. However, France and Great Britain, which had displayed strong growth in sales in the previous year, recorded declines in sales.

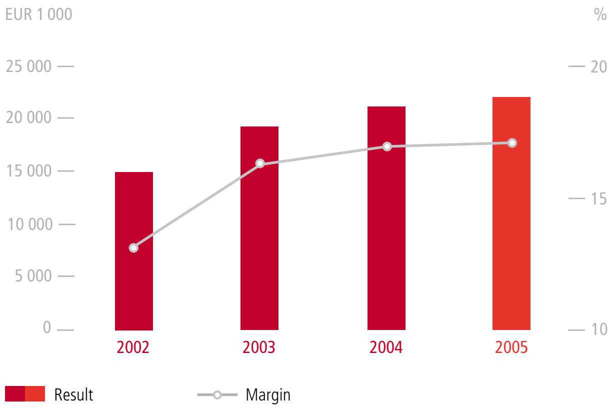
As a result of the strong increase in demand for energy and raw materials throughout the world, project work, primarily in the Oil and Gas division, was expanded. Stainless steel enclosures, mainly used in food technology and the processing industry, continued to deliver pleasing sales growth rates. The sandwich keyboard business, which achieved an 8 % increase in sales, also developed satisfactorily. The company landed new projects in electronic controls (touchscreen, sandwich keyboard and electronics combination) and in fire alarm systems. However, in the advice-intensive areas of sandwich keyboards, 19" technology and system solutions, some interesting projects were postponed.

In the last few months of the year, incoming orders for the whole division were clearly higher than in previous months and seems to indicate that there will be an economic upturn in 2006.

One of the results of increased involvement in the various projects was the further internationalisation of the division's sales activities. In 2005, new activities were launched in southeast Asia, North America and Eastern Europe, which will be pursued with more effort in the coming years. The organisation of sales in the Group's main market (Germany), on the other hand, is being increasingly centralised which means that customer service can be improved and less resources will be needed.

The operating result for the Enclosures division displayed slightly over-proportional growth of 3.7 % in 2005. This enabled the division to increase its operating profit margin for the third year running. Given the fact that the gross margin decreased slightly as a result of pressure on sales prices and higher material costs, this development is particularly pleasing. The increase occurred as a result of tight cost management coupled with the positive effects of relocating the manufacture of sandwich keyboards to Hungary.

Operating result before restructuring expenses



		2005	2004	2003	2002
Result	EUR 1 000	21 901	21 127	19 377	14 724
Margin	%	17.2	17.0	16.4	13.1

The return on net operating assets (ROCE) totalled 39.4%, clearly exceeding the previous year's peak value of 34.8%. Capital expenditure was reduced again in 2005, this time by EUR 5.2 million as a result of a further reduction in net current assets (inventories in particular).

Net operating assets

	Profitability		Profitability	Change
2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %	in %
55 525	39.4	60 726	34.8	– 8.6

After the beginning of 2005, the plastics injection moulding plant in Romania was able to continue operations in new premises. Investments made in 2005 were focused on

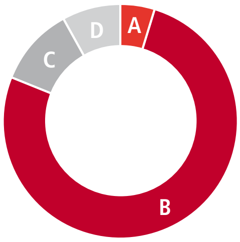
„I achieve more in a team than I do alone“.

Daniela Knop
Industrial sales representative/
Despatch office
Rose Systemtechnik GmbH

modernising and expanding the Group's stock of machinery, above all injection moulding machinery. The Group continued to concentrate on manufacturing plastic enclosures in the facilities in Hungary and Romania in 2005 and the results of the manufacturing strategy should be seen from 2006 onwards. The investment figures for the previous year included the construction project in Romania totalling EUR 1.8 million (primarily under Construction in progress). Unlike in the previous year, larger investment projects in tools were not recorded in 2005.

In 2005, the annual average number of staff employed in the Enclosures division rose slightly from 1 266 to 1 275. The increase was almost completely attributable to the production facilities in Romania. Per capita sales increased slightly in 2005 from EUR 98 000 to EUR 100 000.

Investments in tangible assets



		2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %
A	Land and buildings	215	4.9	803	12.5
B	Machinery and equipment	3 363	76.4	2 347	36.6
C	Tools	481	10.9	1 353	21.1
D	Advance payments and construction in progress	341	7.8	1 907	29.8
	Total	**4 400**	**100.0**	**6 410**	**100.0**

Gross sales by region

	Sales	Share of sales	Sales	Share of sales	Change in sales
	2005 EUR 1 000	**2005 in %**	**2004 EUR 1 000**	**2004 in %**	**in %**
Switzerland	9 292	7.3	9 146	7.4	1.6
Germany	63 904	50.1	62 703	50.6	1.9
Great Britain	5 010	3.9	5 361	4.3	– 6.5
France	4 501	3.5	5 211	4.2	– 13.6
Italy	5 214	4.1	5 310	4.3	– 1.8
Benelux	10 350	8.1	9 075	7.3	14.0
Rest of Europe	13 472	10.6	13 591	11.0	– 0.9
North and South America	11 597	9.1	10 261	8.2	13.0
Middle East and Far East	4 256	3.3	3 298	2.7	29.0
Total	**127 596**	**100.0**	**123 956**	**100.0**	**2.9**

ELCOM/EMS

Götz Udo Hartmann in Grävenwiesbach (Germany) employs 39 people from three different countries.

Reshaping of the ELCOM/EMS division

Strong market position on the growth markets

Expansion of purchasing and sales activities in the Far East

Operating profit up 25 % to EUR 3.2 million

Successful implementation of the cost reduction programmes

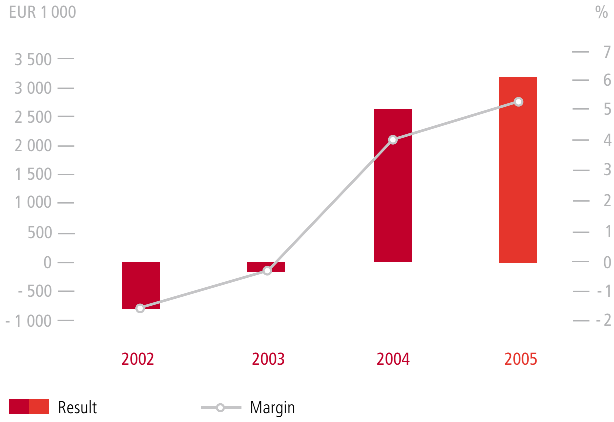
The newly created ELCOM/EMS division brings together the product areas from the former Electrotechnical Components division and the continued Electronics Manufacturing Services operations from the Electronics Contract Manufacturing division.

The ELCOM/EMS division suffered a EUR 2.9 million drop in sales down to EUR 59.8 million in 2005, which corresponds to a reduction of 4.7 % (5.1 % in local currency). Growth in sales was recorded in the most important regions, Middle East and Far East (+ 4.2 %) and North and South America (+ 15.8 %). However, there were losses of 6.9 % on the European markets.

The coding switch product area increased its sales by 3 % in 2005 as a result of increased demand from the mechanical engineering industry and successful project work in consumer electronics. The largest decline in sales was recorded in inductive components for household appliances and lighting technology. This can be attributed to a sharp drop in prices in this market segment and to the fact that the division focused intensively on projects in the future-oriented industrial automation and drive technology markets, solar inverter systems and wind energy. The months at the beginning of the year, during which the Group achieved low sales rates, were only partially offset by the division's product area – terminal blocks and series terminals and spring contacts – that attained the highest sales figures. Despite intensive project work and over-proportional growth in the automotive market segment, there was a 2 % decline in sales. Phoenix Mecano Digital Elektronik GmbH (D) and Hartmann Elektronik GmbH, which are active in Electronics Manufacturing Services, also recorded losses in sales in the vigorously competitive market.

The ELCOM/EMS division's operating profit before restructuring expenses rose by 25 % to EUR 3.2 million (previous year EUR 2.5 million) thereby increasing its profit margin to 5.3 % (previous year 4.0 %). The fact that there was an improvement in the result despite a decline in sales bears witness to effective cost management and the successful implementation of strategies in the area of sourcing and focusing on high-margin market segments. However, the dynamic market environment and the large amount of pressure from competition forced the division to continue with cost reduction measures and to open up new, profitable markets. An example of the latter approach is boosting sales activities in China and Korea and participating for the first time in a trade show in Moscow. The restructuring expenses incurred in 2005 are detailed in the notes on page 7.

Operating result before restructuring expenses



		2005	2004	2003	2002
Result	EUR 1 000	3 173	2 538	– 130	– 802
Margin	%	5.3	4.0	– 0.2	– 1.5

Net operating assets totalled EUR 38.8 million in the reporting year and were down on the previous year by 15.7 % (EUR 7.3 million). The reduction was made in current assets, above all in stocks. As a result, return on capital employed increased over-proportionally, compared to the increase in margin, from 5.5 % to 8.2 %.

Net operating assets

	Profitability		Profitability	Change
2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %	in %
38 842	8.2	46 092	5.5	– 15.7

The ELCOM/EMS division's investments in tangible assets were about 10 % up on the previous year. Assets totalling EUR 1.6 million were being paid or in progress as at the balance sheet date. EUR 0.8 million of this figure was allocated to extension work at Phoenix Mecano Digital Elektronik in Wutha-Farnroda, Thüringen (D) in order

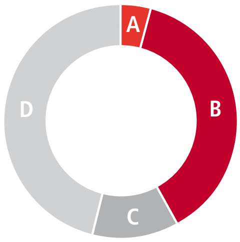
„Teamwork takes on a new dimension every day, as we strive to offer our global customer base the best possible service“.

Christian Kammenhuber
Development manager
Götz-Udo Hartmann GmbH & Co. KG

to expand the capacities for electronics manufacturing. The remainder was primarily used for payments for tools. Investments in machinery and equipment were slightly down on those made in the previous year. Investments were made primarily in manufacturing technology for backplanes and rotary coding switches in 2005.

The annual average number of staff employed by the ELCOM/EMS division fell from 1 424 to 1 264. The reduction in employees is mainly attributable to the reduced sales figures, but also to better productivity of the manufacturing processes for inductive components and terminal blocks which were brought together in one facility in Tunisia in 2004. The division achieved per capita sales of EUR 47 000, which represented an increase of 7.0 % on the previous year (EUR 44 000).

Investments in tangible assets



		2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %
A	Land and buildings	144	4.2	163	5.1
B	Machinery and equipment	1 316	37.9	1 620	51.1
C	Tools	409	11.8	1 277	40.3
D	Advance payments and construction in progress	1 599	46.1	110	3.5
	Total	**3 468**	**100.0**	**3 170**	**100.0**

Gross sales by region

	Sales	Share of sales	Sales	Share of sales	Change in sales
	2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %	in %
Switzerland	2 532	4.2	2 815	4.5	– 10.1
Germany	34 720	58.1	35 488	56.6	– 2.2
Great Britain	1 470	2.5	2 637	4.2	– 44.3
France	1 232	2.1	1 304	2.1	– 5.5
Italy	2 519	4.2	3 428	5.5	– 26.5
Benelux	1 142	1.9	1 163	1.9	– 1.8
Rest of Europe	6 335	10.6	6 830	10.9	– 7.2
North and South America	4 051	6.8	3 497	5.5	15.8
Middle East and Far East	5 755	9.6	5 521	8.8	4.2
Total	**59 756**	**100.0**	**62 683**	**100.0**	**– 4.7**

MECHANICAL COMPONENTS

Dewert Antriebs- und Systemtechnik in Kirchlengern (Germany) employs 168 people from nine different countries.

Successful new products in capital goods and furniture sectors

Strong growth in Australia thanks to own sales company

Finishing touches to the system programme for the hospital bed sector

Devaluation losses affect the operating result

Restructuring of the business in North America

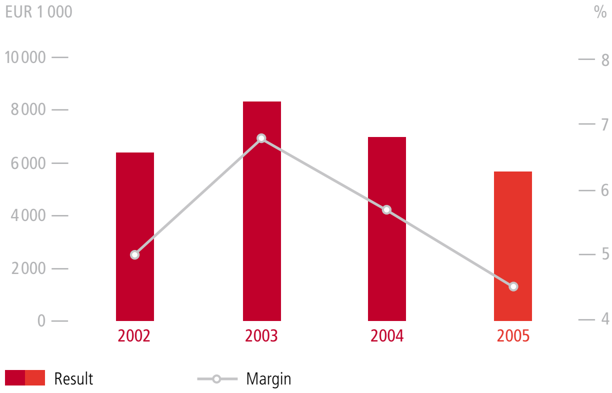
The Mechanical Components division achieved 3.3 % growth in sales (compared with 1.2 % in the previous year) with minimal currency effects during the reporting year. The growth was realised in particular in Great Britain, Italy, Eastern European and the overseas markets. The Phoenix Mecano Group has been present for the first time in Australia with its own sales company since early 2005. The sales company markets beds and armchair drives and as early on as the first year it managed to expand the division's market share considerably. The 3.1 % drop in sales in Germany (previous year – 3,9 %), the sector's most important market, was offset by these growth markets.

In the capital goods sector, Rose + Krieger also achieved high single-digit sales in 2005. The Easy-Link® modular conveyor system launched in the previous year developed well, not least because the company was able to guarantee short delivery periods. There was more demand for customer-specific system solutions and in the drive technology sector, both of which require a great deal of advice due to their complex nature.

In Dewert's bed and armchair drives sector, sales were up slightly on the previous year. The second generation of the seasoned Megamat drive system, which had already established itself as a high-volume product one year after its launch on the market, contributed to the growth in sales. The finishing touches have since been made to the system programme in the hospital bed sector which was Dewert's key to this technically demanding but interesting market sector.

The Mechanical Components division produced an operating result before restructuring expenses of EUR 5.6 million in 2005, EUR 1.6 million less than in the previous year. Its operating result margin also dipped from 5.9 % to 4.5 %. The competition which had further intensified in various market segments, both in the capital goods sector Rose + Krieger, and the bed and armchair drives from Dewert, led to a reduction in the gross margin. The result for 2005 was affected by devaluation losses on capitalised development services, tools and manufacturing facilities in the drive technology sector totalling EUR 1.7 million. In the previous year, there were devaluation losses of EUR 0.6 million. The enhanced sales activities led to higher personal expenses in this sector as well as higher sales expenses. A production facility was closed down in the US and the production from the facility was relocated to Hungary and China. This generated restructuring expenses of EUR 0.8 million.

Operating result before restructuring expenses



		2005	2004	2003	2002
Result	EUR 1 000	5 632	7 259	8 269	6 326
Margin	%	4.5	5.9	6.8	5.0

Net operating assets totalled EUR 66.5 million (previous year EUR 68.9 million) and was therefore reduced yet again. The reduction was mainly made in fixed assets.

Net operating assets

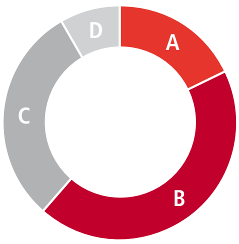
	Profitability		Profitability	Change
2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %	in %
66 514	8.5	68 949	10.5	– 3.5

In the reporting year, the division invested EUR 4.4 million in tangible assets, which represents an increase of EUR 0.7 million on the previous year. A new building for system engineering in the Stein am Rhein factory and higher investments in tools in the drive technology sector contributed to the increase in investments. The planned extension of the factory in Minden (D) in 2006 and the integration of the R&D centre that had previously been outsourced will enable the internal workflows at Rose + Krieger to be optimised and the prerequisites for further growth, above all in the customer-specific system solution sector, to be established.

„Teamwork is an active ingredient in product development and is absolutely vital if innovation is to prove successful."

Peter Minnig
Head of department
Design & Project engineering
Dewert Antriebs- und Systemtechnik GmbH

Investments in tangible assets



		2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %
A	Land and buildings	780	17.8	432	11.8
B	Machinery and equipment	1 907	43.6	2 005	54.7
C	Tools	1 331	30.4	948	25.8
D	Advance payments and construction in progress	361	8.2	283	7.7
	Total	**4 379**	**100.0**	**3 668**	**100.0**

The annual average number of staff employed in the Mechanical Components division totalled 1 138, compared to 1 108 in the previous year. Per capita sales increased from EUR 1 000 to EUR 111 000.

Miscellaneous developments

Included here are the technical gas business of the Brazilian subsidiary IPES Industria de Produtos e Equipamentos de Solda Ltda. In addition, toolmaking by Phoenix Mecano Mould S. r. l. in Romania is included until its disposal in June 2005.

„Other" also includes operating costs incurred by the holding, management and financing companies, which are not directly allocated to the individual operative sectors. These costs result in a negative operating result of EUR 3.2 million in this category (previous year EUR 3.0 million).

Gross sales by region

	Sales	Share of sales	Sales	Share of sales	Change in sales
	2005 EUR 1 000	2005 in %	2004 EUR 1 000	2004 in %	in %
Switzerland	6 770	5.4	7 164	5.9	– 5.5
Germany	43 478	34.4	44 864	36.7	– 3.1
Great Britain	7 151	5.7	6 463	5.3	10.6
France	10 584	8.4	10 895	8.9	– 2.9
Italy	5 588	4.4	4 645	3.8	20.3
Benelux	7 728	6.1	7 460	6.1	3.6
Rest of Europe	17 768	14.1	17 051	13.9	4.2
North and South America	13 658	10.8	12 558	10.3	8.8
Middle East and Far East	13 489	10.7	11 134	9.1	21.2
Total	**126 214**	**100.0**	**122 234**	**100.0**	**3.3**

Sustainability

- Lasting success is not just about maximising profits, it also requires social responsibility and respect for the environment
- Standards contained in the ROHS Directive implemented world-wide

Over the last 20 years, environmental protection has become a much more prominent issue. People have realised that many of the world's resources are exhaustible and that there is a risk that raw materials will dry up before alternatives are developed.

However, just taking account of environmental aspects in sustainability does not go far enough. The social aspects in a company in particular must also be taken into account. After all, in 2005 an annual average of 3 753 people were employed by the Phoenix Mecano Group's subsidiaries. Cooperation with other players, such as the unions, is of crucial importance, especially in the event of a restructuring, as happened to OMP in the Phoenix Mecano Group in 2005.

However, this way of thinking and acting did not come about purely as a result of the new concept of "sustainability". In fact, it results from the understanding that Phoenix Mecano has – and already had when it went public – of the concept of „shareholder value". Instead of aiming to maximise profits for the next quarter, the Group gives priority to ensuring the lasting success of the company. Anyone who thinks in this way must also think and act in a socially responsible and environmentally friendly manner.

For example, products are not just being brought into line with the requirements of the ROHS Directives before the end of the transition period; this is also being done simultaneously in all the Group's production facilities around the world. Only where the use of ROHS-listed substances is obligatory (in the medical technology and the automotive and aerospace industries) will current production continue until such a time as these obligations are removed.

Significant investments which are necessary for this have already been concluded with a considerable amount of logistical effort. In some places, new injection moulding tools for plastic components have been built, new soldering lines for lead-free solder have been introduced and clear, traceable packaging labelling have been established. In some cases during the change over, old stock needed to be depreciated or scrapped. The Phoenix Mecano Group now fully complies with the new standards and does not simply meet the requirements stipulated by law, but goes further by applying the stringent European hazardous substances reduction standards everywhere in the world.

Moreover, Phoenix Mecano signed up to the maxims of the Global Compact presented by the UN in 1999 right from the start. The companies pledge to actively work to realise nine principles, including the protection of human rights, fair working conditions, equal treatment and environmental protection.

The Phoenix Mecano Group employs more than 3 700 people, most of them in various development, production and sales companies in 16 countries on five continents. Employees are the real factor behind the company's success. Each staff member has experience, knowledge and energy of the kind needed to achieve set goals on a daily basis. Many employees serve as an interface with customers and partners. They are all ambassadors of their company. Phoenix Mecano supports them in this function and – besides their basic and continuing education – encourages open communication both internally and externally. Both these factors serve to improve work processes and the quality of products and services, as well as promoting safety at work and ultimately boosting employees' identification with „their" company and „their„ group of companies. Consequently, Phoenix Mecano also supports personal commitment by its employees in their own workplace and on behalf of the company's image as a whole.

Phoenix Mecano treats all members of its staff respectfully and fairly. Cultural factors and differences between production facilities and subsidiaries are of course observed. Regardless of borders, the company offers its employees various possibilities for individual continuing training and opportunities for in-house development, and if need be provides support by offering them advice and assistance. A series of like-minded SMEs have joined together in the Phoenix Mecano Group, which is why the organisation is deliberately geared towards decentralisation. This accelerates the companies' integration and brings them close to their markets. Another consequence of this set-up is that the various production companies enjoy extensive independence, which also gives them leeway to consider the legal framework conditions applying to the social context and to environmental protection. Consequently, requirements emanating from Switzerland or Germany only have a place here if principles such as corporate values and missions are involved.

Phoenix Mecano thus plans its production facilities taking into account regional opportunities and openings to compete. Naturally, at the very least the company offers all employees fair and competitive wages, bonuses and social security contributions. In addition, the company strives to provide a safe, motivating work environment and corresponding working conditions. Furthermore, through its transfer of knowledge and creation of new, challenging jobs in various countries, the company is helping to promote economic development.

At the same time, Phoenix Mecano expects not only technical, but also social skills of its managerial staff. Anyone occupying a leadership position must serve as a model, lead the way by setting a decent example and ensure both that the rights of all employees are protected and that all people are treated with respect, regardless of their status, skin colour, religion or age. At the same time, Phoenix Mecano also expects its employees to consciously refrain from personal commitments that might run counter to the company's interests.

Example Training Since 2001, in a bid to ensure a next generation of well-qualified staff, but also to shoulder some responsibility and help young people to prepare for a career, ROSE Systemtechnik has been involved in an active and energetic partnership with a regional secondary school. Various activities – such as job application training courses, contributions to social science courses, the offer of stays abroad, practically oriented instruction in chemistry, physics and mathematics, or exciting IT projects (e. g. „hacking" the ROSE firewall). Sports events, especially the famous ROSE marathon and a school rowing squad, are also regularly supported – are designed to eliminate gaps in the students' knowledge and motivation.

Example Quality assurance BOPLA, a member of the Phoenix Mecano Group, has had ISO 9001 certification since 1993. The quality management (QM) handbook, process descriptions and work and testing instructions compliant with the new DIN EN ISO 9001:2000 have now been revised and successfully audited. Phoenix Mecano Komponenten AG has also gained an EN ISO standard 9001:2000. In both cases, the strategic goal in developing the QM system is optimum customer care, stronger ties with customers and a general improvement in corporate performance. This is precisely where QM comes in, the fruit of considerable development work. Transparent, more efficient procedures that save resources and thereby lower costs, plus the allocation of wider responsibilities to employees, now ensure that customers can rely on the company's quality capabilities more than ever. The standard in question also regulates the measurement of customer satisfaction for the first time.

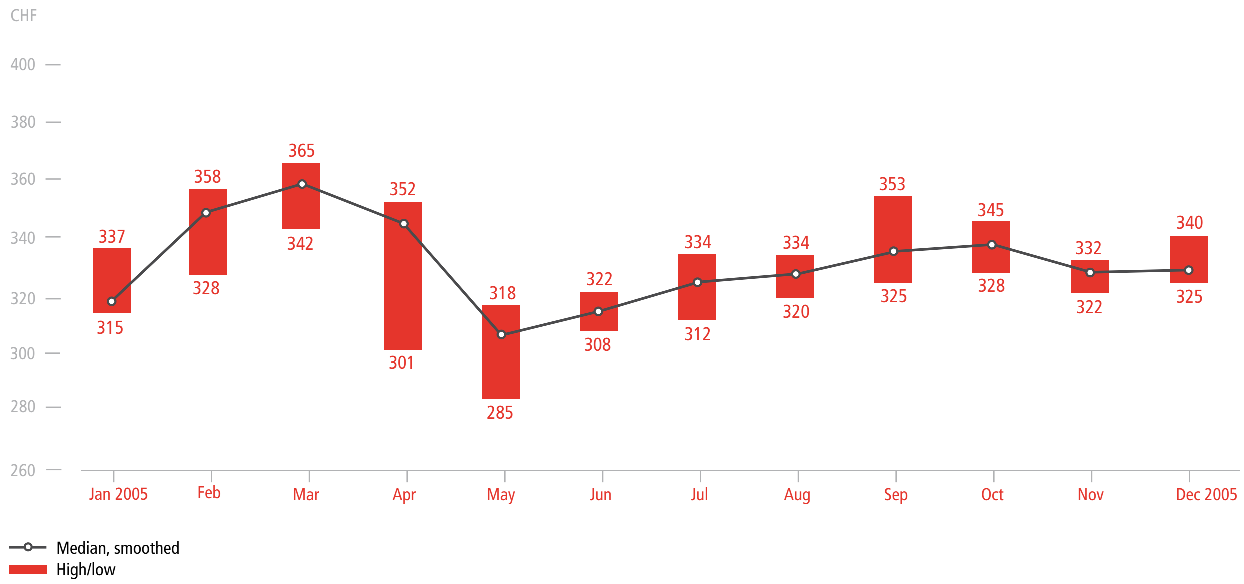
Example Social responsibility RK Rose + Krieger is involved in many projects primarily designed to improve quality of life in the local region in both cultural and social terms. In the new millennium the company has once again positively supported various activities. One priority entailed benefiting the Minden Child Protection Federation, and with it (as in 2003) the 2004 World Children's Day.

Example Environmental protection PTR's corporate policy is characterised by consideration for future generations and strong environmental awareness. The company was DIN ISO 14001 certified in 1999, having joined the Phoenix Mecano Group 10 years previously. As early as 1994, the company had itself tested for compliance with EN 29001/ DIN ISO 9001 and confirmed its high quality standards through annual repeat audits. Certification of the product field „Precision spring contacts Automotive with Element 7.3 (Product Design)" in compliance with ISO/TS 16949 followed in 2003, after quality management for this area had been introduced in 2002.

A page for the investor

Market trend Phoenix Mecano 1 January 2003 – 28 February 2006 compared with the Vontobel Small Cap Index and SPI

Phoenix Mecano´s share price (high and low)



Share capital

Phoenix Mecano AG's share capital of CHF 1.1 million is divided up into 1.1 million bearer shares with a nominal value of CHF 1.00 each. There are no restrictions on ownership or voting rights. The share capital has not been increased since the company went public in 1988. Phoenix Mecano AG's corporate policy dictates that growth should be funded out of the company's own capital resources.

Share buyback programme

The share buyback programme amounting to a maximum of 40 000 bearer shares or maximum CHF 10 million, which had been decided by the Board of Directors in March 2005 was completed in January 2006. The Board of Directors will ask the Shareholders' General Meeting of 26 May 2006 to reduce the capital by the total buyback volume realised of 30 500 bearer shares.

Policy on dividends

Phoenix Mecano AG strives to achieve a distribution rate of 15 % to 25 % of sustained net profit. As a growth-oriented enterprise, the company relies upon the steady growth of its capital base.

Average trading volumes in 2005

On average 1 459 Phoenix Mecano shares were traded per day.

Opting-out

The company has not made use of the possibility provided for in the Stock Exchange Act of excluding an acquiring company from the obligation to make a public purchase bid.

Opting-up

The limit for the obligation to make an offer pursuant to Art. 32 of the Swiss Federal Law on Stock Exchange and Securities Trade is 45 % of voting rights.

Ticker symbols

Quotation	SWX Swiss Exchange, Zurich
Securities No.	Inh.218781
Reuters	PHOZ
Telekurs/Telerate	PM
ISIN	CH0002187810

Information for shareholders

Annual report	annually, April
Balance sheet press conference	25 April 2006
Financial analysts' meeting	25 April 2006
First quarter results	25 April 2006
Shareholders' General Meeting	26 May 2006
First half of 2006	11 August 2006
More detailed report First half of 2006	31 August 2006
Third quarter results (9 months)	3 November 2006

Further information for investors available from

Benedikt Goldkamp, CEO
Phoenix Mecano Management AG
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Telefon +41/43/2554255
Telefax +41/43/2554256
info@phoenix-mecano.com
www.phoenix-mecano.com

Corporate Governance

- Phoenix Mecano pursues a sustainable management and corporate policy
- Its open information and communication culture helps to boost confidence amongst all stakeholders

Phoenix Mecano's goal is to give its shareholders, employees and all other interested parties a high level of transparency and thus enable them to make reliable judgements regarding business developments and prospects. A sustainable management and corporate policy is as important in this approach as comprehensive and transparent communication with all interested parties.

The following pages deliberately follow the structural requirements of the SWX Swiss Exchange to make it easier for readers to seek specific information.

Group structure and shareholders

Group structure Phoenix Mecano is a leader in many markets. The Group's products are manufactured and distributed in Europe, the USA, South America and Asia, and also produced in North Africa. Its products are used in German high-speed trains (ICE) as well as in Airbus planes, in the automotive sector and in consumer and nursing products.

The Group is split into three divisions, each of which has a head office responsible for its products liaising with production sites and distributors throughout the world.

In Switzerland, Phoenix Mecano has three production facilities. Phoenix Mecano Management AG has its head office in Kloten, from where it runs the Group's operations. The Group's holding and Phoenix Mecano Komponenten AG, which distributes the various products manufactured by Phoenix subsidiaries in Switzerland, have their head office in Stein am Rhein, while Phoenix Mecano Komponenten AG has an operational facility in Niederdorf, Baselland. The Group's overall structure has always been very lean. Operational responsibility lies largely with the divisional managers and the managing directors of the individual subsidiaries, though overall responsibility is naturally taken by the Executive Committee. The Group's operational structure is presented on pages 34 and 35. No shareholdings are quoted.

Major shareholders Planalto AG, Luxembourg, owns 30 % of the shares. As a fund manager Tweedy, Browne Company LLC of New York, USA, held 9.176 % on 31 December 2005. UBS Fund Management (Switzerland) AG, Basel, held 5.007 % on 13 June 2005. On 15 June, this figure dropped to 4.989 % and on 20 June 2005 it increased to 5.015 %.

Cross-ownership There is no cross-ownership between the subsidiaries or between the subsidies and the parent company.

Capital structure

Capital/shares and participation certificates As of 31 December 2005, Phoenix Mecano AG's share capital consisted of 1 100 000 fully paid-up bearer shares (securities no. Bearer 218781; Reuters: PHOZ; Telekurs/Telerate: PM) with a par value of CHF 1.00. All shares, apart from those owned by the company, fully entitle the bearer to vote and receive a dividend. As of the balance sheet date, the company owns 25 949 own bearer shares. There are no nominal shares or participation certificates.

Contingent and authorised capital At present the group has no authorised and no contingent capital.

Change in capital As in the previous year, there was no change in capital in the reporting year.

Limitations on transferability and nominee registration Since Phoenix Mecano has no nominal shares there are no limits on transferability.

Convertible bonds and options There are no convertible bonds and no options.

Board of Directors

The Board of Directors is the company's senior management body and comprises at least four members. In 2005, the members of the Board of Directors met on six occasions.

Election and term Members of the Board of Directors are (re-)elected by the Shareholders' General Meeting for a three-year term. To guarantee continuity within the Board of Directors, elections are (generally) staggered, with some members being re-elected and others newly recruited. There are no restrictions on re-election. Members of the Board of Directors must be shareholders. Should non-shareholders be elected, they may only take up office after becoming shareholders. The Board of Directors elects one of its members to become Chairman and also designates someone to take the minutes, who does not necessarily have to be a member of the Board of Directors.

Powers The powers of the Board of Directors are set out in the Swiss Code of Obligations law as well as in Phoenix Mecano AG's articles of incorporation, which state that the Board of Directors is entitled to transfer the management or individual branches thereof and the representation of the company to one or more of its members or to third parties. To this end it may set up committees, appoint delegates or appoint a management comprising one or more of its own members or external persons. The Board of Directors determines the powers and obligations of committees, delegates, management and executives with a power of attorney.

The Board of Directors is authorised to take decisions provided that a majority of its members is present. Decisions are taken by a majority of votes cast by those present. In the event of a tie, the Chairman has the casting vote.

By law and pursuant to the company's articles of incorporation, the Board of Directors has the following main duties and powers:

- Preparation of the proceedings of the Shareholders' General Meeting, especially the annual report, annual accounts and proposals on the appropriation of earnings.

- Determination of corporate goals and the principles underlying corporate policy and strategy.

- Determination of the company's policy on risks.

- Decision-making regarding the establishment or cessation of major divisions of the company and authorisation of the acquisition or disposal of shareholdings, plus authorisation of any changes to the structure of the Group.

- Decision-making on the budget and medium-term planning (product and market strategy, financial and investment guidelines).

- Allocation of signatory powers to members of the Board of Directors and determination of the principles governing signatures below that level.

- Determination of the principles of reporting to the Board of Directors, authorisation of the principles governing the company's finances and accounts and also internal and external audits.

Members of the Board of Directors As at 31 December 2005 the Board of Directors comprised the following members:

Ulrich Hocker
(Chairman of the Board of Directors)

Lawyer, Düsseldorf (Germany)
Member of the Board of Directors since 1988.
Chairman of the Board of Directors since 2003.

Born 1950. Trained as a bank clerk. Studied law and qualified as a lawyer. Served as a member of the academic staff at the Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW) and the publishing company „Das Wertpapier“. Since 1994 has been Managing Director of the German association Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW).

Benedikt A. Goldkamp
(Delegate of the Board of Directors)

CEO; Dipl. Finanzwirt, MBA Duke University,
Lufingen (Switzerland).
Member of the Board of Directors since 2000.
Delegate of the Board of Directors since 1 July 2001.

Born 1969, gained a degree in financial consultancy, followed by a Master's in Business Administration. Active for several years as an auditor and strategy consultant. Then managed the Group's own production facility in Hungary and several group-internal restructuring projects.

Dr Florian Ernst
Dipl. Wirtschaftsprüfer, Dr oec. HSG,
Zurich (Switzerland)
Member of the Board of Directors since 2003.

Born 1966, graduated as Dr oec. HSG in 1996, qualified as an auditor in 1999. Worked as an auditor at Deloitte & Touche AG in Zurich until 1999. Then became Co-Head of Financial Advisory Services and General Secretary of the JFE Hottinger Group, Financial Advisory Services and Private Banking, Zurich. Since 2004 has been Chief Financial Officer of the Horizon 21 group in Pfäffikon SZ.

Dr Martin Furrer
Lawyer
Dr jur., MBA INSEAD, Zumikon (Switzerland).
Member of the Board of Directors since 2003.

Born 1965, gained a PhD in law at Zurich University and a Master of Business Administration at INSEAD in Fontainebleau, gained authorisation to work as a lawyer in the canton of Zurich. Started out working as a lawyer for Baker & McKenzie in Sydney, then became a Strategy Consultant for McKinsey & Company in Zurich. Has been back at Baker & McKenzie in Zurich since 1997, specialising in private equity, mergers & acquisitions, capital market law and restructuring. Has been a partner at Baker & McKenzie since 2002.

Beat Siegrist
Strategy Consultant and CEO of Schweiter Technologies, Horgen
Dipl.-Ing. ETH, MBA Fontainebleau,
Herrliberg (Switzerland)
Member of the Board of Directors since 2003.

Born 1960, gained the following qualifications: Dipl.-Ing. ETH 1985, MBA Fontainebleau and McKinsey Fellowship 1988. Development engineer for data transfer with Contraves, Senior Consultant and Project Manager at McKinsey & Co. responsible for reorganisations- and turnaround projects in the machine industry. 1994/1995 supervised the founding and management of companies for trade in and the production of machine parts. Has been CEO of Schweiter Technologies in Horgen since 1996.

Members of the Board of Directors

Name	Post	Member since	In this post since	Term-expires in	Operational Management tasks
Ulrich Hocker	Chairman; Member of the Audit Committee	1988	2003	2006	No
Benedikt A. Goldkamp	Delegate	2000	2001	2006	Yes
Dr Florian Ernst	Member; Chairman of the Audit Committee	2003	2003	2006	No
Dr Martin Furrer	Member	2003	2003	2006	No
Beat Siegrist	Member	2003	2003	2006	No

Further activities and interests In keeping with the guidelines on corporate governance, the following activities and interests are declared:

Mr Ulrich Hocker, Chairman of the Board of Directors, fulfils the following additional mandates:

Membership of management or supervisory bodies
- Gildemeister AG, Bielefeld, Germany (Member of the Supervisory Board)
- E.ON AG, Düsseldorf, Germany (Member of the Supervisory Board)
- Feri Finance AG, Bad Homburg, Germany (Member of the Supervisory Board)
- Karstadt-Quelle AG, Essen, Germany (Member of the Supervisory Board)
- Thyssen Krupp Stainless AG, Duisburg, Germany (Member of the Supervisory Board)
- Gartmore Sicav, Luxembourg (Member of the Board)

Permanent management and advisory posts
- Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW), a German association of private investors, Düsseldorf, Germany

Official and political posts
- Member of the Stock Exchange Expert Committee of the Federal Ministry of Finance Germany.
- Member of the Government Commission „German Corporate Governance Codex".

No other members of the Board of Directors have any relevant activities or interests to report.

Cross-linkage There is no cross-linkage; in other words no Phoenix Mecano Board of Directors serves on the Supervisory Board of a listed company of colleague belonging to the Board of Directors.

Internal organisation The Board of Directors is deliberately kept small and usually performs its duties as a body. The Audit Committee first set up in 2003 is responsible for external audits in particular. In that task it is supported by the Internal Auditing department. The Audit Committee is chaired by Dr Florian Ernst in his capacity as a non-executive member of the Board of Directors. Another member of the Audit Committee is the Chairman of the Board of Directors, Ulrich Hocker. The Committee is convened (at least) twice a year.

Tools for informing and monitoring the management
The Board of Directors may use several tools to ensure that it performs its duties vis-à-vis the management to the fullest extent. For instance the company has a modern management information system which includes all the Group's companies and enables it to swiftly gain an overall view of the group or individual companies at any time. Regular meetings with members of the management complement the information possessed by members of the Board of Directors and their own basis for decision-making.

In 2002 a Group-wide risk management system and dedicated, full-time internal Auditing department were set up. The latter is answerable to the Board of Directors and reports directly to it. Both have proved invaluable and were duly developed further.

The internal audit departement has put emphasis on reviewing the implementation of Group policies in the areas of stock and receivables management.

Executive Committee

The Executive Committee comprises the Delegate of the Board of Directors and the company's directors and divisional managers. It is chaired by the Delegate of the Board of Directors. The Executive Committee aids the Delegate by coordinating the Group's companies and discusses matters affecting more than one division of the company.

From left to right: **Philipp Studer (CH) / Dr Joachim Metzger (D) / Dieter B. Schaadt (D) / René Schäffeler (CH) / Benedikt A. Goldkamp (D) / Maximilian Kleinle (D) / Dr Werner Karlen (CH)**

Members of the Executive Committee

As at 31 December 2005 the Executive Committee comprised the following members:

Benedikt A. Goldkamp (D)
Delegate of the Board of Directors/CEO
Dipl. Finanzwirt, MBA, Lufingen (Switzerland)

(see under Board of Directors on page 28 of this report)

Dr Werner Karlen (CH)
COO/Chairman of the Executive Committee
Dipl. Ing. ETH, Dr oec. HSG, Embrach (Switzerland)
Born 1967. Studied engineering. Served for several years as an engineer at ABB Kraftwerke AG, as project manager at McKinsey & Co. and as COO at Biella-Neher AG. Joined Phoenix Mecano in May 2002, and has been responsible for its operational management since January 2003 as Chairman of the Executive Committee.

Maximilian Kleinle (D)
Member of the Executive Commitee since 2004
Dipl. Ing. (FH), St. Georgen (Germany)
Born 1961. College degree in electrical engineering. MBA. Various management posts in distribution and marketing. Most recently manager of a company in precision engineering and electronics. Since 2003 General Manager of the Electrotechnical Components division.

Dr Joachim Metzger (D)
Member of the Executive Committee since 1992
Qualified mechanical and industrial engineer
Dr rer. pol., Rimbach (Germany)
Born 1951. Worked for several years for Arthur Andersen as an auditor and management consultant, became a Head of Division and Head of Materials Management at AMP as a member of the Executive Committee; has been with Phoenix Mecano since 1989, Manager of Rose + Krieger and Dewert, currently in charge of Business Development (global sourcing and opening up new markets in China, India, Southeast Asia and South America).

Dieter B. Schaadt (D)
Member of the Executive Commitee since 1991
Technician, Minden (Germany)
Born 1945. Trained as a power electrician and technician. Has been at Rose Systemtechnik since 1976 where he is currently Managing Director and Head of the Enclosures division. Runs European subsidiaries of the Group in the UK, France, Belgium, the Netherlands, Italy and Austria. Runs the Enclosures division and is responsible for the Enclosures group's economic results and distribution and marketing activities. Founded and has supervised Phoenix Mecano's European companies. Having been with the company for 25 years, is a key promoter of Phoenix Mecano's corporate culture.

René Schäffeler (CH)
CFO, Member of the Executive Commitee since 2000
Eidg. dipl. Controller, Stein am Rhein (Switzerland)
Born 1966, Eidg. dipl. Buchhalter/Controller. Commercial training and active for several years at the Schaffhauser Kantonalbank. After serving as Controller and Head of the Group Accounting Department at Phoenix Mecano and further qualifying as eidg. dipl. Buchhalter/Controller, today he is the Group's Chief Financial Officer. In this post he is responsible for finances, group accounting, controlling and taxes.

Philipp Studer (CH)
Member of the Executive Commitee since December 2001
El.-Ing. HTL, Steg (Switzerland)
Born 1959. Studied electrical and industrial engineering. Various management posts in distribution and marketing. For many years headed up a business unit in the EMS (Electronics Manufacturing Services) division.

Since December 2001 has been responsible for the ECM (Electronics Contract Manufacturing) division at Phoenix Mecano.

On 1 January 2006, Ralph Gamper (50) was appointed as a member of the Executive Committee of Phoenix Mecano AG. Ralph Gamper is CEO and director of Phoenix Mecano Komponenten AG in Stein am Rhein, which covers the Swiss market for the entire Phoenix Mecano Group.

Other activities and interests The members of the Executive Committee do not perform any duties in management or supervisory bodies of any major Swiss or foreign corporate bodies, institutions or foundations, nor do they serve in any management or advisory functions on a permanent basis.

Management contracts No other management contracts conferring management tasks have been concluded between the Group and companies or persons.

Remuneration, participation and loans

Content and assessment procedure The remuneration of the members of the Board of Directors except for the Delegate of the Board of Directors is set out in Article 18 of the articles of incorporation and is payable irrespective of the success of the company.

The Delegate of the Board of Directors and the members of the Executive Committee are paid in accordance with their individual employment contracts, whereby the performance-based part of their remuneration varies between 20 % and 30 %, and in individual cases up to 40 %.

There are no participation programmes for members of the Board of Directors and/or the Executive Committee. Accordingly, during the year under review no shares, convertible loans, options, participation certificates, or such like were issued or awarded to members of the Board of Directors, Executive Committee or employees.

Remuneration of serving members of the Group's bodies

Remuneration in 2005	in EUR 1 000
Chairman of the Board of Directors	84
Delegate (overall)	366
Fees of other Members of the Board of Directors	78
Total for the Board of Directors	**528**
Executive Committee (excl. the CEO)	1 728
Remuneration for former members of Group's bodies	0

These figures include all payments effected during the reporting year. Any performance-related payments refer to business successes in 2004.

Remuneration of former members of the Group's bodies In the reporting year, no remuneration was paid out to former members of the Group's bodies.

Share allocations during the reporting year No shares were allocated.

Share ownership as at 31 December 2005 Executive members of the Board of Directors and Executive Committee: 1 000 shares. Non-executive members of the Board of Directors: 20 661 shares.

Options No options were organised.

Loans to corporate officers No loans were made to corporate officers.

Additional fees and allowances All remuneration listed at the start of this chapter. No additional allowances were owed or paid out.

Maximum overall remuneration The maximum overall remuneration is listed in the section entitled „Remuneration of serving members of the Group's bodies" (see table in the left column).

Shareholders' participation rights

Voting rights and proxy voting At the Shareholders' General Meeting one share entitles the holder to one vote. There is no restriction on voting rights.

Shareholders may also exercise their voting rights in writing by transferring their mandate to another shareholder. Natural persons may not be legally represented by non-shareholders.

Statutory Quorums Unless the law or the company's articles of incorporation stipulate that decisions shall be taken by a qualified majority, the Shareholders' General Meeting shall take decisions by means of an absolute majority of the votes cast, irrespective of the number of shareholders present or the number of votes. In the event of an equal number of votes, the Chairman has the casting vote, except in elections where the final decision will be taken by lots if need be.

The adoption and amendment of the articles of incorporation and any decisions entailing an amendment of the articles of association must be approved by three quarters of the votes cast, irrespective of the number of shareholders present or the number of votes.

Convening the Shareholders' General Meeting/Inclusion of items on the agenda The Shareholders' General Meeting (GM), the company's top body, is headed up by the Chairman. Invitations to the GM are issued at least 20 days in advance of the meeting by way of a single announcement in the company's publications. The invitation must contain the agenda of the meeting and the proposals by the Board of Directors and shareholders who called for the convocation of a Shareholders' General Meeting or the discussion of an agenda item. Pursuant to a decision taken by the GM held on 7 June 2000, shareholders representing shares with a par value of CHF 100 000 may demand the inclusion of an item on the agenda.

Shareholders' rights All shareholders are entitled to attend the Shareholders' General Meeting. To participate and make use of their rights to vote and submit proposals, they must demonstrate their share ownership.

Entries in the register of shareholders Since Phoenix Mecano only has bearer shares, no register of shareholders is kept.

Change in control and protective measures

Offer obligation The limit for the obligation to make an offer pursuant to Article 32 of the Swiss Federal Law on Stock Exchange and Securities Trade is 45 % of the voting rights (opting-up). Under the Swiss Stock Exchange Act a potential acquiring company may be exempted from the obligation to make a public purchase bid (opting-out). Phoenix Mecano has not made use of this possibility.

Change of control clauses Phoenix Mecano does not have any change of control clauses. Nor have any agreements about extending contracts or redundancy packages been concluded in the event of a hostile takeover.

Auditors

Term of mandate and term in office of the auditor in charge The bookkeeping, financial statements and balance sheet of Phoenix Mecano have been audited by Deloitte & Touche AG since 1994. Deloitte & Touche AG is also the Group auditor for the consolidated accounts of the Phoenix Mecano Group. The auditor in charge since 2005 has been Mr Daniel O. Flammer.

Auditors' fees/Additional fees During the reporting year, Deloitte AG invoiced auditors' fees totalling EUR 114 000 and fees for additional services totalling EUR 25 000. In 2005, fees totalling EUR 14 944 for additional services were paid to Baker & McKenzie.

Instruments for supervising and monitoring the audit
Phoenix Mecano has a dedicated full-time Internal Auditing department and since March 2004 also has an Audit Committee. In so doing it takes over this duty from the Board of Directors, which had previously performed that task collectively.

Information policy

The Board of Directors and Management of Phoenix Mecano advocate an open information and communication culture, both within the Group and externally. This transparency helps to boost confidence among all stakeholders. In addition to regular mandatory publications, the company's representatives take numerous opportunities to speak to journalists and financial analysts as well as investors to answer any critical questions they might have.

Major developments are reported in person at:
- the balance sheet press conference,
- the financial analysts' meeting and
- the Shareholders' General Meeting.

The annual report is available on the Internet at www.phoenix-mecano.com. Up-to-date media information can also be downloaded. It goes without saying that interested parties can also obtain information about other strategic, market-related or financial aspects of the Group's activities.

Corporate institutions

Group head office

Phoenix Mecano AG
CH-8260 Stein am Rhein

Finance, service and other companies

Phoenix Mecano Management AG
CH-8302 Kloten
MD: B. Goldkamp, Dr W. Karlen, R. Schäffeler

Phoenix Mecano Finance Ltd.
St. Helier, Jersey, Channel Islands
MD: H. Durell

PM International B.V.
NL-7005 AG Doetinchem
MD: G. H. B. Hartman

IFINA Beteiligungsgesellschaft mbH
D-50674 Cologne
MD: B. Goldkamp
D. B. Schaadt
Ch. Beste
M. Kleinle

Phoenix Mecano Trading AG
CH-8260 Stein am Rhein
MD: Dr J. Metzger

IPES Industria de Produtos e Equipamentos de Solda Ltda.
Manaus, Brazil
MD: H. Deschoolmeester

OMP Officina Meccanica di Precisione S. r. l. in Liquidation
I-22030 Proserpio
MD: A. Accolla
A. Colombo

Enclosures division

D. B. Schaadt

Rose Systemtechnik GmbH
D-32439 Porta Westfalica
MD: D. B. Schaadt

Bopla Gehäuse Systeme GmbH
D-32255 Bünde
MD: D. Meyn

Kundisch GmbH + Co. KG
D-78056 Villingen-Schwenningen
MD: H. Hartmann

ELCOM/EMS division

M. Kleinle

Hartmann Codier GmbH
D-91083 Baiersdorf
MD: S. Kübler

PTR Messtechnik GmbH + Co. KG
D-59368 Werne
MD: M. Kleinle
P. Scherer

Götz-Udo Hartmann GmbH + Co. KG
D-61279 Grävenwiesbach
MD: M. Kleinle

Hartmann Elektronik GmbH
D-70499 Stuttgart
MD: Dr G. Zahnenbenz
W. Fritz

Phoenix Mecano Digital Elektronik GmbH
D-99848 Wutha-Farnroda
MD: K.H. Malsch

Mechanical components division

B. Goldkamp (ad interim)

RK Rose + Krieger GmbH
D-32375 Minden
MD: K. Schunke
Dr B. Buchholz

Dewert Antriebs- und Systemtechnik GmbH
D-32278 Kirchlengern
MD: H. Stumpe
R. Bokämper

Dewert Motorized Systems
(a division of Phoenix Mecano Inc.)
Frederick, Maryland 21701, USA
MD: G. D. Compton

Dewert Australia Pty Ltd
Victoria 3043, Australia
MD: S.Gleeson
T. Thuess

Eldrive USA Inc.
Feasterville, PA 19053, USA
MD: J. M. Staub

Eldrive GmbH
D-32375 Minden
MD: Dr B. Buchholz
R. Krugmann

Production companies

Rose Gehäusetechnik GmbH
D-16227 Eberswalde Finow
MD: L. Waltl

Phoenix Mecano Electronic GmbH
D-36404 Sünna
MD: M. Kleinle

Phoenix Mecano Kecskemét KFT
H-6000 Kecskemét
MD: Dr Z. Nagy
Ch. Porde

Hartu S. a. r. l.
TN-2013 Ben Arous
MD: Dr H. Oweinah

Phoenix Mecano Tunisie S. a. r. l.
TN-2084 Borj-Cedria
MD: K. H. Malsch

Phoenix Mecano Plastic S. r. l.
RO-550052 Sibiu
MD: C. Marinescu

Sales companies

Phoenix Mecano Komponenten AG
CH-8260 Stein am Rhein
MD: R. Gamper

Phoenix Mecano Inc.
Frederick, Maryland 21701, USA
MD: P. Brown

Phoenix Mecano S. a. r. l.
F-94121 Fontenay s/Bois
MD: T. Glemnitz

PTR France S. a. r. l. in Liquidation
F-94121 Fontenay s/Bois
MD: M. Kleinle

Phoenix Mecano Ltd.
GB-Aylesbury, HP19 8TX
MD: D. B. Schaadt

Phoenix Mecano S. r. l.
I-20065 Inzago, Milan
MD: D. B. Schaadt

AVS-Phoenix Mecano GmbH
A-1232 Vienna
MD: R. Kleinrath

PM Komponenten B.V.
NL-7005 AG Doetinchem
MD: C. Van der Zaal
G. H. B. Hartman

PM Komponenten N.V.
B-9800 Deinze
MD: M. Lutin

Sistemas Phoenix Mecano España S. A.
E-50011 Zaragoza
MD: C. Aranda-Hutchinson

Phoenix Mecano S. E. Asia Pte. Ltd.
Singapore 408863
MD: T. J. Ou

Phoenix Mecano Korea Co. Ltd
Seoul 153-863, South Korea
MD: L. Ki

Phoenix Mecano Comercial e Tecnica Ltda.
São Paulo, Brasil
MD: H. Deschoolmeester

Phoenix Mecano (India) Ltd.
Dist. Pune 412108, India
MD: R. Shrivastava

Mecano Components (Shanghai) Co. Ltd.
Shanghai 201801, China PRC
MD: K.W. Phoon

Phoenix Mecano Components (Shanghai) Co. Ltd.
Shanghai 201801, China PRC
MD: K.W. Phoon

Financial report 2005

Phoenix Mecano Group

Consolidated balance sheet as at 31 December 2005

Assets

	Note	2005 EUR 1 000	2004 EUR 1 000
Fixed assets			
Goodwill	1	277	277
Other intangible assets	2	5 621	8 530
Tangible assets	3	83 327	103 452
Investments in associated companies	4	413	671
Other financial assets	5	221	126
Derivative financial instruments	20	554	1 153
Deferred tax assets	23	2 795	2 262
Total fixed assets		**93 208**	**116 471**
Current assets			
Inventories	6	61 326	80 422
Trade receivables	7	40 125	49 729
Derivative financial instruments	20	1 045	1 315
Claims on income tax		854	116
Other receivables	8	3 817	7 461
Current asset securities	9	25 962	23 842
Cash and cash equivalents	10	35 054	30 691
Deferred charges and prepaid expenses	11	867	1 033
Assets held for sale	12	22 735	0
Total current assets		**191 785**	**194 609**
Total assets		**284 993**	**311 080**

Equity and liabilities

	Note	2005 EUR 1 000	2004 EUR 1 000
Equity			
Share capital	14	684	684
Own shares	15	– 5 384	– 331
Revenue reserves		146 644	164 683
Profit/Loss from IAS 39		1 764	1 504
Translation differences		– 2 984	– 6 607
Equity attributable to shareholders of the parent company		**140 724**	**159 933**
Minority interests	16	183	57
Total equity		**140 907**	**159 990**
Liabilities			
Outstanding bonds	17	0	64 988
Liabilities from financial leasing	18	73	58
Other long-term financial liabilities	19	15	7 386
Derivative financial instruments	20	110	0
Long-term provisions	21, 22	6 771	7 945
Deferred tax liabilities	23	10 653	9 225
Long-term liabilities		**17 622**	**89 602**
Trade liabilities	24	12 772	17 316
Outstanding bonds	17	64 283	0
Short-term financial liabilities	25	15 074	23 914
Derivative financial instruments	20	1 015	556
Short-term provisions	21, 22	3 549	3 713
Income tax liabilities		3 172	3 616
Other liabilities	26	10 513	11 937
Deferred income		386	436
Liabilities directly associated with assets held for sale	12	15 700	0
Short-term liabilities		**126 464**	**61 488**
Total liabilities		**144 086**	**151 090**
Total equity and liabilities		**284 993**	**311 080**

Consolidated statement of income 2005

	Note	2005 EUR 1 000	2004 EUR 1 000
Continued operations			
Gross sales	31	314 966	310 167
Revenue reductions		– 3 438	– 3 622
Net sales		**311 528**	**306 545**
Changes in inventories		– 1 974	– 904
Own work capitalised		1 441	1 449
Other operating income	32	1 719	1 038
Total operating performance		**312 714**	**308 128**
Cost of materials	33	– 125 487	– 120 583
Personnel expenses	34	– 96 569	– 95 996
Amortisation of intangible assets	35	– 2 971	– 4 317
Depreciation on tangible assets	36	– 14 190	– 14 411
Other operating expenses	37	– 45 962	– 44 872
Operating expenses		**– 285 179**	**– 280 179**
Operating result before restructuring expenses		**27 535**	**27 949**
Restructuring expenses	38	– 3 765	0
Results before interest and tax		**23 770**	**27 949**
Result from associated companies		84	140
Financial income	39	5 449	3 732
Financial expenses	40	– 8 074	– 6 112
Financial result		– 2 541	– 2 240
Result before tax		**21 229**	**25 709**
Income tax	41	– 4 796	– 3 253
Result of the period from continued operations		**16 433**	**22 456**
Discontinued operations			
Result of the period from discontinued operations	42	**– 25 256**	**– 7 597**
Result of the period		**– 8 823**	**14 859**
of which			
Shareholders in the parent company		– 8 939	14 853
Minority interests		116	6
Earnings per share			
From continued and discontinued operations			
Earnings per share - undiluted (in EUR)	43	– 8.22	13.52
Earnings per share - diluted (in EUR)	43	– 8.22	13.52
From continued operations			
Earnings per share - undiluted (in EUR)	43	15.01	20.43
Earnings per share - diluted (in EUR)	43	15.01	20.43

Consolidated statement of cash flow 2005

	Note	2005 EUR 1 000	2004 EUR 1 000
Continued and discontinued operations			
Result before tax continued operations		21 229	25 709
Result before tax discontinued operations	42	– 25 256	– 7 434
Result before tax		**– 4 027**	**18 275**
Amortisation of intangible assets		3 024	4 422
Depreciation on tangible assets		16 258	16 630
Losses / profits from the disposal of intangible and tangible assets		– 6	– 358
Profits from the disposal of assets discontinued operations	42	– 1 306	0
Devaluation losses on / appreciation of intangible and tangible assets	2, 3	9 413	1 102
Losses and value adjustments on inventories	6	7 446	4 015
Result from associated companies		– 84	– 140
Interest expenses / interest and dividend income		2 610	2 726
Capital losses / gains on current assets securities		– 247	– 134
Other expenses / income not affecting liquidity		1 794	122
Change in long-term provisions		238	1 285
Interest paid		– 3 943	– 4 344
Income tax paid / received		– 4 911	– 3 093
Operating cash flow before changes in working capital		**26 259**	**40 508**
Change in inventories		4 433	– 1 195
Change in trade receivables		1 498	– 1 111
Change in other debts		2 847	– 2 821
Change in deferred charges and prepaid expenses		29	– 34
Change in trade liabilities		– 159	– 1 245
Change in short-term provisions		3 501	– 33
Change in other debts		– 327	801
Change in deferred income		4	236
Cash flow from operating activities		**38 085**	**35 106**
Capital expenditure			
Intangible assets		– 1 892	– 2 639
Tangible assets		– 13 328	– 15 255
Financial assets		– 295	0
Current asset securities		– 5 101	– 15 298
Acquisition of Group companies	46	83	82
		– 20 533	**– 33 110**
Disinvestments			
Intangible assets		3	90
Tangible assets		2 218	1 804
Financial assets		33	60
Current asset securities		3 255	1 777
Disposal of Group companies	47	491	0
		6 000	**3 731**
Interest received		1 627	809
Dividends received		44	49
Cash used in investing activities		**– 12 862**	**– 28 521**

	Note	2005 EUR 1 000	2004 EUR 1 000
Dividends paid		– 2 818	– 2 849
Change in minority interests		3	10
Change in own shares	15	– 5 056	9
Change in liabilities from financial leasing		– 29	– 80
Change in other long-term financial liabilities		– 7 312	– 1 071
Change in short-term financial liabilities		– 5 931	– 772
Cash flow from financing activities		**– 21 143**	**– 4 753**
Translation differences in cash and cash equivalents		283	72
Change in cash and cash equivalents		**4 363**	**1 904**
Cash and cash equivalents as at 1 January		30 691	28 787
Cash and cash equivalents as at 31 December		35 054	30 691
Change in cash and cash equivalents		**4 363**	**1 904**

Statement of changes in equity 2005

		Share capital	Group reserves				Equity attributable to shareholders of the parent company	Minority interests	Total equity
			Own shares	Revenue reserves	Profit / (Loss) from IAS 39	Translation differences			
	Note	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000
Equity as at 31 December 2003		**684**	**– 291**	**152 630**	**– 1 511**	**– 5 544**	**145 968**	**47**	**146 015**
Fluctuations in fair value of financial assets					133		133		133
Realised results of financial assets					– 47		– 47		– 47
Fluctuations in fair value of cash flow hedges					3 580		3 580		3 580
Realised results of cash flow hedges							0		0
Deferred taxes not affecting net income					– 651		– 651		– 651
Translation differences						– 1 063	– 1 063	– 1	– 1 064
Income and expenses directly recognised in equity		**0**	**0**	**0**	**3 015**	**– 1 063**	**1 952**	**– 1**	**1 951**
Result of the period				**14 853**			**14 853**	**6**	**14 859**
Total of all recognised income and expenses for the period		**0**	**0**	**14 853**	**3 015**	**– 1 063**	**16 805**	**5**	**16 810**
Change in own shares	15		– 40	49			9		9
Dividends paid				– 2 849			– 2 849		– 2 849
Change in minority interests							0	5	5
Equity as at 31 December 2004		**684**	**– 331**	**164 683**	**1 504**	**– 6 607**	**159 933**	**57**	**159 990**
Application of new accounting standards	13			83		1 068	1 151		1 151
Correction in errors of stock valuation of OMP S. r. l. (I) after IAS 8	13			– 6 362			– 6 362		– 6 362
Equity as at 31 December 2004 following changes to balance sheet procedures		**684**	**– 331**	**158 404**	**1 504**	**– 5 539**	**154 722**	**57**	**154 779**
Fluctuations in fair value of financial assets					512		512		512
Realised results of financial assets					– 115		– 115		– 115
Fluctuations in fair value of cash flow hedges					– 1 188		– 1 188		– 1 188
Realised results of cash flow hedgess					1 067		1 067		1 067
Deferred taxes not affecting net income					– 16		– 16		– 16
Translation differences						2 555	2 555	7	2 562
Income and expenses directly recognised in equity		**0**	**0**	**0**	**260**	**2 555**	**2 815**	**7**	**2 822**
Result of the period				**– 8 939**			**– 8 939**	**116**	**– 8 823**
Total of all recognised income and expenses for the period		**0**	**0**	**– 8 939**	**260**	**2 555**	**– 6 124**	**123**	**– 6 001**
Change in own shares	15		– 5 053	– 3			– 5 056		– 5 056
Dividends paid				– 2 818			– 2 818		– 2 818
Change in minority interests							0	3	3
Equity as at 31 December 2005		**684**	**– 5 384**	**146 644**	**1 764**	**– 2 984**	**140 724**	**183**	**140 907**

Segment information 2005

By division[1]

	Enclosures		ELCOM/EMS	
	2005 EUR 1 000	2004 EUR 1 000	2005 EUR 1 000	2004 EUR 1 000
Gross sales to third parties	**127 596**	**123 956**	**59 756**	**62 683**
Gross sales between divisions	655	550	5 167	5 873
Included in the operating result before restructuring expenses Appreciation of intangible / tangible assets Depreciation on intangible / tangible assets	– 314	160 – 137		28 – 385
Amortisation of intangible assets and depreciation on tangible assets	– 6 128	– 6 675	– 4 373	– 4 490
Operating result before restructuring expenses	**21 901**	**21 127**	**3 173**	**2 538**
Restructuring expenses[2]			– 2 972	
Result before interest and tax continued operations	**21 901**	**21 127**	**201**	**2 538**
Financial result				
Result before tax				
Income tax				
Result of the period continued operations				
Investments in intangible and tangible assets continued operations	**4 897**	**7 105**	**3 579**	**3 479**
Operating assets continued operations	68 967	72 361	45 949	52 535
Operating assets discontinued operations				
Assets held for sale[3]				
Cash and cash equivalents				
Other assets				
Total assets				
Operating liabilities continued operations	13 442	11 635	7 107	6 443
Operating liabilities discontinued operations				
Liabilities directly associated with assets held for sale[3]				
Financial and other debts				
Total liabilities				
Net operating assets	**55 525**	**60 726**	**38 842**	**46 092**

By region

	Europe		Rest of world		Total	
	2005 EUR 1 000	2004 EUR 1 000	2005 EUR 1 000	2004 EUR 1 000	2005 EUR 1 000	2004 EUR 1 000
Gross sales continued operations	261 001	261 931	53 965	48 236	314 966	310 167
Gross sales discontinued operations	28 169	37 381	772	1 182	28 941	38 563
Operating assets continued operations	167 575	179 327	26 108	25 372	193 683	204 699
Investment in intangible and tangible assets continued operations	12 911	14 552	1 330	1 730	14 241	16 282

[1] In 2005, the business activities in customer specific switchgear cabinets and electronic packaging solutions (OMP product area) were discontinued and the remaining activities in the former Electronics Contract Manufacturing division were transferred to the Electrotechnical Components division, which was renamed ELCOM/EMS. The presentation of the prior-year figures were adapted accordingly.

[2] The restructuring expenses for the ELCOM/EMS division include devaluation losses on intangible and tangible assets totalling EUR 2.6 million.

[3] Refers to the discontinued OMP product area.

Mechanical Components		Other/eliminations		Total of the Group´s continued operations	
2005 EUR 1 000	**2004 EUR 1 000**	**2005 EUR 1 000**	**2004 EUR 1 000**	**2005 EUR 1 000**	**2004 EUR 1 000**
126 214	**122 234**	**1 400**	**1 294**	**314 966**	**310 167**
76	18	– 5 898	– 6 441	0	0
				0	188
– 1 662	– 577	– 17		– 1 993	– 1 099
– 6 314	– 6 917	– 346	– 646	– 17 161	– 18 728
5 632	**7 259**	**– 3 171**	**– 2 975**	**27 535**	**27 949**
– 793				– 3 765	0
4 839	**7 259**	**– 3 171**	**– 2 975**	**23 770**	**27 949**
				– 2 541	– 2 240
				21 229	**25 709**
				– 4 796	– 3 253
				16 433	**22 456**
5 603	**5 040**	**162**	**658**	**14 241**	**16 282**
77 513	78 078	1 254	1 725	193 683	204 699
				0	45 386
				22 734	0
				35 054	30 691
				56 256	30 304
				284 993	**311 080**
10 999	9 129	1 567	1 901	33 115	29 108
				0	11 435
				12 171	0
				110 971	110 547
				144 086	**151 090**
66 514	**68 949**	**– 313**	**– 176**	**160 568**	**175 591**

Principles of consolidation and valuation

Accounting principles

Phoenix Mecano AG with its subsidiaries (the Phoenix Mecano Group) operates worldwide in the field of components and is the leader in many of its markets. The Group's main activities are presented under Segment information. Phoenix Mecano AG has its head office in Stein am Rhein, Switzerland, and has been listed on the Swiss exchange (SWX) since 1988. Its address is Hofwisenstrasse 6, CH-8260 Stein am Rhein.

The consolidated financial statements for Phoenix Mecano AG were drawn up in accordance with the International Financial Reporting Standards (IFRS).

Owing to the great importance of the euro to the Group – most of Phoenix Mecano's sales are made in euro and most of its major subsidiaries are located in the euro area – the Group accounts are presented in euro.

Where subsidiaries have a financial year that differs from the period under consideration, interim statements are drawn up and audited. Thus the Group accounts are based without exception upon audited annual or interim financial statements as at 31 December 2005, which in turn are based on the standard accounting, valuation and organisation criteria that are applied uniformly throughout the Group.

The Group accounts were drawn up in accordance with the principle of historical acquisition and manufacturing cost. As an exception to this, financial assets held for sale, receivables and liabilities from derivative financial instruments and liabilities hedged by fair value hedges are valued at fair value. In addition, assets held for sale (intangible assets, tangible assets) are valued at fair value provided that this value is lower that the book value.

In 2005, Phoenix Mecano AG discontinued its business activities in customer specific switchgear cabinets and electronic packaging solutions in Italy and Hungary (OMP product area) and transferred the remaining activities in the Electronic Contract Manufacturing division to the Electrotechnical Components division. Both of these actions and the application of new IFRS/IAS standards, as described below, led changes to be made in the presentation of the prior-year figures.

Application of new accounting rules

The following nine IFRS rules were applied for the first time on 1 January 2005:

IFRS 3 (Business combinations) Since 1 January 2005 and in accordance with IFRS 3, it is assumed that goodwill has an unlimited useful life and is no longer systematically amortised, but instead is tested for impairment annually. Devaluation losses are taken over to the income statement, appreciation is not applied. In the equivalent period in the previous year, the amortisation of goodwill totalled EUR 0.05 million.

IFRS 5 (Non-current assets held for sale) In accordance with IFRS 5, the assets held for sale from the discontinued operations in Italy and Hungary were listed in a separate line of the consolidated balance sheet. They are valued at the lower value of the acquisition or manufacturing cost less any necessary depreciation and the estimated fair value. Scheduled depreciations are suspended once the relevant classification has been carried out. See note 12.

IAS 1 (Minority interest) In accordance with IAS 1, minority interests in the Group accounts are recognised under equity and no longer in a separate category on the balance sheet. Minority interests are no longer deducted when calculating the result of the period.

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 from this change affecting some Group companies that had previously applied the FIFO method, totalled EUR 0.1 million and was recognised in equity under Changes to valuation principles with no effect on the income statement. See note 13.

IAS 21 (Foreign currency conversion) The changed rules in IAS 21 resulted in a reassessment of the functional currencies of the Group's individual companies and, with regard to Hartu S. a. r. l. (TU), Phoenix Mecano Tunisie S. a. r. l. (TU) and Phoenix Mecano S. E. Asia Pte. Ltd. (Singapore), a switch to the euro on 1 January 2005. The one-off effect of the switch totalled EUR 1.1 million and was posted in equity under Changes to valuation principles with no effect on the income statement. Essentially this was the result of changes in the currency conversion of tangible fixed assets and to a lesser extent inventories. For IT-related reasons, no earlier adjustment could be made. See note 13.

Further adjustments The application of other new or revised IFRS/IAS standards had no major impact on the 2005 Group annual accounts.

The new IFRS/IAS standards and interpretations that had been approved but had not yet entered into force at the time when the Group accounts were being drawn up (in particular IFRS 6 and 7 and IFRIC 4 to 9) will not have any major impact on the Group annual accounts either.

Correction of errors in stock valuation of OMP S. r. l. (I) after IAS 8

During the preparations for the Group's withdrawal from OMP, shortcomings in stock bookkeeping were unearthed in the OMP S. r. l. (I) subsidiary, for which a detailed investigation into tangible assets was conducted. The investigation demonstrated that these shortcomings in physical stocks and work in progress did not just affect the current financial year. Because of missing basic documentation and valid secondary information, no reliable effects could be predicted on the balance sheet dates before 31 December 2004. As at 31 December 2004, the actual inventories of the Italian subsidiary could be reconstructed, and a discrepancy of EUR 6.4 million with the capital stock posted on the balance sheet was ascertained. This discrepancy correspondingly reduced the Group's consolidated equity as at 1 January 2005. See note 13. The established shortcomings referring to the 2005 financial year have been successfully corrected.

Companies included in consolidation

Included here are all the companies under the Group's control which were involved in business activities during the year under review and in which Phoenix Mecano AG directly or indirectly holds a voting interest exceeding 50 %.

During the year under review, the scope of consolidation was extended to include Dewert Australia Pty. Ltd. which was founded in 2003 and in which the Phoenix Mecano Group acquired a 70 % stake at the beginning of 2005. The company markets the products from the Dewert product area in Australia.

Furthermore, majority shareholdings previously accounted for using the equity method, which either complement or serve as partners of fully consolidated Group companies in Germany or fulfil either no or only a minor operational role, were included in the scope of consolidation as from 1 January 2005. Finally, the former subsidiary in Korea was made into a separate company in 2005.

In June 2005, the 78 % stake in Phoenix Mecano Mould SRL (RO) was sold off and correspondingly excluded from the scope of consolidation.

The following companies were fully consolidated as at 31 December 2005:

Company	Head office	Activity	Currency	Registered capital in EUR 1000	Stake in %
Phoenix Mecano AG	Stein am Rhein, Switzerland	Finance	CHF	1 100	n/a
Phoenix Mecano Management AG	Kloten, Switzerland	Finance	CHF	50	100
Phoenix Mecano Technologies AG	Stein am Rhein, Switzerland	Finance	CHF	250	100
Phoenix Mecano Beteiligungen AG	Stein am Rhein, Switzerland	Finance	CHF	100	100
Elodrive AG	Stein am Rhein, Switzerland	Finance	CHF	100	100
Phoenix Mecano Trading AG	Stein am Rhein, Switzerland	Purchases	CHF	100	100
Phoenix Mecano Komponenten AG	Stein am Rhein, Switzerland	Production / Sales	CHF	2 000	100
Rose Systemtechnik GmbH	Porta Westfalica, Germany	Production / Sales	EUR	1 053	100
Bopla Gehäuse Systeme GmbH	Bünde, Germany	Production / Sales	EUR	750	100
Kundisch GmbH + Co. KG	Villingen-Schwenningen, Germany	Production / Sales	EUR	300	100
Rose Gehäusetechnik GmbH	Eberswalde Finow, Germany	Production	EUR	300	100
Hartmann Codier GmbH	Baiersdorf, Germany	Production / Sales	EUR	300	100
PTR Messtechnik GmbH + Co. KG	Werne, Germany	Production / Sales	EUR	300	100
Phoenix Mecano Electronic GmbH	Sünna, Germany	Production	EUR	405	100
Götz Udo Hartmann GmbH + Co. KG	Grävenwiesbach, Germany	Production / Sales	EUR	300	100
RK Rose + Krieger GmbH	Minden, Germany	Production / Sales	EUR	496	100
Elodrive GmbH	Minden, Germany	Production / Sales	EUR	26	100
Dewert Antriebs- und Systemtechnik GmbH	Kirchlengern, Germany	Production / Sales	EUR	1 000	100
Hartmann Elektronik GmbH	Stuttgart, Germany	Production / Sales	EUR	222	100
Phoenix Mecano Digital Elektronik GmbH	Wutha-Farnroda, Germany	Production / Sales	EUR	350	100
IFINA Beteiligungsgesellschaft mbH	Cologne, Germany	Finance	EUR	4 000	100
AKOM Agentur für Marketing GmbH	Porta Westfalica, Germany	Finance	EUR	26	100
Götz Udo Hartmann GmbH	Grävenwiesbach, Germany	Finance	EUR	26	100
Hartmann Codier Verwaltungs-GmbH	Baiersdorf, Germany	Finance	EUR	26	100
Kundisch Verwaltungs-GmbH	Villingen-Schwennigen, Germany	Finance	EUR	26	100
PTR Messtechnik Verwaltungs-GmbH	Werne, Germany	Finance	EUR	26	100
Phoenix Mecano S. a. r. l.	Fontenay s / Bois, France	Sales	EUR	620	100
PTR France S. a. r. l. in Liquidation	Fontenay s / Bois, France	Sales	EUR	100	100
Phoenix Mecano Ltd.	Aylesbury, England	Sales	GBP	300	100
Phoenix Mecano Finance Ltd.	St. Helier, Channel Islands	Finance	USD	1 997	100
Phoenix Mecano S. r. l.	Inzago, Milano, Italy	Sales	EUR	3 250	100
Compact S. r. l.	Inzago, Milano, Italy	Finance	EUR	99	100
OMP Officina Meccanica die Predisione S. r. l. in Liquidation	Proserpio, Italy	Production / Sales	EUR	5 000	100
PM Komponenten B. V.	Doetinchem, The Netherlands	Sales	EUR	20	100

Company	Head office	Activity	Currency	Registered capital in EUR 1000	Stake in %
PM International B. V.	Doetinchem, The Netherlands	Finance	EUR	4 500	100
PM Komponenten N. V.	Deinze, Belgium	Sales	EUR	100	100
Phoenix Mecano Inc.	Frederick, USA	Production / Sales	USD	5 000	100
Elodrive USA Inc.	Feasterville, PA, USA	Sales	USD	85	100
Sistemas Phoenix Mecano Espana S. A.	Zaragoza, Spain	Sales	EUR	60	90
Phoenix Mecano S. E. Asia Pte. Ltd.	Singapore	Sales	SGD	1 000	75
Phoenix Mecano Korea Co., Ltd.	Seoul, South Korea	Sales	KRW	50 000	100
Phoenix Mecano (India) Ltd.	Mumbai, India	Production / Sales	INR	84 485	97
Phoenix Mecano Comercial e Tecnica Ltda.	Sao Paolo, Brazil	Sales	BRL	5 192	100
IPES Industria de Produtos e Equipamentos de Solda Ltda.	Manaus, Brazil	Production / Sales	BRL	3 922	100
Mecano Components (Shanghai) Co. Ltd.	Shanghai, China	Production / Sales	CNY	6 622	100
Phoenix Mecano Components Shanghai Co. Ltd.	Shanghai, China	Sales	CNY	1 655	100
Hartu S. a. r. l.	Ben Arous, Tunisia	Production	TND	500	100
Phoenix Mecano Tunisie á	Borj-Cedria, Tunisia	Production	TND	100	100
Dewert Australia Pty Ltd.	Tullamarine Victoria, Australia	Sales	AUD	150	70
Phoenix Mecano Kecskemét KFT	Kecskemét, Hungary	Production / Sales	EUR	2 560	100
Phoenix Meccano Plastic S. r. l.	Sibiu, Romania	Production	EUR	750	100

The integrated Group companies are combined using the full consolidation method. 100 % of all assets and liabilities, as well as income and expenditure, are fully included in the consolidated financial statements, with the exception of items that are eliminated during consolidation. Minority interests in equity are posted separately as a sub-item under equity. The minority share in the income is shown separately in the consolidated statement of income as a part of the result of the period. Newly acquired participating interests are included in the Group financial statements as from the date of acquisition, while companies disposed of during the year under review are excluded as from the date of sale.

Associated companies

Investments in associated companies (voting share between 20 % and 50 %) and joint ventures (50 % interests) are included in the Group accounts in accordance with the equity method. This means that these interests are shown in the balance sheet as a proportion of equity and the proportional annual results are shown in the statement of income.

Capital consolidation

Capital consolidation is based on the Anglo-American purchase method. The assets and liabilities of a company to be included in the consolidation for the first time are valued at fair value. The difference between the acquisition price and the fair value of the equity capital of the company acquired, determined according to these accounting principles, is, as from 1 January 1995, capitalised as goodwill. Before that date, differential amounts arising from the capital consolidation were offset against the Group reserves, and any additional amount between proportional equity and the higher purchase price was only recorded as goodwill in cases of particular significance (since 1988).

Currency conversion

Balance sheets for foreign subsidiaries drawn up in foreign currencies are converted to euro at the rates prevailing at the year-end. Average rates of exchange for the year are applied to statements of income drawn up in foreign currencies. Any exchange rate differences or translation differences on long-term loans which are considered to be similar in nature to equity are posted in equity under translation differences. However, currency differences resulting from current international business dealings are taken over to the income statement.

The annual accounts of companies in high-inflation countries are adjusted for inflation effects before being converted into euro.

For the Group's most important currencies, the following conversion rates were used:

	Balance sheet		Statement of income	
Euro for	**2005**	**2004**	**2005**	**2004**
1 CHF	0.642	0.648	0.646	0.648
1 GBP	1.453	1.412	1.462	1.476
1 USD	0.844	0.733	0.805	0.805
1 SGD	0.507	0.448	0.481	0.475
100 HUF	0.397	0.407	0.403	0.398
1 TND	0.621	0.610	0.621	0.635

Intercompany profits

Intercompany profits on inventories and fixed assets arising from trading between companies within the Group are eliminated so as not to affect income.

Segment information

The segment information is primarily presented by division and secondarily by region (Europe and Rest of World).

The Phoenix Mecano Group was previously divided into four divisions. When the operations of the OMP production area were discontinued, the remaining activities from the Electronics Contract Manufacturing division were retroactively transferred to the Electrotechnical Components divsion on 31 December 2005. The division was also renamed ELCOM/EMS. The Group therefore comprises three divisions:

- Enclosures,
- ELCOM/EMS,
- Mechanical components,

which form the basis for the primary format of the segment reporting. In addition, individual business areas are included under Other, which are not allocated directly to the above three divisions, as are central management and financial functions.

Individual property used for business operations which is owned by a subholding company and which was previously posted under Other, were reallocated to the ELCOM/EMS and Mechanical Components divisions in the year under review.

As a result of the aforementioned changes, the segment reporting figures for the equivalent period in the previous year were modified accordingly in order to ensure comparability.

Sales between individual divisions are invoiced on arms-length terms.

The result is allocated to the individual divisions to the level of the result before interest and tax. Operating assets include intangible assets, tangible assets, inventories, trade receivables, other receivables (minus financial and interest receivables) and deferred charges and prepaid expenses (minus loan discount) of the respective business division. Operating liabilities include provisions, trade liabilities, other liabilities (minus interest liabilities) and deferred income per business division.

Goodwill

Goodwill (see above under Capital consolidation) is tested for impairment annually and if there are any indications of a reduction in value, it is also tested during the period. Devaluation losses occurring as a result are reported in income under Other operational expenses. Appreciation is not included. Up until 2004, goodwill was amortised systematically over its estimated useful life, which must not exceed 20 years.

Other intangible assets

Capitalised development costs Larger-scale development costs for new products, which satisfy the criteria for capitalisation (in particular there must be the prospect of a net income), are capitalised at acquisition or manufacturing cost (without factoring in financing costs) and written off over the respective useful life, which must not exceed 5 years. Otherwise, research and development costs are debited directly to the statement of income.

Concessions, licences, similar rights and assets Other intangible assets are valued at acquisition cost less necessary scheduled depreciation. The depreciation is performed in accordance with the linear method over the estimated useful life of the asset, which must not exceed 8 years, in accordance with standard Group practice.

Tangible assets

Tangible assets are stated in the balance sheet at acquisition or manufacturing cost, less any necessary depreciation. The linear method of depreciation is applied over the depreciation periods specified in the useful life catalogues used by the whole Group. Estimated useful lives of the assets are:

- 35 years for buildings
- 10 to 15 years for outside facilities and building Installations
- 4 to 9 years for machinery and equipment

The manufacturing costs of internally produced fixed assets contain no financing costs.

Leased assets

Assets leased under financial leases are treated in the same way as tangible assets owned by the Group. They are capitalised at fair value at the time of acquisition or at the cash value of the minimum payments from the leasing contract, whichever is less. The corresponding obligation to the lessor is expensed as liabilities for financial leasing.

Costs from lease contracts and from operating leasing are taken directly over to the income statement.

Devaluation losses (Impairment)

At each balance sheet date, the recoverability of the capitalised intangible assets and tangible assets is reviewed. If there are indications of a reduction in value, the realisable value (higher amount of net selling price and utility value) of the asset or the cash flow generating unit is estimated and a revenue adjustment to the previous book value is made. The utility value corresponds to the cash value of the expected future cash flow of the respective asset. If such a reduction in value is no longer justified, there is a corresponding appreciation in value in the income statement, except for goodwill.

Investments in associated companies

Investments shown under this item are valued in accordance with the criteria set out above in the section Associated companies.

Other financial assets

Long-term loans to associated companies and third parties contained in other financial assets are posted at nominal value, taking account of any reductions in value (impairment) through corresponding devaluations which affect net income.

The other investments under 20 % shown under other financial assets are posted at fair value. Changes in value are posted without affecting operating income under the Group reserves and only transferred to the statement of income upon being sold (treated as financial assets held for sale in accordance with IAS 39). If the fair value cannot be reliably determined, the evaluation is done at acquisition costs. Any reductions in value (impairment) are taken into account through corresponding devaluations which affect net income.

Inventories

Inventories are reported at acquisition or production cost, which must not exceed the realisable net value (lowest value principle). The value of the costs is determined In the same way throughout the Group by means of the weighted average method. Until 2004, the FIFO method was also used in some cases. The production costs include all material costs, production wages and pro rata manufacturing overheads, but no financing costs. Appropriate value adjustments have been made for risks of inventory obsolescence wherever necessary, based on corresponding analyses of scope or coverage.

Receivables

Receivables are reported at their nominal value, less any operating provisions or allowances required, as ascertained via the maturity patterns of the receivables and other recognisable credit risks. Accounts payable and receivable between Group companies are eliminated, provided that the companies are consolidated.

Current asset securities

Securities are valued at the fair value, which corresponds to the market price in effect on the balance sheet date. Fluctuations in fair value of securities are recorded in equity and only included in the statement of income when the security in question is sold (treated as financial assets held for sale in accordance with IAS 39). Accumulated interest on bonds is deferred.

Cash and cash equivalents

Cash and cash equivalents are valued at nominal value. In the case of fixed deposits, they have a term not exceeding three months.

Financial liabilities

Interest-bearing liabilities are valued at amortised cost, with any discounts or premiums posted under deferred charges and prepaid expenses or deferred income. Short-term liabilities are those with a remaining term of less than one year.

Provisions

Provisions are made in accordance with regulation IAS 37 concerning provisions and contingencies. They serve to cover all perceivable risks and current liabilities which are uncertain in terms of their maturity or their amount arising due to past events.

Restructuring provisions are covered if on the balance sheet date a corresponding restructuring plan has been worked out and its implementation can be expected.

Payments to employees

Pension commitments The Group does not operate its own pension schemes. Pensions are essentially secured by external pension providers in accordance with the principle of primacy of contributions, financed through employer and employee contributions. The employer's contributions are recorded directly in the income statement. As from 1 January 2005, a new pension solution was adopted for the Group's Swiss companies, namely the affiliation to a collective foundation (Sammelstiftung). The new pension plan is assessed under IAS 19 as defined-benefit and is included in the balance sheet accordingly. Until 2004, Switzerland had a defined-contribution scheme. In several Group companies in Germany, existing pension plans are treated as defined-benefit pension plans.

The pension commitments of the defined-benefit pension plans are assessed in accordance with actuarial principles using the projected unit credit method. The actuarial assessment is carried out annually. Actuarial gains or losses are amortised in the income statement (maximum over the average remaining working life of the insured employees), provided that the accumulated actuarial gains or losses exceed 10 % of the greater of the pension commitment and the fair value of plan assets on the balance sheet date. The difference between the pension commitment and the plan assets of the Swiss pension plan is not recognised on the balance sheet, as stated in IAS 19.92, provided that they do not breach the corridor described above. Corresponding pension provisions are posted on the balance sheet for the existing defined-benefit pension plans in Germany.

Other long-term benefits to employees Corresponding provisions are made for existing commitments based on statutory retirement pay in Italy (Trattamento Fine Rapporto), agreements providing for part-time work for older employees in Germany and service anniversaries. The amount is determined in conformity with IAS 19.

Employee participation plans There are no employee participation plans.

Financial instruments

The financial instruments used are posted as per trading day.

Risk management Phoenix Mecano Group records interest and currency risks centrally at Group level. In addition, control of the use of derivative financial instruments, of which only limited use is made, almost exclusively for hedging purposes, is centralised. Exchange rate differences are shown in the financial result based on the central currency management.

The management of non-essential cash and cash equivalents and the Group's financing are also centrally controlled.

Currency risk In order to protect against loss of value of cash flows in foreign currencies, the Group hedges some balance sheet, income and expenditure items through the use of forward exchange transactions and foreign currency options.

Interest rate risks The Group also makes use of interest rate options and swaps in order to hedge external debts or balance out its variable and fixed-income financial liabilities. In addition, it partially hedges interest rate risks on financial assets.

Credit risks The Group only keeps funds with reputable financial institutions. Contracts on derivative financial instruments are concluded exclusively with such institutions.

The Group's extensive customer base, which covers various regions and sectors, limits the credit risk to receivables. There are no cluster risks.

Derivative financial instruments All derivative financial instruments are valued at fair value in accordance with IAS 39 and are stated separately in the Group balance sheet. For quoted instruments, the fair value corresponds to the market value, and for non-quoted instruments it corresponds to the value determined on the basis of a mathematical model. Book profits and losses from derivative financial instruments are reflected in the income statement unless IAS 39 stipulates otherwise.

Hedging transactions which meet the requirements of IAS 39 regarding hedge accounting are governed by the relevant provisions set out in that standard. In the case of a fair value hedge, i. e. the hedging of an existing underlying transaction, the changes in market value from both the underlying transaction and the hedging transaction are recorded in the income statement and the underlying transaction hedged is valued at fair value. In the case of a cash flow hedge, i. e. the hedging of future cash flows, the change in market value from the hedging transaction is shown in equity without affecting net income. As part of its risk policy, the Group also hedges interest and currency risks that are not treated as hedge accounting as defined by IAS 39. Changes in market value from such derivative financial instruments used are reflected directly in the income statement.

Realisation of income

Sales are realised when assets are delivered and transferred. Interest income is limited to the correct accounting period. Dividend income from securities is recorded at the time of payment.

There are no long-term manufacturing orders which are recorded in accordance with the progress of performance.

Government subsidies

Investment incentives are passively limited and systematically taken over to the income statement in accordance with the linear method over the useful life of the supported asset. Allowances for research and development accordingly reduce the costs incurred in this area.

Income tax

Current income taxes are calculated on the basis of the results from the reporting period.

Deferred taxes on the temporary differences between the values of assets and liabilities calculated according to uniform valuation principles and their tax values are taken into consideration using the comprehensive liability method. The calculation is carried out at the prevailing tax rates applicable in each country. As from 2005, this also applies to deferred taxes on intercompany profits from deliveries made within the Group. Before this date, a tax rate was applied throughout the Group. In the event of changes to tax rates, the deferred taxes are adjusted accordingly.

There was no accrual of deferred taxation on valuation differences regarding interests in fully consolidated and associated companies, in line with IAS 12.

Future tax savings on the basis of tax losses carried forward are only capitalised if their realisation seems likely. Lasting positive results must be achieved for this, which are used for calculations in the foreseeable future. If there are taxable temporary differences and offsettable tax losses carried forward at the same company, the two amounts may be offset against one another.

Non-reclaimable withholding taxes on distributions on the profits of foreign subsidiaries are only recorded as a liability if such distributions are planned.

Assumptions and estimations

Accounting requires assumptions and estimations to be made which influence the amount of the accounted assets and liabilities, the amount of contingent liabilities and contingent claims as per the balance sheet date and also expenses and income from the reporting periods. The assumptions and estimations are based on historical knowledge and experience and on the information available when the balance sheet is being drawn up. They are considered accurate under the circumstances. The actual results that are subsequently attained may differ from these estimations. The assumptions and estimations are regularly reviewed and adapted if necessary as the result of new information or knowledge. The resulting effects are included in the respective reporting period during which the assumptions and estimations were adapted.

The most important assumptions and estimations are set out below:

Intangible and tangible assets These are tested for impairment annually. The anticipated cash flow generated by the use or disposal of the assets in question is estimated to ascertain whether impairment applies. Especially where company property is concerned, impairment is linked to unfavourable locations or product-specific manufacturing plants associated with a wide range of uncertainties.

Inventories A complex supply chain within the Group (including as a result of production in cost-efficient locations and processing service in the sales companies) and the high priority accorded to short delivery times for customers require an adequate supply inventory and result in comparatively low stock turnaround figures. Some components, above all electrotechnical components, can only be stored for a limited amount of time since otherwise they are no longer suitable for soldering. As a result, there are increased stock risks. On the basis of corresponding stock turnaround and storage periods analyses, estimations and assessments on recoverability and devaluation requirements are carried out. In the 2005 Group annual accounts, corresponding risk assessments had to be carried out (see note 6) in accordance with the European Union Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS Directive), which will enter into force on 1 July 2006.

Assets held for sale During the process for discontinuing the business operations of the OMP product area, extensive estimations had to be made both as regards the assessment of corresponding assets (above all tangible assets and inventories) and as regards the discontinuation of necessary provisions. Appraisal reports were commissioned from third parties to assess important assets. See also note 12.

Provisions Guarantee provisions are calculated on the basis of estimations on potential future guarantees. There is a higher guarantee risk for products of Dewert Antriebs- und Systemtechnik GmbH (D), which is active in the care and hospital field. Individual Group companies are exposed to litigation. On the basis of current available knowledge, an assessment of the potential consequences of these court cases was conducted and provisions were constituted where necessary.

Pension commitments Pension commitments from defined-benefit plans are determined based on statistical and actuarial calculations made by external assessors, which in turn are based on a wide range of assumptions (about salary trend, pension trend, life expectancy and so on).

Gross sales The deferral of sales revenue requires an assessment regarding the time when the considerable risks and uses are transferred to the customer.

Income taxes Extensive estimations based on existing tax legislation and regulations are required to determine receivables and liabilities from current and deferred income taxes. In Germany, the years 2000 to 2004 are currently undergoing a tax control. The final results from the tax control are not yet available. Consequently, the effects had to be taken into account in the 2005 Group annual accounts based on own estimations.

Clarification of the Group accounts 2005

1 Goodwill

	2005 EUR 1 000	2004 EUR 1 000
Acquisition costs 1 January	**48 142**	**48 467**
Translation differences		– 325
Elimination of cumulative amortisation before IFRS 3	– 47 865	
Acquisition costs 31. December	**277**	**48 142**
Cumulative amortisation 1 January	**47 865**	**48 145**
Translation differences		– 325
Scheduled amortisation		45
Elimination of cumulative amortisation before IFRS 3	– 47 865	
Cumulative amortisation 31 December	**0**	**47 865**
Book values 1 January	**277**	**322**
Book values 31 December	**277**	**277**

Goodwill refers to the Enclosures division. The recoverability of this goodwill was tested using a five-year plan for the relevant cash flow-generating entity. A discount rate (WAAC) of 9 % was applied to determine the cash value.

2 Other intangible assets

	Note	Development costs EUR 1 000	Concessions, licences, similar rights and assets EUR 1 000	Advance payments and development projects in progress EUR 1 000	Total 2005 EUR 1 000	Total 2004 EUR 1 000
Acquisition costs 1 January		**15 993**	**19 196**	**250**	**35 439**	**36 055**
Application of new accounting standards	13		11		11	0
Changes in scope of consolidation	46, 47		– 74		– 74	0
Translation differences		– 5	10		5	26
Additions		529	818	545	1 892	2 639
Disposals		– 642	– 1 684	– 35	– 2 361	– 3 281
Repostings	12	127	– 1 132	– 134	– 1 139	0
Acquisition costs 31 December		**16 002**	**17 145**	**626**	**33 773**	**35 439**
Cumulative amortisation 1 January		**10 720**	**16 189**	**0**	**26 909**	**25 108**
Application of new accounting standards	13		9		9	0
Changes in scope of consolidation	46, 47		– 59		– 59	0
Translation differences		– 5	3		– 2	3
Scheduled depreciation	35	1 732	1 292		3 024	4 377
Devaluation losses		1 145	542	42	1 729	643
Appreciations					0	0
Disposals		– 642	– 1 681		– 2 323	– 3 222
Repostings	12		– 1 135		– 1 135	0
Cumulative amortisation 31 December		**12 950**	**15 160**	**42**	**28 152**	**26 909**
Book values 1 January		**5 273**	**3 007**	**250**	**8 530**	**10 947**
Book values 31 December		**3 052**	**1 985**	**584**	**5 621**	**8 530**

Development costs involve almost exclusively self-generated developments.

Concessions, licences, similar rights and assets includes primarily computer software licences and distribution rights and patents and other intangible rights and assets paid for.

Other intangible assets worth EUR 0.1 million (compared with EUR 0.3 million the previous year) were subject to reservation of title as at the balance sheet date.

Under the new accounting principles, the effect of the translation from the functional currency of the two Tunisian Group companies and of Phoenix Mecano S. E. Asia Pte. Ltd. to euro on the 1 January 2005 is included (see note 13).

Depreciation per capital asset of intangible assets, mainly for development projects, was performed within the framework of the annual impairment tests. The five-year plans were used as a basis. A discount rate (WAAC) of 9 % was applied to determine the cash value.

The breakdown by division of depreciation losses is clear from the segment information provided. In the statement of income, the depreciation losses are presented as follows:

	Note	2005 EUR 1 000	2004 EUR 1 000
Depreciation losses intangible assets			
Included in the item			
Other operating expenses	37	1 187	643
Restructuring expenses	38	450	0
Result of the period from discontinued operations	42	92	0
Total		**1 729**	**643**

The repostings primarily concern the reclassification of assets held for sale from the discontinued operations in Italy (see note 12), carried out on 31 December 2005.

3 Tangible assets

	Note	Land and buildings EUR 1 000	Machinery and equipment EUR 1 000	Advanced payments and construction in progress EUR 1 000	Total 2005 EUR 1 000	Total 2004 EUR 1 000
Acquisition costs 1 January		**84 087**	**168 373**	**3 199**	**255 659**	**248 994**
Application of new accounting principles	13	665	999		1 664	0
Changes in scope of consolidation	46, 47		– 767		– 767	165
Translation differences		1 022	899	4	1 925	– 1 168
Additions		1 143	9 809	2 376	13 328	15 255
Disposals		– 1 291	– 11 747	– 36	– 13 074	– 7 587
Repostings	12	– 8 783	– 14 709	– 3 004	– 26 496	0
Acquisition costs 31 December		**76 843**	**152 857**	**2 539**	**232 239**	**255 659**
Cumulative depreciation 1 January		**27 699**	**124 487**	**21**	**152 207**	**141 726**
Application of new accounting principles	13	101	592		693	0
Changes in scope of consolidation	46, 47		– 477		– 477	0
Translation differences		285	671		956	– 499
Scheduled depreciation	36	2 424	13 834		16 258	16 630
Devaluation losses		4 860	2 935	7	7 802	647
Appreciation	32, 42		– 118		– 118	– 188
Disposals		– 311	– 9 823		– 10 134	– 6 109
Repostings	12	– 5 059	– 13 209	– 7	– 18 275	0
Cumulative depreciation 31 December		**29 999**	**118 892**	**21**	**148 912**	**152 207**
Book values 1 January		**56 388**	**43 886**	**3 178**	**103 452**	**107 268**
Book values 31 December		**46 844**	**33 965**	**2 518**	**83 327**	**103 452**

Land and buildings are divided into developed and undeveloped land with a book value of EUR 6.8 million (previous year EUR 7.2 million) and factory and administration buildings with a book value of EUR 40.0 million (previous year EUR 49.2 million).

Tangible assets include capitalised assets leased under financial leases (machinery) with a balance sheet value of EUR 0.2 million (previous year EUR 0.5 million).

The fire insurance value of the tangible assets amounted to EUR 201.4 million on the balance sheet date compared to EUR 206.0 million the previous year.

Land and buildings with a book value of EUR 3.8 million (previous year EUR 9.7 million) were mortgaged to cover debts (property is not included) which are posted on the balance sheet under assets held for sale (see note 12). The amount of the corresponding credit taken up totalled EUR 0.7 million (previous year EUR 4.8 million). Fixed assets to a balance sheet value of EUR 0.8 million (previous year EUR 0.4 million) were subject to reservation of title on the balance sheet date.

Under the new accounting principles, the effect of the translation from the functional currency of the two Tunisian Group companies and of Phoenix Mecano S. E. Asia Pte. Ltd. to euro on the 1 January 2005 is included (see note 13).

Depreciation per capital asset or per group of capital assets, mainly for buildings, production machinery and tools, was performed within the framework of the annual impairment tests. The five-year plans for the corresponding cash-generating entities (product areas and product lines) were used as a basis. A discount rate (WAAC) of 9 % was applied to determine the cash value. The devaluation losses on buildings from continued operations were primarily due to a reduction in use of production buildings in Germany, which in turn was due to the relocation of production at a book value below the net sales price of these items of property. The net sales prices of these items of property are based on the market value estimations made by external assessors. A devaluation of the estimated fair value was carried out for the discontinued operations, where the fair value was lower than the book value. The breakdown by division of depreciation losses is clear from the segment information provided. In the statement of income, the depreciation losses are presented as follows:

	Note	2005 EUR 1 000	2004 EUR 1 000
Devaluation losses tangible assets			
Included in the item			
Other operating expenses	37	806	456
Restructuring expenses	38	2 162	0
Result of the period from discontinued operations	42	4 834	191
Summe		**7 802**	**647**

The repostings primarily concern the reclassification of assets held for sale from the discontinued operations in Italy (see note 12), carried out on 31 December 2005.

4 Investments in associated companies

	Investments in %	2005 EUR 1000	2004 EUR 1000
Beteiligungen an assoziierten Unternehmen			
AVS-Phoenix Mecano GmbH, Vienna (A)	50	413	324
Other		0	347
Balance sheet value		**413**	**671**
Financial figures AVS-Phoenix Mecano GmbH			
Fixed assets		12	13
Current assets		1 195	1 061
Liabilities		382	421
Income		3 963	4 084
Expenses		3 795	3 858

Phoenix Mecano products are sold in Austria through the joint venture AVS-Phoenix Mecano GmbH (A).

Magyar Phoenix Mecano KFT (HU), which had previously been included in the Group accounts using the equity method, was withdrawn once its liquidation had been completed in April 2005. Consequently, exchange rate differences totalling EUR 0.4 million previously 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 either no or only a minor operational role, were fully consolidated as from 1 January 2005.

5 Other financial assets

Other financial assets involves almost exclusively long-term loans in euro to third parties, with maturity up to five years. The average interest rate for these loans is 4.4 %.

6 Inventories

	Note	2005 EUR 1 000	2004 EUR 1 000
Raw and ancillary materials		43 944	52 560
Work in progress		3 293	10 087
Finished goods and merchandise for resale		20 474	24 745
Advance payments		425	412
Value adjustments		– 6 810	– 7 382
Balance sheet value		**61 326**	**80 422**
Posted on the balance sheet as assets held for sale	12	1 393	0
Total inventories		**62 719**	**80 422**

Value adjustments were determined based on marketability and range of the stocks. In addition, value adjustments and losses on inventories had to be carried out as a result of the European Union Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS Directive), which will enter into force on 1 July 2006. As a result, the anticipated stock disposal of affected items had to be estimated until mid 2006. Value adjustments and losses on inventories had the following effects on the statement of income:

	Note	2005 EUR 1 000	2004 EUR 1 000
Losses and value adjustments inventories			
Included in the item			
Other operating expenses	37	2 058	2 877
Restructuring expenses	38	815	0
Result of the period from discontinued operations	42	4 573	1 138
Total		**7 446**	**4 015**

No stocks had liens on them as at 31 December 2004.

By translating the functional currency of the two Tunisian companies belonging to the Group and of Phoenix Mecano S. E. Asia Pte. Ltd. to euro on 1 January 2005, the balance sheet value of inventories increased by EUR 0.1 million. The conversion of inventory valuation to the weighted average method on 1 January 2005 also had a positive effect of EUR 0.1 million on the inventory value (see note 13).

7 Trade receivables

	Note	2005 EUR 1 000	2004 EUR 1 000
Trade receivables		42 352	51 707
Receivables from associated companies		127	160
Value adjustments		– 2 354	– 2 138
Balance sheet value		**40 125**	**49 729**
Posted on the balance sheet as assets held for sale	12	12 335	0
Total trade receivables		**52 460**	**49 729**

The average payment term is 53 days (previous year 63 days).

The payment risk was taken into consideration through appropriate value adjustments.

8 Other receivables

	2005 EUR 1 000	2004 EUR 1 000
Tax receivables from VAT and other taxes	1 294	4 521
Other	2 523	2 940
Balance sheet value	**3 817**	**7 461**

The other receivables from discontinued operations are included in item 12.

9 Current asset securities

	2005 EUR 1 000	2004 EUR 1 000
Financial assets held for disposal		
Shares and equity funds	3 500	3 982
Real estate funds	0	196
Bonds and bond funds	22 462	19 664
Balance sheet value	**25 962**	**23 842**
By currency		
CHF	9 168	6 464
EUR	16 794	17 378
Balance sheet value	**25 962**	**23 842**
By maturities		
in 1 year	13 203	4 585
in 2 year	3 756	7 123
in 3 year	1 202	3 576
in 4 year	920	1 207
in 5 years	0	0
after 5 years	3 294	2 972
none	3 587	4 379
Balance sheet value	**25 962**	**23 842**
	2005 in %	**2004 in %**
Effective interest rate bonds		
CHF	1.3	1.4
EUR	4.9	3.5

The current asset securities can be converted into cash and cash equivalents at short notice. They are kept as liquidity reserves.

10 Cash and cash equivalents

	2005 EUR 1 000	2004 EUR 1 000
Means of payment		
Cash at bank and in postal accounts	13 479	9 984
Cash on hand and cheques	157	97
Total	**13 636**	**10 081**
Other cash and cash equivalents		
Fixed-term deposits (to 3 months)	21 418	20 610
Balance sheet value	**35 054**	**30 691**
By currency		
CHF	8 105	6 527
EUR	21 039	20 860
USD	1 916	886
Other currencies	3 994	2 418
Balance sheet value	**35 054**	**30 691**
	2005 in %	**2004 in %**
Average rate of interest		
CHF	0.5	0.5
EUR	1.6	1.7
USD	2.0	0.4

11 Deferred charges and prepaid expenses

This item includes a loan discount for financial liabilities of EUR 0.1 million (previous year EUR 0.3 million) and other deferred charges and prepaid expenses.

12 Assets held for sale

	Note	2005 EUR 1 000	2004 EUR 1 000
Intangible assets		0	
Tangible assets	2	8 225	
Inventories	6	1 393	
Trade receivables	7	12 335	
Other assets		782	
Assets held for sale		**22 735**	**0**
Financial liabilities	19	3 529	
Provisions	21	5 132	
Trade liabilities	24	5 672	
Other liabilities		1 367	
Liabilities directly linked to assets held for sale		**15 700**	**0**
Book value		**7 035**	**0**

On 12 October 2005, the Phoenix Mecano Board of Directors decided to withdraw from the business with customer specific switchgear cabinets and electronic packaging solutions (OMP product area) belonging to the former Electronics Contract Manufacturing division and on 31 October 2005 decided to go ahead with the voluntary liquidation of OMP S. r. l. (I). Sales negotiations have been ongoing since this date, having concluded successfully on 31 December 2005 for some sub-sectors and continuing in 2006 for others, with final completion of the process expected before the end of 2006. Assets linked to the OMP product area that had not been disposed of by the balance sheet date were classed as being held for disposal as at 31 December 2005. Likewise, the liabilities from the product area were entered separately onto the balance sheet as liabilities directly linked to assets held for sale.

Assets held for sale are valued at the lower of the book value or the fair value. The fair value for land and larger technical assets is based on estimations made by external assessors – also taking account of special factors – or specific offers from third parties. For all other fixed assets, the fair value is based on own estimations. Capital stock was valued on the basis of the estimated disposal of stock in the framework of the decommissioning in 2006. The devaluation losses on intangible assets and tangible assets and value adjustments on inventories resulting from this valuation are presented in note 42.

The booked financial liabilities refer to a mortgage on property held for sale. The provisions relate to severance payments, including statutory retirement pay in Italy (Trattamento Fine Rapporto), provisions for contractual risks, deferred environmental clean-up costs and other liquidation costs. Severance payments are negotiated with the unions and employees. Statutory retirement pay is included on the balance sheet at the determined value. The provision requirement for contractual risks (including trade obligations with customers) are estimated. The provision for environmental clean-up costs is based on estimations made by an external assessor, the provisions for any further liquidation costs of OMP S. r. l. (I) are based on contractual regulations with liquidators, lawyers and so on.

The realisability of the balance sheet value of tangible assets as described above (especially land and buildings) and the amount of actual future costs for the liquidation of OMP S. r. l. (I) depend on further developments in the liquidation and sales process. Consequently, there are considerable uncertainties as regards the valuation of these tangible assets held for sale and the provisions linked to the liquidation. The Board of Directors believes that the valuations and estimations provide the best possible reflection of the circumstances that are known at present.

13 Effects of accounting changes

	2005 EUR 1 000
Effects of translation of functional currency of individual Group companies on	
Other intangible assets	2
Tangible assets	971
Inventories	105
Liabilities from financial leasing	– 10
	1 068
Effect of the conversion of inventory valuation on the weighted average method	83
Effect from the application of new accounting principles	**1 151**
Correction of errors in stock valuation of OMP S. r. l. (I) after IAS 8	– 6 362
Effects of accounting changes on equity as at 1.1.2005	**– 5 211**

Further comments on the effects of the application of new accounting principles and the correction of errors in the stock valuation of OMP S. r. l. (I) can be found under Principles of consolidation and valuation on page 46.

14 Share capital

The share capital is fully paid up and remains divided into 1 100 000 bearer shares with a nominal value of CHF 1.00 (CHF is the statutory currency of Phoenix Mecano AG). The conversion into euro is effected at the historical exchange rate of 0.622. There is no authorised or contingent capital.

15 Own shares

	Number shares		Acquisition cost	
	2005	2004	2005 EUR 1 000	2004 EUR 1 000
As at 1 Jan	**1 558**	**1 343**	**331**	**291**
Share purchases	661	2 734	130	1 006
Share sales	– 1 430	– 2 519	– 321	– 966
Share buybacks	25 160	0	5 244	0
As at 31 Dec	**25 949**	**1 558**	**5 384**	**331**

The stock of own shares reduced consolidated equity. The gains and losses from the sale of own shares were posted without affecting the income. Detailed information on the purchases and sales effected in 2005 can be found on page 76 of the notes to the annual financial statements of Phoenix Mecano AG (note 4). As regards share buybacks, the Board of Directors will ask the Shareholder's General Meeting of 26 May 2006 to make an appropriate reduction of share capital (see notes 49 and 51).

16 Minority interests

As at the balance sheet date, the most important minority interests were Dewert Australia Pty. Ltd. at 30 % and Phoenix Mecano Korea Co. Ltd. at 25 % and, unchanged from the previous year, were Phoenix Mecano S. E. Asia Pte. Ltd. (Singapore) at 25 % and Sistemas Phoenix Mecano España S. A. at 10 %.

17 Outstanding bonds

In 2001, Phoenix Mecano AG floated an outstanding bond of over CHF 100 million with an interest rate of 4 % and a fixed term from 25 September 2001 to 25 September 2006. Since the outstanding bond will mature in 2006, it is posted under short-term liabilities.

18 Liabilities from financial leasing

	Note	2005 EUR 1 000	2004 EUR 1 000
Minimum leasing liabilities			
Minimum leasing liabilities up to 1 year		36	119
Minimum leasing liabilities 2 to 5 years		83	57
Minimum leasing liabilities over 5 years			12
Total		**119**	**188**
Less future interest charge		– 14	– 28
Cash value of leasing liabilities		**105**	**160**
Less current portion	25	– 32	– 102
Balance sheet value (long-term portion)		**73**	**58**
By currency			
SGD and AUD		73	58
Balance sheet value (long-term portion)		**73**	**58**
By maturities			
in 2 years		28	48
in 3 years		16	10
in 4 years		18	
in 5 years		11	
Balance sheet value		**73**	**58**

The average interest rate for liabilities from financial leasing is 3.0 % (previous year 4.3 %).

19 Other long-term financial liabilities

	Note	2005 EUR 1 000	2004 EUR 1 000
Liabilities towards financial institutions		4 463	8 954
Other		0	49
Current portion of long-term financial liabilities	25	– 4 448	– 1 617
Balance sheet value		**15**	**7 386**
By currency			
CHF			3 240
EUR			4 142
Other currencies		15	4
Balance sheet value		**15**	**7 386**
By maturities			
in 2 years		5	6 487
in 3 years		6	0
in 4 years		4	0
in 5 years		0	0
after 5 years		0	899
Balance sheet value		**15**	**7 386**
		2005 in %	**2004 in %**
Interest rates			
CHF			4.5
EUR			3.1
Other currencies		11.0	11.0

For the securing of bank liabilities by mortgage see note 3.

Existing mortgages for the discontinued operations is posted under liabilities directly linked to assets held for sale (see note 12).

20 Derivative financial instruments

	Value of the contract		Receivables due from derivative financial instruments		Liabilities from derivative financial instruments	
	2005 EUR 1 000	2004 EUR 1 000	2005 EUR 1 000	2004 EUR 1 000	2005 EUR 1 000	2004 EUR 1 000
Forward exchange transactions by currency						
CHF	12 840	10 000			311	29
USD	7 423	3 665		441	465	
HUF	10 373	19 263	1 476	1 839		
Other currencies		900				4
Total	**30 636**	**33 828**	**1 476**	**2 280**	**776**	**33**
Forward exchange transactions by maturities						
in 1 year			922	1 298	666	33
in 2 years			554	639	60	
in 3 years				343	50	
Total			**1 476**	**2 280**	**776**	**33**
Interest rate change contracts by currency						
EUR	8 532	9 118	83		349	517
CHF	25 680	25 920		188		
USD	2 535	2 199	40			6
Total	**36 747**	**37 237**	**123**	**188**	**349**	**523**
Interest rate change contracts by maturities						
in 1 year			123		349	523
in 2 year				188		
Total			**123**	**188**	**349**	**523**
Total long-term			554	1 170	110	0
Total short-term			1 045	1 298	1 015	556
Net balance sheet value			**1 599**	**2 468**	**1 125**	**556**

The forward exchange purchases of HUF for EUR are treated as a cash flow hedge and are used for partial hedging of the planned operating expenses in Hungary. Part of the CHF interest rate on the 4 % Phoenix Mecano AG 2001 to 2006 outstanding bond is variabilised with the interest rate swaps treated as a fair value hedge. The interest rate change contracts in EUR and USD include two payer swaps treated as a cash flow hedge at a nominal value of EUR 3.5 and 2.5 million intended to set the interest rate for the corresponding bank loans. All other derivative financial instruments are held for trading purposes.

The balance sheet values of the derivative financial instruments correspond to the fair values.

21 Provisions

	Provisions for long-term benefits to employees		Guarantee provisions	Restructuring provisions	Other provisions	Total
	Pension commitments EUR 1 000	Other EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000	EUR 1 000
Provisions as at 31 December 2004	**2 948**	**4 737**	**1 532**	**0**	**2 441**	**11 658**
Changes in scope of consolidation						0
Translation differences			31		19	50
Usage	– 131	– 1 551			– 1 269	– 2 951
Releases		– 10	– 382		– 267	– 659
Repostings		– 1 428	– 112	– 3 080	– 512	– 5 132
Allocations	256	1 379	539	3 080	2 100	7 354
Provisions as at 31 December 2005	**3 073**	**3 127**	**1 608**	**0**	**2 512**	**10 320**
Due within 1 year	78	179	1 253		2 039	3 549
Due over 1 year	2 995	2 948	355		473	6 771

Provisions for long-term benefits for employees regard pension commitments in Germany and agreements providing for part-time work for older employees in Germany (under Pension commitments), statutory retirement pay in Italy („Trattamento Fine Rapporto") – provided that they are not posted as liabilities directly linked to assets held for sale – and provisions for length-of-service awards (under Provisions for other long-term benefits for employees).

Other provisions include provisions for short-term payments to employees (e.g. severance payments) totalling EUR 1.3 million and provisions for lawsuit risks and other conceivable risks or contingent obligations.

The repostings regard the reclassification, as at 31 December 2005, of provisions linked to assets held for sale from the discontinued operations in Italy (see note 12).

22 Pension commitments

	2005 EUR 1 000	2004 1 000 EUR
Cash value of pension commitments from defined benefit plans		
As at 1 January	**11 133**	**3 187**
Service costs	771	104
Interest expenses	387	149
Capital	671	0
Pension payments	– 1 588	– 109
Actuarial (gains) / losses	1 004	– 289
Transfers	0	– 102
Translation differences	– 80	0
As at 31 December	**12 298**	**2 940**

	2005 EUR 1 000	2004 EUR 1 000
Market value of plan assets		
As at 1 January	**7 700**	
Expected return	231	
Employer contributions	417	
Employee contributions	417	
Capital	671	
Pension payments	– 1 457	
Actuarial (gains) / losses	– 163	
Translation differences	– 73	
As at 31 December	**7 743**	
Net balance sheet value Pension commitments		
Cash value of pension commitments from defined benefit plans financed using a pension fund	– 8 854	
Fair value of plan assets	7 743	0
	– 1 111	**0**
Cash value of pension commitments from defined benefit plans not financed using a pension fund	– 3 444	– 2 940
Non-reported actuarial (gains)/losses	1 482	– 8
Net balance sheet value of defined benefit plans (provision)	**– 3 073**	**– 2 948**
Receivables from defined contribution plans	0	3
Liabilities from defined contribution plans	– 15	– 15
Net balance sheet value of defined contribution plans	**– 15**	**– 12**
Net balance sheet value of pension commitments	**– 3 088**	**– 2 960**

Pension expenses		
Service costs	771	104
Interest expenses	387	149
Expected return	– 231	0
Employee contributions	– 417	0
Amortisation of actuarial gains/losses	163	0
Pension expenses for defined benefit plans	**673**	**253**
Pension expenses for defined contribution plans	**120**	**513**
Pension expenses	**793**	**766**
Actuarial assumptions		
Weighted discount rate	3.3%	5.0%
Weighted salary trend	1.8%	2.5%
Weighted pension trend	0.8%	1.5%

As from 1 January 2005, a new pension solution was adopted for the Group's Swiss companies, namely the affiliation to a collective foundation (Sammelstiftung). The new pension plan is assessed under IAS 19 as defined-benefit and is included in the balance sheet accordingly. As at 31 December 2005, the pension commitment of the Swiss pension plan totalled EUR 8.8 million, compared with assets totalling EUR 7.7 million. The difference is not recognised on the balance sheet in accordance with IAS 19.92. However employer contributions, which exceed service costs plus interest expenses less employee contributions, are not treated on the assets side but are subject to amortisation. Since the actuarial loss exceeds 10 % of the pension commitment on the balance sheet date, amortisation reported in income will also be carried out over the expected remaining working life of the employees from 2006 onwards.

The development of the provision for pension commitments from defined benefit plans can be seen in note 21. Provisions exist for defined benefit pension plans in Germany.

Other long-term benefits to employees

Appropriate provisions (see notes 12 and 21) were formed in compliance with IAS 19 for agreements providing for part-time work for older employees in Germany, statutory retirement pay in Italy („Trattamento Fine Rapporto") and provisions for length-of-service awards.

23 Deferred taxes

	Note	2005 EUR 1 000	2004 EUR 1 000
Deferred tax assets			
on: fixed assets		4 707	4 730
Inventories		3 293	2 023
Receivables		191	74
Provisions		1 557	548
Other		337	256
Deferred tax assets on temporary differences		**10 085**	**7 631**
Deferred tax on losses carried forward		29 348	19 634
Total deferred tax assets		**39 433**	**27 265**
Netting with deferred tax liabilities		– 5 449	– 4 400
Value adjustments		– 31 189	– 20 603
Balance sheet value		**2 795**	**2 262**
Deferred tax liabilities			
on: fixed assets		– 6 043	– 7 760
Inventories		– 1 735	– 1 721
Receivables		– 7 944	– 3 562
Provisions		– 157	– 293
Other		– 223	– 289
Total deferred tax liabilities		**– 16 102**	**– 13 625**
Netting with deferred tax assets		5 449	4 400
Balance sheet value		**– 10 653**	**– 9 225**
Net position deferred taxes		**– 7 858**	**– 6 963**
Trend of deferred taxes			
as at 1 January		**– 6 963**	**– 7 945**
Change of tax rate		– 2	17
Translation differences		188	– 98
Usage	41		1 063
Increase	41	– 1 081	
As at 31 December		**– 7 858**	**– 6 963**
Tax losses carried forward			
Up to 1 year		5 236	159
Between 1 to 5 years		33 064	27 867
Over 5 years		84 025	55 257
Total		**122 325**	**83 283**

The deferred taxes on intercompany profits from deliveries made between the Group were calculated for the first time as at 31 December 2005 using country-specific tax rates instead of a tax rate applied throughout the Group. This change resulted in an additional tax burden of EUR 0.3 million, which was reported in income.

Due to uncertainties regarding usability of tax losses carried forward totalling EUR 108 million, a value adjustment of the tax savings arising as a result was made on the balance sheet date. This particularly applies to all tax losses carried forward linked to discontinued activities. Further value adjustments apply to other deferred tax assets for individual companies with losses carried forward, above all for the company OMP S. r. l. (I), which is currently being liquidated. Deferred tax liabilities include deferred taxes totalling EUR 0.02 million on fluctuations in fair value on cash flow hedges posted without affecting income. In the previous year, deferred taxes totalling EUR 0.1 million were included under deferred tax assets and deferred taxes totalling EUR 0.3 million were included deferred tax liabilities.

Valuation differences on investments in fully consolidated and associated companies on which no deferred taxes have been calculated amount to EUR 28.8 million.

Because no corresponding dividend payments are planned, there was no accrual of deferred taxes on undistributed profits of subsidiaries.

Tax losses carried forward maturing at over 5 years can be almost completely carried forward for an indefinite period.

24 Trade liabilities

	Note	2005 EUR 1 000	2004 EUR 1 000
Trade liabilities		12 772	17 316
Liabilities to associated companies		0	0
Balance sheet value		**12 772**	**17 316**
Posted on the balance sheet as assets held for sale	12	5 672	0
Total trade liabilities		**18 444**	**17 316**

25 Short-term financial liabilities

	Note	2005 EUR 1 000	2004 EUR 1 000
Liabilities towards financial institutions		10 583	21 965
Liabilities to associated companies		0	221
Other		11	9
Current portion of long-term liabilities from financial leasing	18	32	102
Other financial liabilities	19	4 448	1 617
Balance sheet value		**15 074**	**23 914**
By currency			
CHF		3 210	64
EUR		5 628	16 904
USD		5 733	6 661
Other currencies		503	285
Balance sheet value		**15 074**	**23 914**
Interest rates			
CHF		4.5%	4.0%
EUR		3.2%	3.2%
USD		5.6%	3.8%
Other currencies		3.0%	1.9%

26 Other liabilities

	2005 EUR 1 000	2004 EUR 1 000
Social security liabilities	2 239	2 520
Liabilities to employees	3 247	3 909
Liabilities from VAT and other taxes	3 007	3 610
Other	2 020	1 898
Balance sheet value	**10 513**	**11 937**

Other liabilities relating to discontinued operations are accounted for under liabilities directly related to assets held for sale (see note 12).

27 Net indebtedness

	2005 EUR 1 000	2004 EUR 1 000
Outstanding bonds	64 283	64 988
Liabilities from financial leasing	73	58
Other long-term financial liabilities	15	7 386
Short-term financial liabilities	15 074	23 914
Financial liabilities directly linked to assets held for sale	3 529	
Interest-bearing liabilities	**82 974**	**96 346**
less current asset securities	25 962	23 842
cash and cash equivalents	35 054	30 691
Net indebtedness	**21 958**	**41 813**

28 Contingent liabilities

	2005 EUR 1 000	2004 EUR 1 000
Sureties and guarantees	62	307
Commitment from bills of exchange	39	40
Other	0	4
Total	**101**	**351**

The Group faces a possible lawsuit with a sales partner, but so far no quantified claims have been asserted. Consequently, no provision has been created.

29 Commitments to purchase tangible assets

The purchase commitment for tangible assets as at 31 December 2005 was EUR 1.6 million (previous year EUR 1.3 million).

30 Operating leasing, rent, leasehold rent

	2005 EUR 1 000	2004 EUR 1 000
Minimum commitments up to 1 year	2 383	2 321
Minimum commitments within 1 to 5 years	3 984	4 670
Minimum commitments over 5 years	4 760	4 557
Minimum liabilities from operating leasing, rent and leasehold rent	**11 127**	**11 548**
Minimum claims up to 1 year	348	148
Minimum claims within 1 to 5 years	794	593
Minimum claims over 5 years	535	668
Minimum claims from rent/leasehold rent	**1 677**	**1 409**

The liabilities from operating leasing, rent and leasehold rent consist almost exclusively of liabilities for leased premises and floor space (long-term lease).

31 Gross sales

	Note	2005 EUR 1 000	2004 EUR 1 000
Gross sales from continued operations		314 966	310 167
Gross sales from discontinued operations	42	28 941	38 563
Total		**343 907**	**348 730**

The gross sales shown include invoiced goods and services supplied by the Group to third parties and associated companies. Value-added taxes, directly granted rebates and discounts and credit notes for returns are deducted. There were no sales between the continued and discontinued business areas.

Gross sales from continued operations were up 1.5 % on the previous year. In local currency, this increase represented 1.3 %. The change in the scope of consolidation only had a minor effect with a 0.2 % increase in sales.

32 Other operating income

	2005 EUR 1 000	2004 EUR 1 000
Insurance compensation	140	175
Gains on the disposal of intangible and tangible assets	211	404
Appreciation on intangible and tangible assets	0	188
Government subsidies	74	59
Other	1 294	212
Total	**1 719**	**1 038**

Both in the reporting year and the previous year, „Other operating income“ included management charges totalling EUR 0.1 million, which were charged to the discontinued OMP product area by ongoing business activities.

33 Cost of materials

	2005 EUR 1 000	2004 EUR 1 000
Cost of raw and ancillary materials, merchandise for resale and external services	121 310	116 873
Incidental acquisition costs	4 177	3 710
Total	**125 487**	**120 583**

Note 6 shows where value adjustments and losses on inventories are posted on the statement of income.

34 Personnel expenses

	2005 EUR 1 000	2004 EUR 1 000
Wages and salaries	77 554	77 467
Social costs	16 973	16 621
Supplementary staff costs	2 042	1 908
Total	**96 569**	**95 996**

35 Amortisation of intangible assets

	Note	2005 EUR 1 000	2004 EUR 1 000
Goodwill		0	45
Development services		1 732	2 818
Concessions, licences, similar rights and assets		1 239	1 454
Total continued operations		**2 971**	**4 317**
Amortisation of intangible assets from discontinued operations	42	53	105
Total		**3 024**	**4 422**

As from 1 January 2005, goodwill is no longer systematically amortised, but instead is tested annually for impairment.

36 Depreciation on tangible assets

	Note	2005 EUR 1 000	2004 EUR 1 000
Land and buildings		2 146	2 134
Machinery and equipment		12 044	12 277
Total continued operations		**14 190**	**14 411**
Amortisation of intangible assets from discontinued operations	42	2 068	2 219
Total		**16 258**	**16 630**

37 Other operating expenses

	Note	2005 EUR 1 000	2004 EUR 1 000
External development costs		595	180
Establishments expenses		13 126	12 683
Rent, leasehold rent, leasing		2 867	3 034
Administration expenses		5 925	5 809
Advertising expenses		3 611	3 893
Sales expenses		12 184	12 133
Losses from the disposal of intangible and tangible assets	2, 3	189	86
Devaluation losses on intangible and tangible assets	2, 3	1 993	1 099
Losses and value adjustments on inventories	6	2 058	2 877
Capital and other taxes		546	593
Other		2 868	2 485
Total		**45 962**	**44 872**

The total development costs from continued operations, including internal costs, amount to EUR 6.5 million (previous year EUR 5.9 million).

See notes 2 and 3 for devaluation losses and note 6 for losses and value adjustments on inventories.

38 Restructuring expenses

	Note	2005 EUR 1 000	2004 EUR 1 000
Devaluation on intangible and tangible assets	1, 2	2 612	0
Losses from the disposal of tangible assets	2	16	
Losses and value adjustments on inventories	6	815	0
Other restructuring expenses		322	0
Total		**3 765**	**0**

There were restructuring expenses totalling EUR 3.0 million for the ELCOM/EMS division and restructuring expenses totalling EUR 0.8 million for the Mechanical Components division. Other restructuring expenses primarily consisted of severance payments.

In the ELCOM/EMS division, restructuring expenses arose as a result of the closure of a production site in Berlin and the relocation of production from Germany to cheaper production locations. This resulted in devaluation losses on company property in Germany that was no longer used to its full potential (see note 3).

The restructuring of the Mechanical Component division affected the North American business. A production site was closed in the US and production was relocated to Hungary and China.

Restructuring expenses relating to the OMP product area are included under Result for the period from discontinued operations (see note 42).

39 Financial income

	Note	2005 EUR 1 000	2004 EUR 1 000
Dividend income		44	49
Interest income from third parties		1 382	1 137
Interest income from the financing of discontinued operations		594	525
Capital gains on current asset securities		247	153
Gains from derivative financial instruments	20	104	599
Exchange rate gains		2 790	1 197
Gains from the disposal of Group companies	47	173	0
Other financial income		115	72
Total		**5 449**	**3 732**

The financial income from continued operations include interest income totalling EUR 0.6 million (previous year EUR 0.5 million), which was not attained with third parties but instead from the financing within the Group of discontinued operations.

40 Financial expenses

	Note	2005 EUR 1 000	2004 EUR 1 000
Interest expenses		3 718	3 497
Capital losses on current asset securities		0	19
Losses from derivative financial instruments	20	1 430	454
Exchange rate losses		2 838	1 890
Other financial expenses		88	252
Total		**8 074**	**6 112**

Exchange rate losses previously contained capital losses that had no effect on income totalling EUR 0.7 million as a result of the sale and/or liquidation of investments (see notes 4 and 47).

41 Income tax

	Note	2005 EUR 1 000	2004 EUR 1 000
Current income tax		3 730	4 946
Deferred taxes	23	1 066	– 1 693
Income tax		**4 796**	**3 253**
Transfer from theoretical to effective income tax			
Result before tax continued operations		21 229	25 709
Result before tax discontinued operations		– 25 256	– 7 434
Result before tax		**– 4 027**	**18 275**
Theoretical income tax		**– 5 346**	**2 726**
Weighted income tax rate		**132.8%**	**14.9%**
Change of tax rate deferred taxes		– 1	310
Tax-free income		– 330	– 84
Non-deductible expenses		1 659	1 129
Non-capitalisation of tax losses carried forward during the reporting year		5 779	4 014
Use of non-capitalised tax losses carried forward from previous years		– 640	– 4 626
Income tax relating to other periods		118	1
Value adjustments on deferred tax assets		3 441	0
Other		116	– 54
Effective income tax		**4 796**	**3 416**
Effective income tax rate		**n. a.**	**18.7%**

The theoretical income taxes are derived from the weighted current local tax rates in the countries where the Phoenix Mecano Group does business. The strong fluctuation in the weighted theoretical income tax rate is conditioned by the fact that the mixed results achieved by the individual subsidiaries are subject to varying local tax rates. The effective income taxes are mainly determined by the non-capitalisation of tax effects based on tax losses and the value adjustment of deferred tax assets from temporary differences in OMP S. r. l. (I), which is currently being liquidated.

In addition to the deferred taxes presented above, EUR 0.02 million (previous year EUR 0.65 million in deferred tax income) in deferred taxes on fluctuations in fair value of cash flow hedges posted without affecting income were offset directly against equity. See also note 23.

42 Result of the period from discontinued operations

	Note	2005 EUR 1 000	2004 EUR 1 000
Result from the period OMP product area		– 11 197	– 7 597
Result relating to restructuring and discontinuation of operations		– 14 059	0
Result of the period discontinued operations		**– 25 256**	**– 7 597**
Net sales		28 661	38 508
Changes in inventories		– 8	1 569
Own work capitalised		8	86
Other operating income		59	589
Cost of materials		– 25 227	– 28 192
Personnel expenses		– 7 394	– 10 847
Amortisation of intangible assets		– 53	– 105
Depreciation on tangible assets		– 2 068	– 2 219
Losses and value adjustments on inventories	6	– 565	– 1 138
Other operating expenses		– 3 691	– 4 655
Financial result		– 919	– 1 030
Result before taxes OMP product area		**– 11 197**	**– 7 434**
Income tax		0	– 163
Result of the period OMP product area		**– 11 197**	**– 7 597**
Gains from the disposal of intangible and tangible assets	2, 3	1 306	
Appreciation of tangible assets	2, 3	118	
Devaluation losses on intangible and tangible assets	2, 3	– 4 926	
Losses and value adjustments on inventories	6	– 4 008	
Other result related to the restructuring and/or discontinuation of operations		– 6 549	
Result related to restructuring and/or discontinuation of operations		**– 14 059**	**0**

On 12 October 2005, the Phoenix Mecano Board of Directors decided to withdraw from the business with customer specific switchgear cabinets and electronic packaging solutions (OMP product area with product locations in Italy and Hungary) belonging to the former Electronics Contract Manufacturing division and on 31 October 2005 decided to go ahead with the voluntary liquidation of OMP S. r. l. (I). The operations in Hungary were disposed of on 30 December 2005. In Italy, some sub areas were sold off in December 2005 and the remaining operations were scaled back. The majority of the necessary staff cuts resulting from the closure of this product area at OMP S. r. l. (I) had been made by 31 December 2005.

See note 12 for the accounting of the assets held for sale and of liabilities linked to the OMP product area.

Other result related to the restructuring and/or discontinued of operations includes severance payments, including statutory retirement pay in Italy (Trattamento Fine Rapporto) and supplementary staff costs in Italy totalling EUR 4 million, as well as provisions for contractual risks, environmental clean-up costs and liquidation costs.

Other operating expenses includes losses and value adjustments on inventories totalling EUR 0.6 million (previous year EUR 1.2 million) and devaluation losses on tangible assets from the previous year totalling EUR 0.2 million, which are not directly linked to the discontinued operations. Financial result includes interest expenses totalling EUR 0.6 million (previous year EUR 0.5 million) resulting from financing within the Group (see also note 39).

Cash flow from operations concerning discontinued activities totalled EUR – 9.6 million. A balance of EUR 0.9 million accrued from investments and disinvestments (cash flow from investment activities). Cash flow from financing activities totalled EUR 8.8 million. It relates to financing from continued operations of the discontinued OMP product area.

43 Earnings per share

	2005 EUR 1 000	2004 EUR 1 000
Result		
Result of the period attributable to shareholders of the parent company (Basis for earnings per share continued and discontinued operations)	**– 8 939**	**14 853**
Result of the period from discontinued operations	– 25 256	– 7 597
Result of the period from continued operations attributable to shareholders of the parent company (Basis for earnings per share continued operations)	**16 317**	**22 450**
	2005 Number	**2004 Number**
Number of shares		
Shares issued	1 100 000	1 100 000
Own shares (as the average over the year)	13 100	1 065
Shares outstanding	1 086 900	1 098 935
Basis for diluted earnings per share	**1 086 900**	**1 098 935**
Basis for undiluted earnings per share	**1 086 900**	**1 098 935**

The effects of the changes to the valuation principles (no more amortisation of goodwill, conversion of inventory valuation to the weighted average method and the translation of functional currencies in individual Group companies) on earnings per share were minimal in 2005.

44 Operating cash flow before restructuring expenses

	2005 EUR 1 000	2004 EUR 1 000
Operating result before restructuring expenses	27 535	27 949
Amortisation of intangible assets	2 971	4 317
Depreciation on tangible assets	14 190	14 411
Operating cash flow before restructuring expenses from continued operations	**44 696**	**46 677**

45 Free cash flow

	2005 EUR 1 000	2004 EUR 1 000
Cash flow from operating activities	38 085	35 106
Investments in intangible assets	– 1 892	– 2 639
Investments in tangible assets	– 13 328	– 15 255
Disinvestments in intangible assets	3	90
Disinvestments in tangible assets	2 218	1 804
Free cash flow (before financial investments)	**25 086**	**19 106**

The free cash flow before financial investments also takes account of the discontinued operations (see note 42).

46 Acquisition of Group companies

	2005 EUR 1 000	2004 EUR 1 000
Tangible assets	43	165
Financial assets	– 444	– 380
Cash and cash equivalents	83	82
Other current assets	133	16
Liabilities	185	117
Purchase price	**0**	**0**
Acquired cash and cash equivalents	83	82
Change in funds	**83**	**82**

At the beginning of 2005, the companies included in consolidated changed through the consolidation of Dewert Australia Pty. Ltd., in which the Phoenix Mecano Group holds a 70 % stake. No goodwill was recorded as a result. Within the framework of the transaction, capital was increased by EUR 0.1 million. The effect on the Group consolidated sales in the reporting year was 0.25 %, the effect on the result totalled EUR 0.1 million. The first full consolidation of majority shareholdings previously accounted for using the equity method, which either complement or serve as partners of fully consolidated Group companies in Germany or fulfil either no or only a minor operational role, had no effects on gross sales or on the Group result.

The companies included in consolidation changed in 2004 through the consolidation of Elodrive GmbH (D) and Dewert Antriebs- und Systemtechnik GmbH (D). In addition, the associated company PM Hungaria KFT (HU) was merged with the fully consolidated Phoenix Mecano Kecskemét KFT (HU).

47 Disposal of Group companies

	2005 EUR 1 000	2004 EUR 1 000
Goodwill	0	
Other fixed assets	349	398
Cash and cash equivalents	32	18
Other current assets	280	241
Liabilities	– 264	– 306
	397	**351**
Translation differences	– 47	
Gains on the disposal of Group companies	173	
Sales price	**523**	
Disposal of liquid assets	– 32	
Change in funds	**491**	

In June 2005, the 78 % stake in Phoenix Mecano Mould SRL (RO) was sold off, which resulted in a book gain of EUR 0.2 million less translation differences on the investment. As a result of the sale, exchange rate losses on capital-replacing loans, which previously had no effect on income, totalling EUR 0.3 million were realised and were reposted in the statement of income. Consolidated gross sales of the deconsolidated company between January and June 2005 totalled EUR 0.2 million (previous 12 months EUR 0.5 million) and the result for the period totalled EUR – 0.1 million (previous 12 months EUR – 0.1 million).

48 Transactions with related parties

	2005 EUR 1 000	2004 EUR 1 000
Chairman of the Board of Directors	84	85
Delegate of the Board of Directors (overall)	366	387
Fees of other members of the Board of Directors	78	78
Remuneration of the Board of Directors	**528**	**550**
Remuneration of the Executive Committee (excluding the Delegate of the Board of Directors)	**1 728**	**1 639**
Remuneration of retired members of the Board of Directors and the Executive Committee		**159**

In 2005 and 2004 there were no significant transactions with related parties outside the Group of companies included in the consolidation.

49 Events after the balance sheet date

During the first months of 2006, negotiations on the disposal of further assets from OMP S. r. l. (I), which is currently being liquidated, continued and individual preliminary agreements were concluded. In addition, the last customer orders were processed.

The share buybacks amounting to a maximum of 40 000 bearer shares or maximum CHF 10 million, which had been decided by the Board of Directors in March 2005, was completed in January 2006. A further 5 340 bearer shares at an average price of CHF 352.21 were bought back in 2006.

No further events occurred after the balance sheet date.

50 Approval of the Group's annual accounts

At its meeting of 23 March 2006, the Board of Directors of Phoenix Mecano AG released the 2005 Group annual accounts for publication. These accounts will be submitted to the Shareholders' General Meeting on 26 May 2006 with a recommendation for their approval.

51 Dividends and capital decrease

The Board of Directors recommends to the Shareholders' General Meeting of 26 May 2006 that a dividend of CHF 4.00 (CHF is the statutory currency of Phoenix Mecano AG) per share be paid out (see Proposal for the appropriation of retained earnings on page 78). In addition, it will ask the Shareholders' General Meeting to reduce the share capital by the total buyback volume realised.

Report of the Group auditor 2005

To the Shareholders' General Meeting of Phoenix Mecano AG, Stein am Rhein

As statutory auditors, we have audited the Group accounts contained on pages 37 to 68 (balance sheet, statement of income, statement of cash flow, statement of changes in equity and notes) of the Phoenix Mecano Group for the year ended 31 December 2005.

The Group accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the Group accounts based on our audit. We confirm that we meet the legal requirements concerning professional qualifications and independence.

Our audit was conducted in accordance with Swiss auditing standards and the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the Group accounts are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the Group accounts.

We have also assessed the accounting principles used, significant estimates made and the overall Group accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors the Group accounts give a true and fair view of the financial position, the results of operations and the cash flows and comply with International Financial Reporting Standards (IFRS) and Swiss Law.

We recommend that the consolidated annual accounts submitted to you be approved.

Without qualifying our audit opinion, we refer to note 12 in the Clarification of the Group accounts, where is a significant uncertainty as regards the valuation of the tangible assets held for sale and of the provisions linked to the voluntary liquidation of the OMP S. r. l. subsidiary in Italy. The realisation of the estimated proceeds from the disposal of tangible assets and the amount of provisions that are actually necessary depend on the future development of the liquidation process and can therefore not be assessed conclusively at the present time.

Deloitte AG

Gerhard Ammann — Daniel O. Flammer
(Auditor in charge)

Zurich, 23 March 2006

Five-year overview

	2005 EUR mn	2004 EUR mn	2003 EUR mn	2002 EUR mn	2001 EUR mn
Consolidated balance sheet					
Total assets	285.0	311.1	301.7	299.0	367.3
Fixed assets	93.2[1]	116.5	121.9	135	175.3
in % of total assets	32.7	37.4	40.4	45.2	47.7
Tangible assets	83.3[1]	103.5	107.3	119.1	125.1
Current assets	191.8[1]	194.6	179.8	164.0	192.0
in % of total assets	67.3	62.6	59.6	54.8	52.3
Inventories	61.3[1]	80.4	83.9	86.0	100.2
Cash and cash equivalents	35.1	30.7	28.8	21.4	20.7
Equity	140.9[2]	160.0[2]	146.0[2]	129.5[2]	179.9[2]
in % of total assets	49.4	51.4	48.4	43.3	49.0
Liabilities	144.1	151.1	155.7	169.5	187.4
in % of total assets	50.6	48.6	51.6	56.7	51.0
Net indebtedness	22.0	41.8	59.7	89.0	103.6
in % of equity	15.6	26.1	40.9	68.7	57.6
Consolidated statement of income					
Gross sales	343.9	348.7	326.1	323.8	342.0
Gross sales from continued operations	315.0	310.2	297.1	295.8	309.7
Total operating performance	312.7[3]	308.1[3]	327.4	321.5	351.3
Personnel expenses	96.6[3]	96.0[3]	103.1	105.7	105.2
Amortisation of intangible assets	3.0[3]	4.3[3]	4.5	7.1	6.6
Depreciation on tangible assets	14.2[3]	14.4[3]	17.3	18.3	17.2
Operating result before restructuring expenses	27.5[3]	27.9[3]	22.5	12.7	17.3
Restructuring expenses	– 3.8[3]	0.0[3]	0.2	– 40.6[4]	– 8.8
Result before interest and tax	23.8[3]	27.9[3]	22.7	– 27.9	8.5
Financial result	– 2.5[3]	– 2.2[3]	– 4.8	– 7.7	– 5.4
Result before tax	21.2[3]	25.7[3]	17.9	– 35.6	3.1
Income tax	– 4.8[3]	– 3.3[3]	– 3.1	– 2.5	1.8
Result of the period from continued operations	16.4	22.5			
Result of the period from discontinued operations	– 25.3[5]	– 7.6[5]			
Result of the period	– 8.8	14.9	14.8	– 38.1	4.9
in % of gross sales	– 2.6	4.3	4.5	– 11.8	1.4
in % of equity	– 6.3	9.3	10.1	– 29.4	2.7
Consolidated statement of cash flow					
Cash flow from operating activities	38.1	35.1	35.1	37.2	34.3
Cash flow from investment activities	– 12.9	– 28.5	– 20.0	– 23.6	– 46.6
Investments in tangible assets	13.3	15.3	13.0	21.7	37.7
Cash flow from financing activities	– 21.1	– 4.8	– 8.7	– 13.4	24.0
Free cash flow	25.1	19.1	22.2	16.6	– 8.3

[1] The assets held for sale from the discontinued OMP product area are posted in current assets under a separate item.

[2] Minority interests are recognised as a part of equity (new presentation in accordance with IAS 1).

[3] The figures for 2004 and 2005 refer to the continued operations, i. e. without the discontinued OMP product area.

[4] Including devaluation losses on goodwill totalling EUR 29.7 million.

[5] The discontinued operations concern the customer specific switchgear cabinets and electronic packaging solutions business (OMP product area).

Financial report 2005

Phoenix Mecano AG

Balance sheet as at 31 December 2005

Assets

	Note	2005 CHF	2004 CHF
Fixed assets			
Financial assets			
Investments	1	179 113 899	181 006 535
Lending to Group companies	2	18 893 232	17 967 490
Other financial assets		106 925	6 315
Total fixed assets		**198 114 056**	**198 980 340**
Current assets			
Receivables			
Financial receivables from Group companies	3	17 675 548	11 220 105
Other receivables		103 799	48 048
		17 779 347	**11 268 153**
Own shares	4	8 822 660	521 930
Current asset securities	5	19 796 486	15 234 844
Cash and cash equivalents		11 836 481	9 411 123
Total current assets		**58 234 974**	**36 436 050**
Deferred charges and prepaid expenses		579 566	809 043
Total assets		**256 928 596**	**236 225 433**

Liabilities and equity

	Note	2005 CHF	2004 CHF
Equity			
Share capital	6	1 100 000	1 100 000
Statutory reserves		2 500 000	2 500 000
Reserves for own shares		8 822 660	536 833
Special reserves		76 620 000	76 620 000
Retained earnings	7	49 089 793	34 917 599
Total equity		**138 132 453**	**115 674 432**
Liabilities			
Provisions	8	4 500 000	4 500 000
Long-term liabilities			
Outstanding bonds 4 % to 2006	9	100 000 000	100 000 000
Bank loans		0	5 000 000
Short-term liabilities			
Bank liabilities	10	12 896 000	9 282 400
Financial liabilities to Group companies		103 784	448 248
Liabilities to shareholders		0	0
Other liabilities		19 368	8 060
		13 019 152	**9 738 708**
Deferred income		1 276 991	1 312 293
Total liabilities		**118 796 143**	**120 551 001**
Total liabilities and equity		**256 928 596**	**236 225 433**

Statement of income 2005

	Note	2005 CHF	2004 CHF
Income			
Income from investments	12	31 886 895	12 955 000
Financial income	13	3 547 915	2 454 894
Other income	14	448 873	402 831
Total income		**35 883 683**	**15 812 725**
Expenses			
Financial expenses	15	– 5 492 506	– 5 167 958
Administration expenses		– 758 329	– 379 020
Other expenses	16	– 2 795 098	– 1 161 135
Income and capital taxes		– 16 397	– 27 690
Total expenses		**– 9 062 330**	**– 6 735 803**
Profit for the year		**26 821 353**	**9 076 922**

Notes to the financial statements 2005

General

The financial statements for Phoenix Mecano AG in Swiss francs have been drawn up in accordance with the provisions of Swiss corporation law and supplement the Group accounts.

1 Investments

The following list shows all investments held directly by Phoenix Mecano AG:

Company	Head office	Activity	Currency	Registered capital in 1 000	Investments in %
Phoenix Mecano Management AG	Kloten, Switzerland	Finance	CHF	50	100
Phoenix Mecano Technologies AG	Stein am Rhein, Switzerland	Finance	CHF	250	100
Phoenix Mecano Beteiligungen AG	Stein am Rhein, Switzerland	Finance	CHF	100	100
Elodrive AG	Stein am Rhein, Switzerland	Finance	CHF	100	100
Phoenix Mecano Trading AG	Stein am Rhein, Switzerland	Purchases	CHF	100	100
Phoenix Mecano Komponenten AG	Stein am Rhein, Switzerland	Production / Sales	CHF	2 000	100
Phoenix Mecano Finance Ltd.	St. Helier, Channel Islands	Finance	USD	1 997	100
PM International B. V.	Doetinchem, The Netherlands	Finance	EUR	4 500	100
AVS-Phoenix Mecano GmbH	Vienna	Sales	EUR	40	2
Phoenix Mecano Inc.	Frederick, USA	Production / Sales	USD	5 000	100
Phoenix Mecano S. E. Asia Pte. Ltd.	Singapore	Sales	SGD	1 000	75
Phoenix Mecano (India) Ltd.	Mumbai, India	Production / Sales	INR	84 484	97
Mecano Components (Shanghai) Co. Ltd.	Shanghai, China	Production / Sales	CNY	6 622	100
Phoenix Mecano Components Shanghai Co. Ltd.	Shanghai, China	Sales	CNY	1 655	100
Phoenix Mecano Comercial e Técnica Ltda.	Sao Paulo, Brazil	Sales	BRL	5 192	100
IPES Industria de Produtos e Equipamentos de Solda Ltda.	Manaus, Brazil	Production / Sales	BRL	3 922	100

The change in the balance sheet value compared to the previous year results from the sale of interests in Phoenix Mecano Mould SRL (RO) and the liquidation of Magyar Phoenix Mecano KFT (HU). There was no change in the amounts of holding since the previous year.

2 Lending to Group companies

This item includes long-term loans in CHF, EUR and USD to subsidiaries in this country and abroad.

3 Financial receivables from Group companies

This item includes balances on current accounts as well as other short-term financial receivables in CHF, EUR and USD to subsidiaries in this country and abroad.

4 Own shares

The following is an overview of the acquisitions and sales of own shares made during the reporting year:

Month	Share purchases		Share sales	
	Number	Average price CHF	Number	Average price CHF
January	0		0	
February	0		458	353.66
March	0		100	353.66
April	69	314.97	0	
May	498	298.69	0	
June	0		0	
July	0		122	325.00
August	0		450	331.78
September	0		300	347.50
October	30	339.97	0	
November	0		0	
December	64	324.00	0	
Total year	**661**	**304.71**	**1 430**	**343.83**

In addition, within the framework of the share buy-back programme set up by the Board of Directors in March 2005, the following buybacks were made:

Month	Share purchases Number	Average price CHF
March	500	357.62
April	600	330.67
May	6 500	300.36
June	4 200	316.64
July	4 060	321.52
August	0	
September	4 300	346.81
October	1 000	344.40
November	3 000	329.38
December	1 000	329.00
Total year	**25 160**	**322.64**

As at the balance sheet date the company owned 25 949 own bearer-shares (previous year 1 558 shares), which are booked at the average price during December 2005 of CHF 340.00. No subsidiaries owned shares in Phoenix Mecano AG.

5 Current asset securities

Phoenix Mecano AG has invested some of its liquidity in securities, primarily in outstanding bonds in CHF and EUR. This item also includes CHF 2.5 million in shares, likewise in CHF and EUR.

6 Share capital

The share capital is divided into 1 100 000 bearer shares with a nominal value of CHF 1.00 each. Planalto AG, Luxembourg, continues to own 30 % of the shares, Tweedy, Browne Company LLC of New York, USA, owns 9.2 % (previous year 9.9 %) of the shares and USB Fund Management (Switzerland) AG Basel owns 5 %.

7 Retained earnings

The retained earnings brought forward from the previous year amount to CHF 30 554 267.00. As a result of posting them in reserves for own shares, retained earnings were reduced by CHF 8 285 827.00. The 2005 financial year closes with a profit for the year of CHF 26 821 353.00. Altogether, this places retained earnings totalling CHF 49 089 793 at the disposal of the Shareholders' General Meeting of 26 May 2006 (cf. Proposal for the appropriation of retained earnings on page 78).

8 Provisions

This item comprises provisions to cover investment risks totalling CHF 3.5 million as well as provisions to cover exchange rate risks (including from forward exchange transactions) totalling CHF 1.0 million.

9 Outstanding bonds

In 2001, Phoenix Mecano AG floated an outstanding bond. The amount of the bond is CHF 100 million and the interest rate is 4 %. The bond has a fixed term from 25 September 2001 to 25 September 2006.

10 Bank liabilities

The short-term bank liabilities include CHF and USD loans.

11 Derivative financial instruments

	Value of the transaction		Positive replacement value		Negative replacement value	
	2005 CHF 1 000	2004 CHF 1 000	2005 CHF 1 000	2004 CHF 1 000	2005 CHF 1 000	2004 CHF 1 000
Forward exchange transactions by currency						
CHF/EUR	20 000	15 440			484	45
Total	**20 000**	**15 440**	**0**	**0**	**484**	**45**
Forward exchange transactions by maturities						
in 1 year					484	
in 2 years						45
Total			**0**	**0**	**484**	**45**
Interest rate change contracts by currency						
EUR	5 502	6 358			68	100
CHF	40 000	40 000	129	290		
USD	3 948	3 396	63			10
Total	**49 450**	**49 754**	**192**	**290**	**68**	**110**
Interest rate change contracts by maturities						
in 1 year			192		68	110
in 2 years				290		
Total			**192**	**290**	**68**	**110**

12 Contingent liabilities

	2005 CHF 1 000	2004 CHF 1 000
Sureties	0	20 000
Guarantees	59 797	59 837
Total	**59 797**	**79 837**

The contingent liabilities cover sureties and warranty obligations given for subsidiaries in favour of financial institutions. Actual book value of liabilities held by Group companies total CHF 10.0 million (previous year CHF 26.0 million).

13 Income from investments

Income from investments comprises dividends paid by subsidiaries in Switzerland and abroad.

14 Financial income

Financial income includes earnings from interest, commissions and securities.

15 Other income

Other income comprises net exchange rate gains totalling CHF 0.4 million for the reporting year plus the income from the releases of superfluous value adjustments totalling CHF 0.4 million for the previous year.

16 Financial expenses

This item contains expenses on interest and securities.

17 Other expenses

This item essentially includes the formation of value adjustments and expenses on licenses for the reporting year, book losses from the disposal of two lots of investments totalling CHF 1.9 million in the reporting year and net exchange rate losses totalling CHF 0.5 million for the previous year.

18 Net release of undisclosed reserves

The statement of income contains no net release of undisclosed reserves.

19 Events after the balance sheet date

The share buybacks amounting to a maximum of 40 000 bearer shares or maximum CHF 10 million, which had been decided by the Board of Directors in March 2005, was completed in January 2006. A further 5 340 bearer shares at an average price of CHF 352.21 were bought back in 2006. The Board of Directors will ask the Shareholders' General Meeting of 26 May 2006 to reduce the capital by the total buyback volume realised.

There are no further matters which would require disclosure in accordance with Art. 663b of the Swiss Code of Obligations.

Proposal for the appropriation of retained earnings

	CHF
Net income for the year 2005	26 821 353
Retained earnings brought forward 2004	30 554 267
Allocation to reserve for own shares	– 8 285 827
Retained earnings	**49 089 793**

The Board of Directors proposed to the Shareholders' General Meeting that unappropriated retained earnings should be distributed as follows:

	CHF
Dividend of CHF 4.00 per share	4 400 000
Allocation to special reserves	35 000 000
Carried forward to new account	9 689 793
Total	**49 089 793**

Report of the statutory auditors 2005

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, statement of income and notes) of Phoenix Mecano AG for the year ended 31 December 2005 (pages 72–78).

The financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualifications and independence.

Our audit was conducted in accordance with Swiss auditing standards and International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the proposed appropriation of retained earnings (page 78) comply with the law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Deloitte AG

Gerhard Ammann

Daniel O. Flammer
(Auditor in charge)

Zurich, 23 March 2006

Production companies

● **Sales**
Australia: Victoria
Belgium: Deinze
Brazil: São Paulo
France: Fontenay sous Bois
Great Britain: Aylesbury
Italy: Inzago
Korea: Seoul
The Netherlands: Doetinchem
Austria: Wien
Singapore: Singapore
Spain: Zaragoza
USA: Feasterville

Production
Germany: Eberswalde, Sünna
Romania: Sibiu
Tunisia: Ben Arous, Borj-Cedria

Production and sales
Brazil: Manaus
Germany: Porta Westfalica, Bünde, Villingen-Schwenningen, Minden, Kirchlengern, Baiersdorf, Werne, Grävenwiesbach, Stuttgart, Wutha-Farnroda, Berlin
China: Shanghai
India: Mumbai
Italy: Proserpio
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Hungary: Kecskemét
USA: Frederick

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Phoenix Mecano – Examples of applications

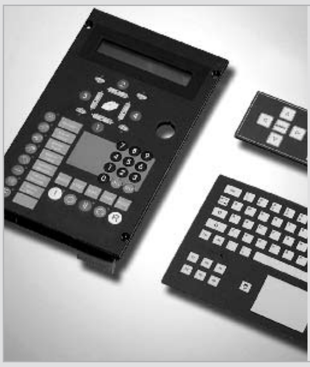
Enclosures

ROSE

Stainless steel enclosures
as a system solution
for medical engineering

BOPLA

Design-panel enclosures
for installing control units



KUNDISCH

Complete input systems:
from the initial idea to
a marketable product,
from design foil to full
electronics

Mechanical components

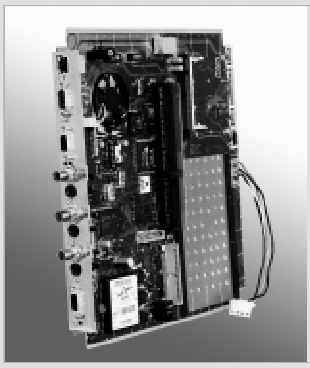
DEWERT

The HOSPITAL and CARE
market segment remained
the focus of ongoing,
targeted development

RK ROSE+KRIEGER

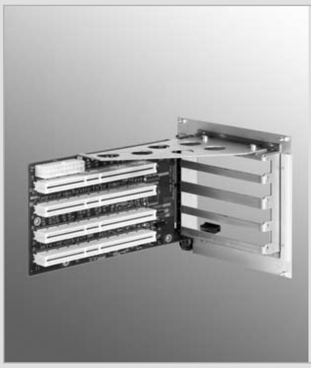
Handling portal with
a range of over 7 m
to move write heads
for product labelling

ELCOM/EMS



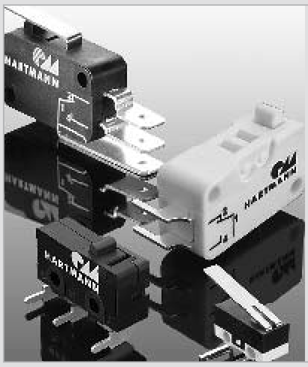
PHOENIX MECANO
DIGITAL ELEKTRONIK

Web-based, browser-driven system for event- and transaction-activated video surveillance of cash dispensers, bank lobbies and self-service areas



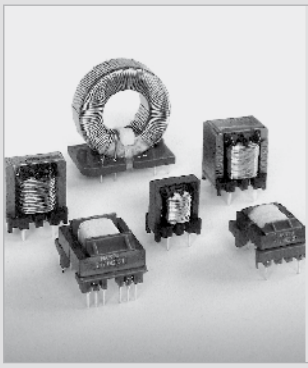
HARTMANN ELEKTRONIK

Compact PCI-to-PCI adapters used to expand embedded systems inexpensively



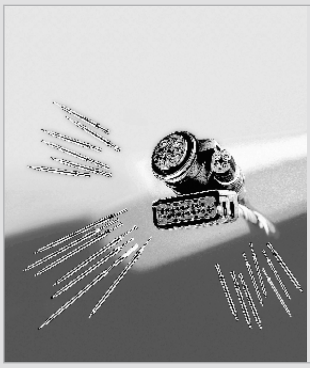
HARTMANN

Microswitches of various shapes and sizes for a wide range of applications as limit switches or buttons



GÖTZ-UDO HARTMANN

HF transformers, PFC chokes and noise suppression chokes made of powdered metal, designed specifically to meet customers' requirements.



PTR

Spring contacts for cable tests, presence testing and electrical testing of contact components as well as for circuit board and module testing

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Corporate Communications
CH-8808 Pfäffikon

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This annual report is also available in German.

The German version is binding.