PHOENIX MECANO

INNOVATION IN DETAIL.
PERFECTION IN TEAMWORK.

Annual Report 2006

Key figures of the Phoenix Mecano Group

		2006	2005	2004	2003	2002
Key financial figures						
Gross sales[1]	EUR million	346.5	315.0	310.2	326.1	323.8
Change	%	10.0	1.5	– 4.9	0.7	– 5.3
Operating cash flow[1,2]	EUR million	51.7	44.7	46.7	44.3	38.1
Change	%	15.8	– 4.2	5.4	16.1	– 7.1
in % of sales	%	14.9	14.2	15.0	13.6	11.8
Operating result[1,2]	EUR million	35.8	27.5	27.9	22.5	12.7
Change	%	30.1	– 1.5	24.2	77.5	– 26.6
in % of sales	%	10.3	8.7	9.0	6.9	3.9
Result before interest and tax[1]	EUR million	35.8	23.8	27.9	22.7	– 27.9
Change	%	50.7	– 15.0	22.9	181.5	– 428.8
Result of the period	EUR million	27.8	– 8.8	14.9	14.8	– 38.1
Change	%	415.1	– 159.4	0.6	138.7	– 872.3
in % of sales	%	8.0	– 2.8	4.8	4.5	– 11.8
in % of equity	%	16.7	– 6.3	9.3	10.1	– 29.4
Total assets	EUR million	263.7	285.0	311.1	301.7	299.0
Equity	EUR million	166.9	140.9	160.0	146.0	129.5
in % of total assets	%	63.3	49.4	51.4	48.4	43.3
Net indebtedness	EUR million	13.0	22.0	41.8	59.7	89.0
in % of equity	%	7.8	15.6	26.1	40.9	68.7
Cash flow from operating activities	EUR million	25.5	38.1	35.1	35.1	37.2
Free cash flow	EUR million	12.2	25.1	19.1	22.2	16.6
Investments in tangible assets	EUR million	19.4	13.3	15.3	13.0	21.7
Number of employees						
Number of employees[1]						
Annual average	Personnel	4 194	3 753	3 915	3 879	3 935
Gross sales per employee[1]	EUR 1 000	82.6	83.9	79.2	84.1	82.3
Personnel expenses per employee[1]	EUR 1 000	24.8	25.7	24.5	26.6	26.9
Share indicators						
Share capital ((bearer shares at nominal CHF 1.00)[3]	Number	1 069 500	1 100 000	1 100 000	1 100 000	1 100 000
Entitled to dividend[4]	Number	1 067 545	1 074 051	1 084 442	1 098 657	1 094 662
Operating result per share[1]	EUR	33.5	25.6	25.8	20.5	11.5
Result of the period per share	EUR	26.0	– 8.2	13.7	13.5	– 34.6
Equity per share	EUR	156.4	131.2	147.5	132.7	117.7
Dividend/par value repayment	CHF	6.00[5]	4.00	4.00	4.00	6.00[6]

[1] The figures for 2004 to 2006 refer to the continued operations, i.e. without the discontinued OMP product area.
[2] Before restructuring expenses and other exceptional charges.
[3] In line with a decision taken by the Shareholders' General Meeting of 26 June 2006, the share capital was reduced by CHF 30 500 from 15 September 2006 by eliminating 30 500 shares from the 2005-06 share buyback programme.
[4] As at the balance sheet date, the company owns 1 955 own shares which are not entitled to dividend.
[5] Proposal to the Shareholders' General Meeting of 1 June 2007.
[6] In line with a decision taken by the Shareholders' General Meeting of 7 June 2002, the share capital was reduced by CHF 9.9 million. The first part payment of the capital reduction totalling CHF 3 per share was distributed to shareholders in 2002. The second payment of CHF 6 was paid in 2003.

Structure of the Phoenix Mecano Group

PHOENIX MECANO GROUP

Phoenix Mecano is a global player in the components segment, has a streamlined operating structure and is a leader in many markets. Geared towards the professional and cost-effective manufacture of niche products, it helps to ensure the smooth operation of processes and connections in the machine industry and industrial electronics. Its products are used in oil platforms, aircraft construction, environmental research, the automotive industry and the home and hospital care sector.

ENCLOSURES

Companies
Rose Systemtechnik, Bopla Gehäuse Systeme, Kundisch

Standard and customised enclosures made of aluminium, plastic and glass-fibre reinforced polyester and stainless steel, machine control panels and suspension systems protect sensitive electrical equipment and electronics in mechanical engineering, measuring and control technology applications. High-quality sandwich keyboards offer a reliable human/machine interface, even under extreme conditions.

ELCOM/EMS

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

Intelligent concepts provide solutions for increasingly complex tasks associated with coding switches, inductive components and plug connectors, circuit board equipment, backplanes, electronic coin testing systems and the development of customised electronic applications right down to complete subsystems.

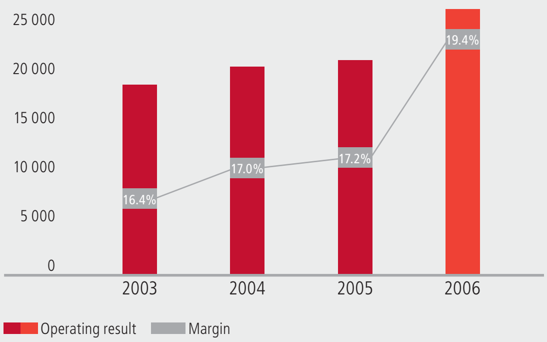
MECHANICAL COMPONENTS

Companies
RK Rose + Krieger, Dewert Antriebs- und Systemtechnik, Elodrive

Aluminium profiles, pipe connection systems, linear drives and conveyor components enable sophisticated systems for use in machine design and construction. Reliable, high-performance linear actuators and drive units used in air conditioning technology and the home and hospital care sector help to provide a high level of comfort.

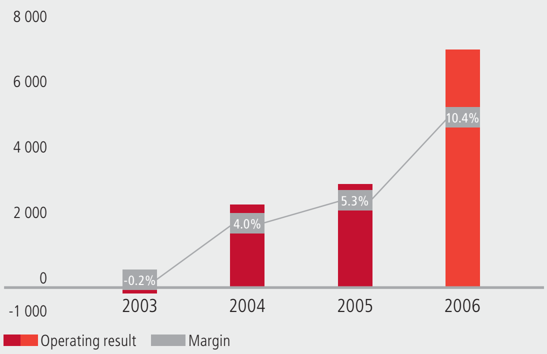
Enclosures	2006	2005	2004	2003
EUR 1 000				
Gross sales	139 597	127 596	123 956	118 304
Investments in tangible assets	6 144	4 400	6 410	3 302
Operating result	27 038	21 901	21 127	19 377
Margin	19.4%	17.2%	17.0%	16.4%

Operating result and margin



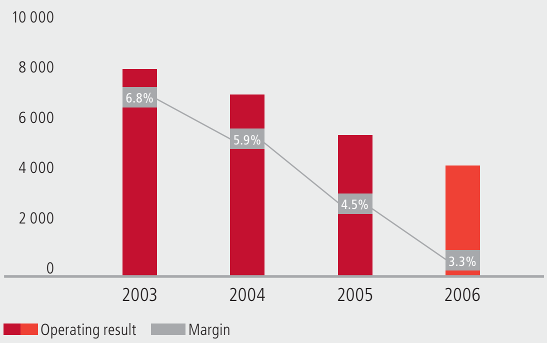
ELCOM/EMS	2006	2005	2004	2003
EUR 1 000				
Gross sales	70 403	59 756	62 683	56 491
Investments in tangible assets	4 172	3 468	3 170	3 567
Operating result	7 300	3 173	2 538	– 130
Margin	10.4%	5.3%	4.0%	– 0.2%

Operating result and margin



Mechanical Components	2006	2005	2004	2003
EUR 1 000				
Gross sales	135 593	126 214	122 234	120 820
Investments in tangible assets	8 874	4 379	3 668	3 090
Operating result	4 407	5 632	7 259	8 269
Margin	3.3%	4.5%	5.9%	6.8%

Operating result and margin



"Innovation in detail. Perfection in teamwork" is more than the theme of this annual report. It is Phoenix Mecano's constant aim. Day after day. Time after time. In everything we do.

In the development and application of every single element, every slightest component, which however small can be key to the functioning of the complex whole. Our innovation in detail is what enables us to make major new developments.

Because importance is not about size.

INFORMATION ON THE REPORT'S THEME

COMPANY INFORMATION

INFORMATION ON THE ANNUAL ACCOUNTS

FURTHER INFORMATION

CUSTOM-MADE PRECISION FOR EXTREME SITUATIONS,
UNPARALLELED PROTECTION IN THE FACE OF EXTRAORDINARY DEMANDS:
PHOENIX MECANO'S ENCLOSURES SAFEGUARD SENSITIVE TECHNOLOGY AND ELECTRONICS.
AT ALL TIMES AND IN ALL PLACES.
STAINLESS STEEL JUNCTION BOXES
OFFER MAXIMUM INTEGRITY AND EXPLOSION PROTECTION.

BECAUSE SECURITY IS NOT ABOUT SIZE.

INNOVATION CREATES SECURITY. FOR COMPLEX CHALLENGES.
IN CRITICAL SITUATIONS. WHEN IT MATTERS MOST.
THE RADAR SYSTEMS USED IN AWACS RECONNAISSANCE PLANES ARE BASED ON
RELIABLE, SUSTAINABLE TECHNOLOGY, RIGHT DOWN TO THE SMALLEST UNIT.
PHOENIX MECANO BACKPLANES ARE USED AS THE CENTRAL CONTROL UNIT
AND MOTHERBOARD, ENSURING A DETAILED OVERVIEW AND CLEAR VISION
THOUSANDS OF METRES ABOVE GROUND.

BECAUSE INTELLIGENCE IS NOT ABOUT SIZE.

MOVEMENT REQUIRES FORCE. STRENGTH.
AND A HIGH DEGREE OF TECHNOLOGICAL COMPETENCE AND KNOW-HOW.
PHOENIX MECANO'S MECHANICAL COMPONENTS PRODUCE MOVEMENT
WITHOUT TORSION OR TENSION.
EVEN WITH HEAVY LOADS.
THIS MAKES THEM IDEAL FOR USE IN CLIMATE AND ENVIRONMENTAL RESEARCH
WHERE THEY COMBINE SOPHISTICATED SYSTEM PROVISION WITH MAXIMUM PRECISION.

BECAUSE STABILITY IS NOT ABOUT SIZE.

Customer proximity is the cornerstone of our corporate strategy – it's what makes us successful and sets us apart from, and above, other companies. Phoenix Mecano operates in niche markets, developing innovative product solutions that offer economic value added by being perfectly adapted to the needs of customers or local markets, right down to the last detail.

Because innovation is not about size.

COMPANY INFORMATION

Dear Shareholders,

The Phoenix Mecano Group developed strongly in 2006. Our streamlined business portfolio grew organically by around 10% and profitability improved markedly. The company experienced growth in all divisions and all parts of the world. This was due partly to a more favourable investment climate, but the Group also capitalised more on its longstanding policy of development in target markets. In future, we plan to push ahead with our long-term income-oriented growth strategy, always bearing in mind the risks of an economic downturn. While striving for organic development, we will increasingly seek out acquisition opportunities, making sure of course that they meet our strict criteria. We can already boast one success in this respect. The Leonhardy Group, a German company specialising in the production and marketing of customised switches and plug connectors, joined the Phoenix Mecano Group on 1 January 2007. Leonhardy is now being run as an independent company within the ELCOM/EMS division.

Growth markets Divided into three divisions, Phoenix Mecano principally manufactures components for industrial customers in the electronics, electrical and mechanical engineering segments. We also serve the furniture and healthcare sectors, offering a broad range of high-quality electric drives and control systems for adjustable ergonomic and healthcare furniture and hospital beds.

Phoenix Mecano's growth over the past year was driven by mechanical engineering and control systems, alternative energies (e.g. enclosures for windturbines), energy technology and oil and gas production and processing equipment (e.g. with Atex security enclosures). Phoenix Mecano believes that a company's task is not simply to achieve the best possible short-term results but also to lay the foundations for medium to long-term growth early on and do so in a balanced way. In the Mechanical Components division, new high-performance drives for the healthcare and hospital sectors were marketed during the year. This will be followed in 2007 by the launch of a heavy-load drive, specially developed for use in the fast growing segment of beds and armchairs for overweight patients. Under the brand name Elodrive, Phoenix Mecano is marketing a newly developed programme of energy-saving drives. These innovative products have enabled it to gain a foothold in another market segment, that of drives for valves and ventilation flaps. Developed to meet extreme demands, these products have already been tested and shown to function reliably in agricultural and greenhouse ventilation systems and golf course watering systems under tough conditions associated with high humidity, temperature fluctuations and aggressive chemicals. The product range is currently being further expanded to include general heating, air conditioning and ventilation technology. These investments in future growth fields have had a temporary impact on the result of the Mechanical Components division. However, in the medium term the Group aims to achieve sales in the tens of millions with these products.

Competitiveness Continually working to improve our competitiveness is a key concern, even during successful periods. Far Eastern suppliers, the rising cost of raw materials and constant pricing pressure from customers made it necessary to relocate some operations to more cost-effective sites last year, as in previous years. At the same time we have further increased our development and sales capacities in competitive high-wage locations such as Germany and the USA. Only through innovations in products, production processes and management of the value creation chain can we meet the challenges of tomorrow and further expand our market share. The successful construction of an aluminium die-casting plant in Pune, India, is representative of the diverse steps the Group is taking to expand into a globally competitive and sustainable company.

BENEDIKT A. GOLDKAMP,
DELEGATE OF THE BOARD OF DIRECTORS

ULRICH HOCKER,
CHAIRMAN OF THE BOARD OF DIRECTORS

Global markets Globalisation is altering the environment in which we operate in an increasingly radical way. Phoenix Mecano's customers sell their products right around the world. Increasingly, our European customers are manufacturing their end products – machinery, measuring instruments, etc. - in the expanding markets of Asia, where they are sold. In furniture industry applications, US producers are relocating production to Asia and importing the finished products back to the US. For many component manufacturers, this would pose a serious threat to their business relations. However, thanks to Phoenix Mecano's policy of early stage investments on every continent, we now have a competitive, global network of sale and production companies which enables us to serve our customers all around the world. For global enterprises this may be nothing out of the ordinary, but for a component manufacturer operating in a competitive environment dominated by medium-sized companies it is a major competitive advantage. We intend to further expand this advantage in the coming years. In 2007 we will be opening a branch in Moscow and expanding our presence in the Australian market. In India we are currently completing the third expansion phase at our factory in Pune. In Shanghai we are in the process of doubling our production area, to enable the assembly of linear drives and positioning systems, in addition to the electronic components and enclosures currently processed. These developments are bringing us nearer to our goal of being a globally well-structured company.

Outlook The outlook in Phoenix Mecano's target markets – electrical engineering, electronics and mechanical engineering – is suggestive of further growth in the short to medium term. Overall, assuming continuing economic stability, the Board of Directors expects growth to continue and at least the same operating margin to be maintained.

Thank you to our staff Phoenix Mecano achieved the goals and milestones it set itself for 2006. Such a success is only possible thanks to the unflagging commitment of the Group's more than 4 000 employees. The Board of Directors owes a debt of gratitude to each and every one. Following the restructuring efforts of recent years, it has been particularly challenging to return to growth, innovation and calculated risk in an altered economic environment. In view of this, the flexibility and entrepreneurial spirit of management and staff at every level merit our respect and appreciation.

Ulrich Hocker
Chairman of the Board of Directors

Benedikt A. Goldkamp
Delegate of the Board of Directors

Strategy

- **Pursuing the successful strategy of reducing entrepreneurial risk by combining customised project development with standard components**
- **Maximising growth potential by expanding geographically and identifying new niches**

One marker of a successful strategy is that it does not have to be reformulated to take account of every change in market circumstances. Phoenix Mecano therefore intends to continue pursuing what has proved a successful strategy. Naturally, regular verification is one of the key tasks of the Board of Directors and is a recurrent item on its agenda. Phoenix Mecano distinguishes itself with 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. Phoenix Mecano is growing successfully thanks to its policy of carving out new niches and expanding into the growth markets of Asia and Eastern Europe.

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. Meeting these demands with the expertise it has built up over many years gives the Group a much-needed edge over its rivals. Its 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 price and cost-intensive design solutions. 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 standard components enables production to be shifted to low-wage countries. Strategic decisions on production facilities create positive conditions here for highly 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. It prefers to take over companies that are successful with niche products in their home market. To this end, Phoenix Mecano has a superbly efficient international distribution network plus broad know-how regarding the cost-effective production of series parts. In principle, it must be possible to integrate acquisitions using Phoenix Mecano's existing management team. Its fundamentally conservative financing of acquisitions ensures the Group's successful development, even in volatile market conditions.

Report by the Executive Committee

- **Double-digit sales growth and over-proportional increase in incoming orders**
- **Operating result up 30.1%**
- **Profit for the period: EUR 27.8 million**

Double-digit sales growth and over-proportional increase in incoming orders The Phoenix Mecano Group can look back on an extremely successful 2006. Its key markets in Europe were characterised by a positive capital goods climate, while the dynamic growth in Southeast Asia continued. Thanks to organic growth, the consolidated gross sales from continued operations rose by 10.0% from EUR 315.0 million to EUR 346.5 million. There was no significant currency or consolidation-related impact. Regional business displayed double-digit sales growth in most of the Group's markets. In Europe, overall sales were up by 10.6%. Sales in Europe accounted for 83.3% of the total (2005: 82.9%). In Japan there was a slowdown in investment as a result of new healthcare legislation. This was offset by a marked growth in China and India of 32% and 40% respectively. One-digit sales growth was recorded in North America, where sales were restructured in 2006.

The rise in incoming orders was slightly over-proportional to sales. At EUR 358.2 million, they were up 12.4% on those made in the previous year, which totalled EUR 318.6 million. The book-to-bill ratio (incoming orders as a % of gross sales) in 2006 was 103.4%.

All divisions contributed to the marked sales growth of the Phoenix Mecano Group in 2006. The newly created ELCOM/EMS division, set up in 2005, achieved the biggest growth in sales, at 17.8%; the Enclosures division increased its sales by 9.4% and Mechanical Components by 7.4%. Sales growth in all divisions was broadly based.

Increase in result The operating result of the Phoenix Mecano Group was EUR 35.8 million, compared with EUR 27.5 million the previous year. This corresponds to an over-proportional increase of 30.1% in comparison with sales growth.

The operating margin rose to 10.3%, its highest level since 2000. This increase in result was driven by the Enclosures and ELCOM/EMS divisions. The Enclosures division recorded an 23.5% increase in profit while the ELCOM/EMS division more than doubled its operating profit. The Mechanical Components division was affected by market development costs (including sales restructuring in North America) and increased drive technology development costs during the reporting year, and consequently generated less result than in 2005.

The Group result before interest and tax for the reporting year corresponds to the abovementioned operating profit; in the previous year it was affected by restructuring expenses in the ELCOM/EMS and Mechanical Components divisions totalling EUR 3.8 million. Result before interest and tax was up 50.7% on the previous year.

Lower staff levels offset increased use of materials The marked growth in profit in 2006 was achieved despite pricing pressure in various market segments and rising raw material prices, particularly copper and aluminium. The use of materials by the Phoenix Mecano Group increased over-proportionally to sales by 13.3% and the share of materials used rose from 39.8% to 41.0% (as a % of gross sales).

On the remaining cost items, the progressive reduction of overheads had a positive impact. Personnel expenses and other operating expenses rose under-proportionally by 7.8% and 6.9%. The annual average number of employees increased by over 10% from 3 753 to 4 194. However, it should be noted that a large part of this staff increase related to production business in Tunisia, which underwent major expansion in the reporting year (e.g. commissioning of a new ELCOM/EMS division plant in the Zaghouan production zone). As regards other operating expenses, most cost increases related to energy costs, sales expenses and maintenance, while administration costs, rental expenses and value adjustments and losses on inventories decreased. Deprecation too was down. This is due to the Group's moderate investment activity in recent years.

Profit for the period of EUR 27.8 million The 2006 financial result was affected by a special item totalling EUR 2.9 million and was consequently down from EUR –2.5 million to EUR –4.6 million. A capital decrease of EUR 25 million was made at a subsidiary in connection with the repayment of the CHF 100 million Phoenix Mecano AG bond. Consequently, exchange rate losses that had previously been posted without affecting income were reported in income in accordance with the corresponding IFRS rules. On the other hand, the interest result alone showed an improvement, moving from EUR –1.7 million to EUR –1.2 million. This is in line with the development of net indebtedness.

Despite an increased result before tax, tax costs fell from EUR 4.8 million to EUR 4.3 million. Income tax for 2006 declined due to tax income relating to other periods totalling EUR 5.3 million. This was principally due to the disappearance and/or reassessment of tax risks.

A period result of EUR 26.9 million was attained from continued operations, compared to EUR 16.4 million in the previous year. This is an increase in result of 64.0%.

Following a loss of EUR 25.3 million the previous year, a surplus of EUR 0.9 million was achieved from discontinued operations in the OMP product area. This resulted in an overall profit for the period from continued and discontinued operations of EUR 27.8 million, compared with a loss for the period of EUR 8.8 million the previous year.

Share buyback and capital decrease Under the share buyback programme initiated by the Board of Directors in March 2005, a total of 30 500 Phoenix Mecano AG shares worth CHF 10 million were bought back in 2005-06 and by eliminating these shares the share capital was reduced from a nominal value of CHF 1 100 000 to a nominal value of CHF 1 069 500. Despite this equity-reducing effect, the equity ratio rose significantly in the reporting year from 49.4% to 63.3% thanks to the profit recorded during the period and the reduction in liabilities. The capital decrease led to an increase in earnings per share of almost 3%.

Reducing third-party debt and net indebtedness The CHF 100 million Phoenix Mecano AG bond was paid back on 25 September 2006. The funds used for the repayment came partly from refinancing through bank loans in CHF and EUR and partly from the Group's cash reserves.

Despite growth-related expansion of its net operating assets, the Group's net indebtedness fell again in 2006 from EUR 22 million to EUR 13 million.

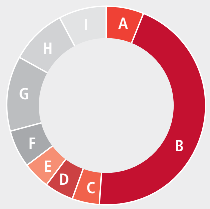
Investments in production capacities and new products Investments in tangible assets rose from EUR 12.4 million to EUR 19.4 million. Much of this increase relates to investments in buildings. Besides the new ELCOM/EMS plant in Tunisia mentioned above, production capacity was expanded at two subsidiaries in Germany and a new plant built in India for the manufacture of aluminium enclosures. Another investment focus during the reporting year related to investments in tools for new products, notably in the Enclosures and Mechanical Components divisions.

Liquidation of OMP in Italy complete, except for real estate business The discontinuation of operations in the area of customised switchgear cabinets and electronic packaging solutions in Italy and Hungary (OMP product area) was carried out as planned and largely completed in 2006. One major asset yet to be disposed of is a piece of land in Italy. The sale of stock and release of redundant provisions generated a surplus of EUR 0.9 million in 2006.

Overview of key financial figures

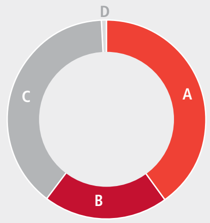
Gross sales by region [1]	2006	2005	Change
	EUR 1 000	EUR 1 000	%
A Switzerland	21 319	18 594	14.7
B Germany	156 687	142 156	10.2
C Great Britain	14 681	13 631	7.7
D France	16 991	16 399	3.6
E Italy	15 066	13 321	13.1
F Benelux	21 420	19 220	11.4
G Rest of Europe	42 493	37 680	12.8
H North and South America	31 844	30 465	4.5
I Middle and Far East	26 005	23 500	10.7
Total	**346 506**	**314 966**	**10.0**

2006 in %



Gross sales by division [1]	2006	2005	Change
	EUR 1 000	EUR 1 000	%
A Enclosures	139 597	127 596	9.4
B ELCOM/EMS	70 403	59 756	17.8
C Mechanical Components	135 593	126 214	7.4
D Other	913	1 400	– 34.8
Total	**346 506**	**314 966**	**10.0**

2006 in %



Operating result by division [1]	2006	2005	Change
	EUR 1 000	EUR 1 000	%
A Enclosures	27 038	21 901	23.5
B ELCOM/EMS	7 300	3 173	130.1
C Mechanical Components	4 407	5 632	– 21.8
D Other	– 2 935	– 3 171	7.4
Total	**35 810**	**27 535**	**30.1**

2006 in EUR 1 000

Result before interest and tax by division [1]	2006	2005	Change
	EUR 1 000	EUR 1 000	%
A Enclosures	27 038	21 901	23.5
B ELCOM/EMS	7 300	201	–
C Mechanical Components	4 407	4 839	– 8.9
D Other	– 2 935	– 3 171	7.4
Total	**35 810**	**23 770**	**50.7**

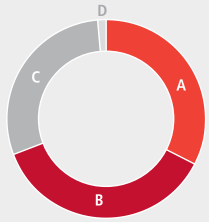
2006 in EUR 1 000

Net operating assets by division [1]	2006	2005	Change
	EUR 1 000	EUR 1 000	%
A Enclosures	59 090	55 525	6.4
B ELCOM/EMS	43 578	38 842	12.2
C Mechanical Components	80 249	66 514	20.6
D Other	– 745	– 313	– 138.0
Total	**182 172**	**160 568**	**13.5**

2006 in EUR 1 000

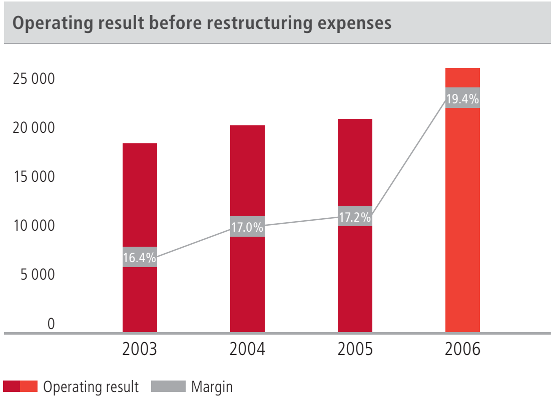
Number of employees by division[1]	2006	2005	Change
(Average over the year, including trainees)	EUR 1 000	EUR 1 000	
A Enclosures	1 373	1 275	98
B ELCOM/EMS	1 538	1 264	274
C Mechanical Components	1 229	1 138	91
D Other	54	76	– 22
Total	**4 194**	**3 753**	**441**

2006 in %



Investments in tangible assets[1]	2006	2006	2005	2005
	EUR 1 000	%	EUR 1 000	%
By type of investment				
Land and buildings	5 205	26.9	1 139	9.2
Machinery and equipment	7 983	41.2	6 727	54.3
Tools	3 567	18.4	2 221	17.9
Advance payments and construction in progress	2 616	13.5	2 301	18.6
Total	**19 371**	**100.0**	**12 388**	**100.0**
By division				
Enclosures	6 144	31.7	4 400	35.5
ELCOM/EMS	4 172	21.5	3 468	28.0
Mechanical Components	8 874	45.9	4 379	35.4
Other	181	0.9	141	1.1
Total	**19 371**	**100.0**	**12 388**	**100.0**

[1] The figures relate to continued operations.



Operating result		2006	2005	2004	2003
Operating result	EUR 1 000	27 038	21 901	21 127	19 377
Margin	%	19.4	17.2	17.0	16.4

Net operating assets		2006	2005	Change
Net operating assets	EUR 1 000	59 090	55 525	3 565
Profitability	%	45.8	39.4	

Enclosures:
Our enclosures protect sensitive electrical equipment and electronics in all segments of the machine industry.

- Marked sales growth in all major markets
- Operating result up 23.5%
- Expanded product portfolio in explosion protected enclosures
- Expansion of sales activities in China and selling agency opened in South Korea
- Investment in production of aluminium die-cast enclosures in India

Sales up 9.4% In 2006, sales by the Enclosures division rose by 9.4%, on which there were only minor currency effects. All the division's key markets contributed to this growth. The biggest growth rates were in Great Britain (19.6%) and the Group's main market, Germany (10.8%). In Great Britain, there was a growth in project work in the electronics sector and in installation. In the Middle and Far East, marked sales growth in China and South Korea contrasted with a project-related decline in sales in Taiwan.

The sandwich keyboard business, which achieved a 16.1% increase in sales on last year, recorded strong growth, although here the growth focused on systems-related business, i.e. a combination of sandwich keyboards, touch-screens and electronics. To complement its strong market position with sandwich keyboards in automation applications, the division also increased its market share in medical technology. The innovatively lit ProfiLine keyboards also helped to improve its market position.

A number of lucrative oil and gas projects were won by the Enclosures division in 2006, thanks mainly to its swift response times, consultancy work and excellent delivery service. The product portfolio for explosion-protected enclosures was expanded, with more complex, wired control stations, fitted with electronic components, now being offered in addition to junction boxes. In line with the worldwide sales strategy for these enclosures, 2006 saw preparations for the opening of a representation agency in Russia; another is planned for the Arab region. Double-digit sales growth was recorded for stainless steel enclosures, which were used in oil and gas applications amongst others. Besides these successes, 2006 also witnessed major growth in traditional areas such as measuring, steering and control technology.

As part of the increasing globalisation of sales activities, a targeted expansion of operations took place in China, in particular. A new selling agency was set up in Busan, South Korea, which achieved a number of project successes in its opening year.

Incoming orders for the division rose over-proportionally in the reporting year by 11.2% from EUR 129.0 million to EUR 143.4 million, with a book-to-bill ratio (incoming orders as a % of gross sales) of 102.7%.

Operating result up 23.5% The operating result of the Enclosures division displayed markedly stronger growth (up 23.5%) than sales due to the over-proportional increase in staff costs and other operating expenses. The relocation of production activities to Hungary and Romania in previous years also contributed to the rise. Meanwhile, the increased cost of plastic granulates and aluminium impacted negatively on the result. The operating margin rose again from 17.2% to 19.4%, only slightly under the record level achieved in 2000.

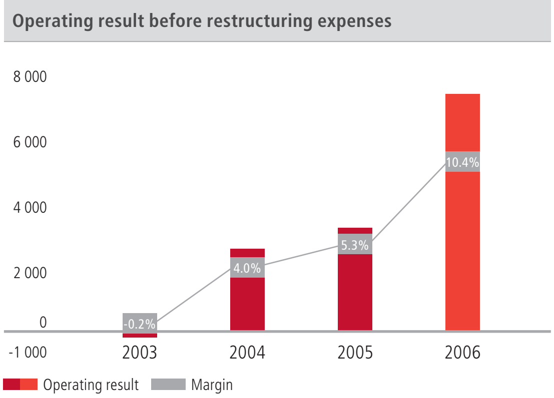
Gross sales by region		2006	2006	2005	2005
	Change in sales %	Sales EUR 1 000	Share of sales %	Sales EUR 1 000	Share of sales %
Switzerland	9.9	10 208	7.3	9 292	7.3
Germany	10.8	70 784	50.7	63 904	50.1
Great Britain	19.6	5 991	4.3	5 010	3.9
France	7.8	4 854	3.5	4 501	3.5
Italy	6.6	5 557	4.0	5 214	4.1
Benelux	4.3	10 794	7.7	10 350	8.1
Rest of Europe	9.9	14 812	10.6	13 472	10.6
North and South America	6.2	12 312	8.8	11 597	9.1
Middle and Far East	0.7	4 285	3.1	4 256	3.3
Total	**9.4**	**139 597**	**100.0**	**127 596**	**100.0**

Increase in return on capital expenditure The marked business growth led to an increase in net operating assets. However, the division raised the return on capital expenditure (ROCE) to 45.8%, thereby exceeding the previous year's peak value.

The increased investment volume in 2006 was due to building projects and increased investment in tools. An enclosure manufacturing plant was set up in India, allowing the division to produce its own aluminium die-cast enclosures for the first time. The procurement of tools and plastic enclosures further increased India's importance. The other construction projects relate to the expansion of production capacity at the Rose Systemtechnik parent company and the reorganisation of production in the USA.

Investments in tangible assets	2006	2006	2005	2005
	EUR 1 000	%	EUR 1 000	%
Land and buildings	1 283	20.9	215	4.9
Machinery and equipment	2 782	45.3	3 363	76.4
Tools	1 335	21.7	481	10.9
Advance payments and construction in progress	744	12.1	341	7.8
Total	**6 144**	**100.0**	**4 400**	**100.0**

The annual average number of staff employed by the division in 2006 rose to 1 373, up 98 on 2005. The increase is attributable to the expansion of production capacity in the Far East, especially India, and at the plastics injection moulding plant in Romania. Per capita sales increased slightly from EUR 100 000 to EUR 101 000.



Operating result		2006	2005	2004	2003
Operating result	EUR 1 000	7 300	3 173	2 538	– 130
Margin	%	10.4	5.3	4.0	– 0.2

Net operating assets		2006	2005	Change
Net operating assets	EUR 1 000	43 578	38 842	4 736
Profitability	%	16.8	8.2	

ELCOM/EMS: Intelligent concepts provide solutions for increasingly complex tasks.

- Strong sales growth thanks to volume expansion and new products
- Profit soars by 130.1% to EUR 7.3 million
- Successful repositioning in growth markets
- Expansion and optimisation of production capacities in Tunisia
- Marked improvement in cost structure

Strong sales growth of 17.8% Following a slight drop in the previous year, the ELCOM/EMS division recorded strong growth in 2006 of 17.8%, reaching EUR 70.4 million. Measured in local currency, the rise was 17.6%. In absolute terms, the biggest increase was in Germany (EUR 6.1 million). However, the proportion of overall sales accounted for by Germany was slightly down due to above-average sales increases in the Middle and Far East (+ 20.9%), Switzerland (+ 24.8%), France (+ 24.4%), Benelux (+ 21.0%) and in particular Eastern Europe (+70.1%).

All production areas recorded double-digit growth rates. Rising demand due to economic conditions played a positive role here, as did repositioning in the division's growth markets. The successful positioning of rotary coding switches and microswitches in the security technology and telecommunications sector together with positive development in the mechanical engineering and automation technology sectors contributed significantly to growth in the coding switch product area. In our existing markets, consistent delivery times were among the factors enabling us to increase our market share. With terminal blocks, the stronger focus on customised solutions was particularly key to our market success. In the spring contacts sector, additional products for cable tests and battery charging contacts resulted in a bigger market share and sales increases in the automotive segment. Meanwhile, a partnership programme for the production of test adapters created a solid basis for future progress. With respect to inductive components, the division benefited from a special economic situation in the household appliances and lighting industry, although new wind and solar energy products also spurred on sales growth; the division's market position in the electric drive technology segment was also expanded. Hartmann Elektronik GmbH (D) won many new customers for high-speed applications (backplanes with transfer rates in the gigahertz range), putting the know-how built up over recent years into successful project use. Phoenix Mecano Digital Elektronik GmbH (D), active in the field of electronic manufacturing services, also recorded a marked sales increase.

Operating result up 130.1% The ELCOM/EMS division's operating result before restructuring expenses rose by 130.1% to EUR 7.3 million, with its profit margin rising from 5.3% to 10.4%. These soaring profits are due to the effects of progressive reduction of overheads and the restructuring and cost-cutting measures introduced and implemented in previous years, as well as to the additional optimisation measures taken in 2006, increased component purchase in China and site improvements in Tunisia. Further production transfers to Tunisia were arranged in order to safeguard competitiveness in disputed target markets.

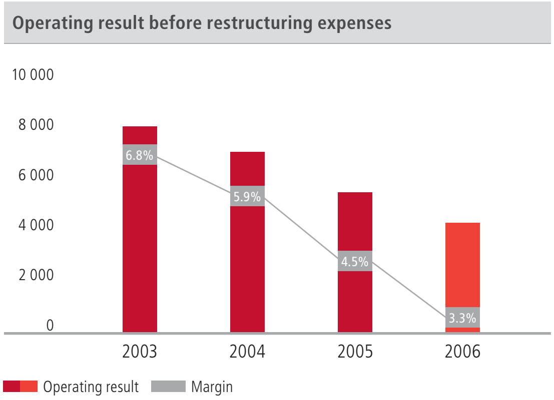
Increase in net operating assets The net operating assets totalled EUR 43.6 million at the end of 2006, compared with EUR 38.8 million the previous year (up 12.2%). This increase in capital employed was mainly due to the stock expansion resulting directly from sales growth and delivery capacity. Despite the increase in stock, average storage time was reduced. Overall capital turnover also improved, pointing to the successful implementation of efficiency improvement measures.

Gross sales by region		2006	2006	2005	2005
	Change in sales %	Sales EUR 1 000	Share of sales %	Sales EUR 1 000	Share of sales %
Switzerland	24.8	3 161	4.5	2 532	4.2
Germany	17.5	40 781	57.9	34 720	58.1
Great Britain	– 7.0	1 367	1.9	1 470	2.5
France	24.4	1 532	2.2	1 232	2.1
Italy	9.3	2 753	3.9	2 519	4.2
Benelux	21.0	1 382	2.0	1 142	1.9
Rest of Europe	23.3	7 810	11.1	6 335	10.6
North and South America	15.0	4 658	6.6	4 051	6.8
Middle and Far East	20.9	6 959	9.9	5 755	9.6
Total	**17.8**	**70 403**	**100.0**	**59 756**	**100.0**

The ELCOM/EMS division invested almost EUR 4.2 million in tangible assets, up EUR 0.7 million (20.3%) on the previous year. A factory building was acquired in the Zaghouan production zone in Tunisia, as part of the expansion of production capacity. The investments in machinery and equipment were used, amongst other things, for automation of manufacturing processes in spring contact production and SMT equipment. Of the advance payments and construction in progress, EUR 0.3 million went on the factory building in Tunisia and the remainder on machinery, equipment and tools.

Investments in tangible assets	2006	2006	2005	2005
	EUR 1 000	%	EUR 1 000	%
Land and buildings	858	20.5	144	4.2
Machinery and equipment	1 889	45.3	1 316	37.9
Tools	387	9.3	409	11.8
Advance payments and construction in progress	1 038	24.9	1 599	46.1
Total	**4 172**	**100.0**	**3 468**	**100.0**

The annual average number of staff employed rose by 274 to 1 538, largely as a consequence of the expansion of production capacity in Tunisia. Per capita sales in 2006 were just under EUR 46 000, compared with EUR 47 000 the previous year. However, it should be noted that the launch of production at the new company PHOENIX MECANO ELCOM SARL in Tunisia generated a temporary increase in staff.



Operating result		2006	2005	2004	2003
Operating result	EUR 1 000	4 407	5 632	7 259	8 269
Margin	%	3.3	4.5	5.9	6.8

Net operating assets		2006	2005	Change
Net operating assets	EUR 1 000	80 249	66 514	13 732
Profitability	%	5.5	8.5	

Mechanical Components: Mechanical Components provide sophisticated systems for machine design and construction.

- Double-digit sales growth in the capital goods sector
- Successful launch of new products and further developments
- Innovation offensive in the drive technology sector
- Higher market and other development costs affect operating result
- Expansion of production capacity for system engineering in Germany

Sales up 7.4% The Mechanical Components division recorded an increase in sales of 7.4% in 2006 (previous year 3.3%), or 7.6% taking into account differences in foreign-exchange rates. Within Europe, the Swiss, Italian, Benelux, Scandinavian and East European markets showed above-average development, with growth rates well into double digits. The biggest sales increase was in Scandinavia (+ 31.8%). Very strong sales growth (33.7%) was also recorded in Southeast Asia, not including Japan. Changes to healthcare insurance legislation in Japan led to a temporary drop in investment and consequently to declines in sales and result in 2006, although major customers expect the business climate to become stable again in 2007.

Rose + Krieger achieved sales well into double digits in 2006. The Easy-Link® modular conveyor system launched in 2004 achieved further market success and made an over-proportional contribution to sales growth. In the profile assembly systems sector, increased growth was achieved through the development of multi-sided closed profiles for the food and pharmaceuticals industry. In industrial drive technology there were major variations from one product to another, but double-digit growth was achieved overall.

In the Dewert bed and armchair drives sector, sales were up slightly. The second generation of the MEGAMAT drive system has firmly positioned itself in the high-volume market for healthcare beds within two years. The accessories and customised solutions developed in close cooperation with customers have been key to its success. A number of major new European and US customers were acquired in this market. In the hospital sector, development of the GIGAMAT marked completion of the product programme for high-performance drives. Amongst other things, this drive will open the door to the patient lifts segment. Finally, large-scale development projects led to new applications for drive technology in the heating, air conditioning and ventilation technology segment.

Operating result down The division booked an operating result before restructuring expenses of EUR 4.4 million in 2006 (previous year EUR 5.6 million). The operating margin was 3.3% (previous year 4.5%). The pricing pressure intensified further in the reporting year, notably in the bed and armchair drive sector. However, the marked increases in raw material costs could not be fully passed on to the market. The division's result was also affected by exceptional expenses for the restructuring of sales in North America. The operating result includes devaluation losses on intangible and tangible assets totalling EUR 1.7 million (unchanged from the previous year).

Sharp rise in net operating assets Net operating assets rose by EUR 13.7 million to EUR 80.2 million. The biggest increase was in inventories, due to increased stocks of finished products linked to restructuring of the North American business. Average capital turnover deteriorated slightly in 2006.

Gross sales by region		2006	2006	2005	2005
	Change in sales %	Sales EUR 1 000	Share of sales %	Sales EUR 1 000	Share of sales %
Switzerland	17.4	7 950	5.9	6 770	5.4
Germany	3.8	45 122	33.3	43 478	34.4
Great Britain	2.4	7 322	5.4	7 151	5.7
France	0.2	10 605	7.8	10 584	8.4
Italy	20.9	6 756	5.0	5 588	4.4
Benelux	19.6	9 244	6.8	7 728	6.1
Rest of Europe	11.8	19 871	14.6	17 768	14.1
North and South America	2.2	13 961	10.3	13 658	10.8
Middle and Far East	9.4	14 762	10.9	13 489	10.7
Total	**7.4**	**135 593**	**100.0**	**126 214**	**100.0**

The division invested EUR 8.9 million in 2006, including a new building at Rose + Krieger in Minden (D) costing EUR 2.9 million. This investment enabled production capacity – for system engineering, in particular – to be expanded, manufacture to be optimised and the hitherto external development department to be integrated.

Investments in tangible assets	2006	2006	2005	2005
	EUR 1 000	%	EUR 1 000	%
Land and buildings	3 060	34.5	780	17.8
Machinery and equipment	3 135	35.3	1 907	43.6
Tools	1 845	20.8	1 331	30.4
Advance payments and construction in progress	834	9.4	361	8.2
Total	**8 874**	**100.0**	**4 379**	**100.0**

The annual average number of staff employed in the division was 1 229 (previous year 1 138), following a staff increase at the Kecskemét site (HU). Per capita sales fell by EUR 1 000 to EUR 110 000.

OTHER

Included here are the technical gas business of IPES Industria de Produtos e Equipamentos de Solda Ltda. (Brazil). 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 operating divisions. These costs result in a negative operating result of EUR 2.9 million in this category (previous year EUR 3.2 million).

Sustainability

- **Sustainability to us means balancing environmental, social and economic aspects.**
- **New project on responsible use of chemicals launched**

Our approach to sustainability is underpinned by a careful use of natural resources. Phoenix Mecano fully advocates corporate responsibility and by using environmentally friendly technologies and processes strikes an optimum balance between legitimate environmental, human and economic needs.

Global business – local business The Phoenix Mecano Group has production facilities in most of the world's major economic regions. For the European market, we manufacture in Switzerland, Germany, Eastern Europe and Tunisia. This means that our products can reach end customers with a maximum transport time of 48 hours, without the need for expensive and wasteful air-freighting. In China, we manufacture products for the Asian markets and are expanding these activities in pace with the increasing importance of this economic region. In India we pursue the same approach of local value creation. A welcome side-effect of this strategy is that local market requirements can be directly incorporated into the product development process.

ROHS and REACH Following the successful implementation of the European ROHS (Restriction of Hazardous Substances) Directive, which led Phoenix Mecano to adopt more environmentally friendly materials and production processes, the next major project is already upon us. The REACH Directive (Registration Evaluation Authorisation of Chemicals) contains new EU regulations on the use and declaration of chemical substances and will enter into force on 1 July 2007. When REACH is introduced, industrial companies like Phoenix Mecano will be required, as 'downstream users', to have the chemicals used in their products and production processes analysed in detail by the manufacturer and/or importer based on a system of modulation by tonnage and then to declare them. Under certain circumstances, recommendations on safe handling and the testing strategy will have to be published. This will give end users greater certainty about what materials they are coming into contact with and any problems that these might pose. This transparency requirement is to be welcomed and will create a more responsible approach to chemicals throughout the lifetime of industrial products.

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 2006 an annual average of 4 194 people were employed by the Phoenix Mecano Group's subsidiaries. Cooperation with other players, such as trade unions and political and media representatives, is of crucial importance, especially in the event of a difficult restructuring, as happened to OMP in the Phoenix Mecano Group in 2006 with the relocation of a German production facility to Tunisia. Phoenix Mecano was able to soften the blow for those affected by means of voluntary payments in the context of a social plan. The use of Group resources has also proved successful in creating new jobs. However, this way of thinking and acting did not come about purely as a result of the new concept of 'sustainability'. In fact, it stems 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.

Compliance with the maxims of the UN Global Compact Phoenix Mecano signed up to the maxims of the UN's 1999 Global Compact right from the outset. Under the Compact, 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 some 4200 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.

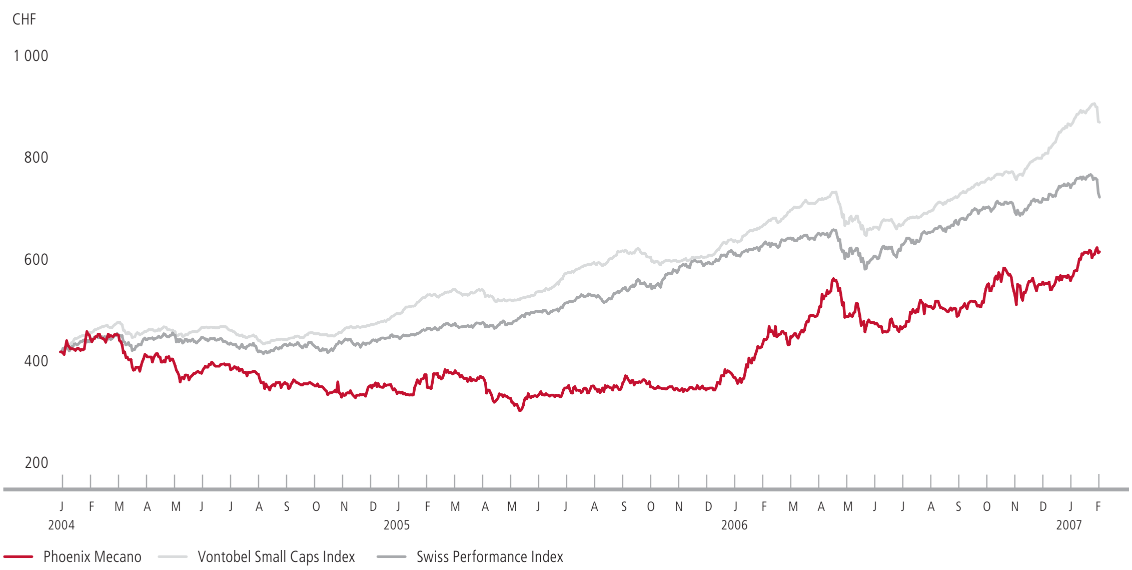
Decentralised structure ensures customer proximity A series of like-minded SMEs have joined together in the Phoenix Mecano Group, which is why the organisation is deliberately geared towards decentralisation. This accelerates the companies' integration and brings them close to their markets. Another 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.

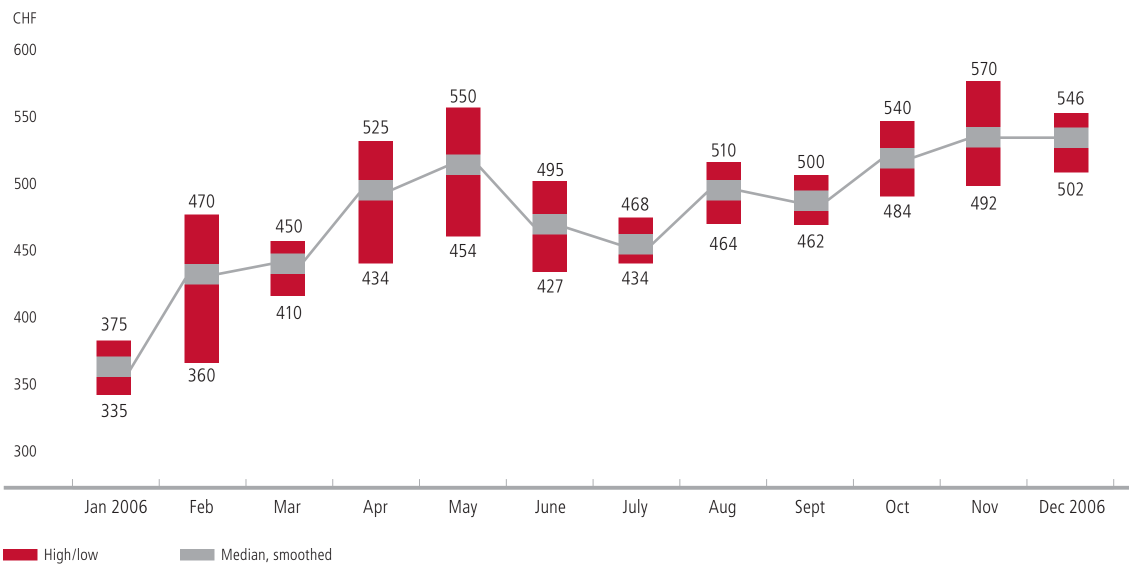
Share information

- Buyback and elimination of shares worth CHF 10 million
- Proposed dividend up by 50%

Market trend Phoenix Mecano 1 January 2004 - 28 February 2007 compared with the Vontobel Small Cap Index and SPI



Monthly highs and lows 2006



Share capital

Phoenix Mecano AG's share capital of CHF 1 069 500 is divided up into 1 069 500 bearer shares with a par 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

Under the share buyback programme initiated by the Board of Directors in March 2005, a total of 30 500 Phoenix Mecano AG shares with a value of CHF 10 million were bought back in 2005 - 2006. In line with a decision by the Shareholders' General Meeting of 26 May 2006, the share capital was reduced from CHF 1 100 000 to CHF 1 069 500 by the elimination of 30 500 shares on 15 September 2006.

Dividend policy and proposal

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. The Board of Directors will propose to the Shareholders' General Meeting of 1 June 2007 increasing dividends from CHF 4 to CHF 6.

The proposed dividend for the 2006 financial year corresponds to 15% of the result for the period.

Average trading volumes in 2006

On average 1 652 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 Article 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	24 April 2007
Financial analysts' meeting	24 April 2007
First quarter results	24 April 2007
Shareholders' General Meeting	1 June 2007
First half of 2007	10 August 2007
More detailed report First half of 2007	31 August 2007
Third quarter results (9 months)	2 November 2007

Further information for investors is available from

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Share indicators at a glance

		2006	2005	2004	2003	2002
Stock market price						
High	CHF	570	366	440	403	504
Low	CHF	335	280	310	148	201
Year-end price	CHF	534	340	335	400	242
Average daily volume	Number	1 652	1 459	952	725	434
Market capitalisation on 31 December	CHF million	571	374	369	440	266
Free float	%	69	70	70	70	70

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 the home and hospital care sector.

The Group is divided into three divisions. Within these divisions, parent companies responsible for product management operate with the help of global production sites and sales companies.

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 36 and 37. No investments are quoted.

Major shareholders Planalto AG, Luxembourg, owns 30.9% of the shares. As a fund manager Tweedy, Browne Company LLC of New York, USA, held 9.272% on 31 December 2006. UBS Fund Management (Switzerland) AG, Basel, held 5.974% on 31 December 2006.

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 at 31 December 2006, Phoenix Mecano AG's share capital consisted of 1 069 500 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 1 955 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 Following a decision by the Shareholders' General Meeting of 26 May 2006, the share capital was reduced from CHF 1 100 000 to CHF 1 069 500 from 15 September 2006 by eliminating 30 500 shares from the 2005 - 06 share buyback programme. The share capital was then divided up into 1 069 500 bearer shares (compared with 1 100 000 the previous year) with a par value of CHF 1.00. No changes in capital took place in 2004 or 2005.

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. The Board of Directors met four times in 2006.

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. If no shareholder requests separate voting, the members of the Board of Directors are elected in a single ballot. 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, monitor or recall 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 2006 the Board of Directors comprised the following members:

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

Born 1950. Trained as a banker. Law degree, attorney at law. From 1985, manager at the Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW), Germany's largest shareholder organisation, and the publishing house Das Wertpapier. Chief Manager of the Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW) since 1994.

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. 1996 - 1997 Worked as an auditor and strategy consultant at McKinsey & Co. 1998 - 2000 Managed the Group's own production facility in Hungary and several Group-internal restructuring projects. Has been a member of the management and Board of Directors of Phoenix Mecano AG since 2000.

Dr Florian Ernst
Dipl. Wirtschaftsprüfer
Dr oec. HSG, Zollikon (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. 2004 - 2006 Chief Financial Officer of the alternative investment firm Horizon21. Since 2006 he has been working for UBS AG in Zurich in the field of private equity.

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

Born 1965, gained a doctorate in law (Dr iur.) from Zurich University, then an MBA from INSEAD in Fontainebleau, and passed the bar examination of the Canton of Zurich. Started out as a lawyer for Baker & McKenzie in Sydney, then became a strategy consultant for McKinsey & Company in Zurich. Has been back working as a lawyer for 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. In 1994 - 1995 he 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.

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

- Deutsche Telecom AG, Bonn, Germany (Member of the Supervisory Board)
- E.ON AG, Düsseldorf, Germany (Member of the Supervisory Board)
- Feri Finance AG, Bad Homburg, Germany (Deputy Chairman 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), 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 member of the Phoenix Mecano Board of Directors serves on the Supervisory Board of a listed company of a fellow Director.

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 CEO and CFO also attend Audit Committee meetings. The Committee is convened (at least) twice a year.

Members of the Board of Directors

Name	Function	In the Board since	In this function since	Term expires in	Operational management tasks
Ulrich Hocker	President Member of the Audit Committee	1988	2003	2009	no
Benedikt A. Goldkamp	Delegate	2000	2001	2009	yes
Dr Florian Ernst	Member President of the Audit Committee	2003	2003	2009	no
Dr Martin Furrer	Member	2003	2003	2009	no
Beat Siegrist	Member	2003	2003	2009	no

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 Phoenix Mecano Group companies and enables it to gain a quick and reliable picture of the income and assets of the Group, divisions or individual companies at any time. Reporting takes place monthly. 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. A quality assessment conducted by an external auditor in late 2006 confirmed that the Phoenix Mecano Group's Internal Auditing department complied with international standards.

In the past year, the Internal Auditing department focused mainly on implementation of Group requirements in the fields of purchasing and materials management, receivables management and organisation.







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

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.

As at 31 December 2006 the Executive Committee comprised the following members:

Benedikt A. Goldkamp (D)

Delegate of the Executive Committee/CEO
Dipl. Finanzwirt, MBA, Lufingen (Switzerland)

(see under Board of Directors on page 30 of this report)

Ralph Gamper (CH)

Member of the Executive Committee since 2006
Machine technician, Schlattingen (Switzerland)

Born 1955. Started his career as a technical draughtsman, gained his Matura (Swiss university entrance qualification) whilst working, then qualified as a machine technician and, again in his spare time, as a sales manager and business manager. Since 1982 Ralph Gamper has been in the employ of Phoenix Mecano Komponenten AG, which covers the Swiss market for the entire Phoenix Mecano Group. In 2001 he was appointed CEO and director of Phoenix Mecano Komponenten AG in Stein am Rhein.

Dr Werner Karlen (CH)

COO/Chairman of the Executive Committee
Dipl. Ing. ETH, Dr oec. HSG, Embrach (Switzerland)

Born 1967. Graduated as dipl. Ing. ETH and Dr oec. HSG. Several years of experience as plant engineer at ABB Kraftwerk AG, as project manager at McKinsey & Co (1996 - 2000) and as COO at Biella-Neher AG (2000 - 2002). 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 Committee since 2004
Dipl. Ing. (FH), Neerach (Switzerland)

Born 1961. Graduated from college as an electrical engineer, then added an MBA. 1990 - 1996 Various management posts in distribution and marketing of technical products. 1997 - 2003 CEO of a company in precision engineering and electronics. He has been General Manager of the Electrotechnical Components division since October 2003 and a director since 2004.

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. 1989 - 1992 Manager at Rose + Krieger, 1992 - 1993 Manager at Dewert. Since 1992 he has been a director 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 Committee since 1991
Technician, Minden (Germany)

Born 1945. Trained as a power electrician and technician. Has been at Rose Systemtechnik since 1976. There he was sales and marketing manager from 1976 - 1986 and has been Managing Director since 1986. Since 1991 he has been Head of the Enclosures division. Runs European subsidiaries of the Group in the UK, France, Belgium, the Netherlands, Italy and Austria.

René Schäffeler (CH)

CFO, Member of the Executive Committee since 2000
Dipl. Experte in Accounting and Controlling, Stein am Rhein (Switzerland)

Born 1966. Certified accountant/controller. Commercial training and active for several years in the banking sector. Has been at Phoenix Mecano since 1989. After serving as Controller (until 1991), Head of the Group Accounting Department (1992 - 1996) and Deputy Director of Finances and Controlling (1997 - 2000), he has been a director and CFO since 2000. In this post he is responsible for finances, group accounting, controlling and taxes.

Following the suspension of the OMP product area and the disbanding of the Electronics Contract Manufacturing division, Mr Philipp Studer left the Executive Committee of Phoenix Mecano AG on 1 May 2006.

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. This states that, in return for their work, the members of the Board of Directors receive a remuneration independent of retained earnings.

The Delegate of the Board of Directors and the members of the Executive Committee are paid in accordance with their individual employment contracts. The annual remuneration level is determined based on income and return on capital targets. In individual cases qualitative targets are agreed (this does not apply to the Delegate of the Board of Directors). The variable part of their remuneration usually accounts for between 20% and 40% of the total, and in individual cases may exceed this.

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	2006
EUR 1 000	
Chairman of the Board of Directors	83
Delegate of the Board of Directors	515
Other members of the Board of Directors	80
Remuneration of the Board of Directors	**678**
Remuneration of the Executive Committee (excl. the Delegate of the Board of Directors)	**1 721**
Remuneration of the Board of Directors and Executive Committee	**2 399**
Social security contributions	158
Pension payments	197
Total remuneration of the Board of Directors and Executive Committee	**2 754**

The remuneration of the Executive Committee includes EUR 0.1 million compensation for termination of an employment contract.

Remuneration of former members of the Group's bodies The Phoenix Mecano Group's consolidated statement of income for 2006 includes no remuneration for former members of the Group's bodies who left in the preceding period or before.

Share allocations during the reporting year No shares were allocated.

Share ownership	31 Dec. 2006
No. of shares	
Executive members of the Board of Directors and Executive Committee	1 685
Non-executive members of the Board of Directors	20 661
Total	**22 346**

Options No options were organised.

Additional fees and allowances Fees of EUR 6 000 were paid to Baker & McKenzie in 2006 for additional services. No other additional fees or allowances were owed or paid out to members of the Group's bodies or persons closely connected to them.

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

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 One share entitles the holder to one vote at the Shareholders' General Meeting. 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 be taken by a qualified majority, the Shareholders' General Meeting takes 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 by the Chairman. Invitations to the GM are issued at least 20 days in advance of the meeting by means 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 of 7 June 2002, 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 of 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 Pursuant to a decision by the Shareholders' General Meeting of 26 May 2006, KPMG Ltd, Zurich, was appointed as new auditors for the financial statements of Phoenix Mecano AG and Group auditors of the consolidated financial statements of the Phoenix Mecano Group for a period of one year. The auditor in charge since 2006 has been Mr Roger Neininger.

Instruments for supervising and monitoring the audit Phoenix Mecano has a dedicated full-time Internal Auditing department and a Board of Directors Audit Committee. The external auditors attend an Audit Committee meeting at least once a year. They inform the Audit Committee, both orally and in writing, of the outcome of the Group audit and the audit of the financial statements of Phoenix Mecano AG. The Audit Committee is responsible for setting the auditors' fees.

Auditors' fees/Additional fees	2006
EUR 1 000	
Total auditors' fees	585
Total additional fees	545
Total	**1 130**

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.

Major developments are reported in person at:

- the balance sheet press conference
- the financial analysts' meeting
- the Shareholders' General Meeting

A calendar of events and publications, along with a contact address, can be found in the share information on page 27. Extensive information is available on the Internet at www.phoenix-mecano.com. The annual report and 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. Ad hoc disclosures are published on the following pages:

Pull link: http://www.phoenix-mecano.com/opencms/opencms/phoenix-en/Medien/index.html
Push link: http://www.phoenix-mecano.com/opencms/opencms/phoenix-en/Medien/subscribe.html

Print media announcements are published in the Swiss Official Gazette of Commerce (SOGC) as well as a number of major daily newspapers in German-speaking Switzerland.

Group operational structure

GROUP HEAD OFFICE

Switzerland
Phoenix Mecano AG
CH-8260 Stein am Rhein

FINANCE, SERVICES AND OTHER COMPANIES

Switzerland
Phoenix Mecano Management AG
CH-8302 Kloten
Managing directors:
B. A. Goldkamp, Dr. W. Karlen, R. Schäffeler

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

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

The Netherlands
PM International B.V.
NL-7005 AG Doetinchem
Managing director:
G. H. B. Hartmann

Germany
IFINA Beteiligungsgesellschaft mbH
D-50674 Cologne
Managing directors:
B. A. Goldkamp, D. B. Schaadt, M. Sochor, M. Kleinle

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

Italy
OMP Officina Meccanica di Precisione S. r. l. in Liquidation
I-22030 Proserpio (Como)
Managing directors:
A. Accolla, A. Colombo

People's Republic of China
Shenzhen ELCOM Trading Co. Ltd.
Shenzhen
Managing director:
S. Kübler

ENCLOSURES

D. B. Schaadt

Germany
Rose Systemtechnik GmbH
D-32457 Porta Westfalica
Managing director:
D. B. Schaadt

Bopla Gehäuse Systeme GmbH
D-32257 Bünde
Managing director:
D. Meyn

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

ELCOM/EMS

M. Kleinle

Germany
Hartmann Codier GmbH
D-91083 Baiersdorf
Managing director:
S. Kübler

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

Götz-Udo Hartmann GmbH + Co. KG
D-61279 Grävenwiesbach
Managing director:
M. Kleinle, P. Scherer

Hartmann Elektronik GmbH
D-70499 Stuttgart (Weilimdorf)
Managing directors:
Dr. G. Zahnenbenz
W. Fritz

Phoenix Mecano Digital Elektronik GmbH
D-99848 Wutha-Farnroda
Managing director:
K. H. Malsch, R. Bormet

MECHANICAL COMPONENTS

B. A. Goldkamp

Germany
RK Rose + Krieger GmbH
D-32423 Minden
Managing director:
K. Schunke

Dewert Antriebs- und Systemtechnik GmbH
D-32278 Kirchlengern
Managing directors:
R. Bokämper, M. Klimmek, A. Roither

Elodrive GmbH
D-32423 Minden
Managing director:
Dr. B. Buchholz

USA
Elodrive USA Inc.
Huntingdon Valley
PA 19006, USA
Managing director:
J. M. Staub

Australia
Dewert Australia Pty Ltd.
Tullamarine, VIC 3043
Australia
Managing directors:
S. Gleeson, T. Thuess

PRODUCTION COMPANIES

Germany
Rose Gehäusetechnik GmbH
D-16227 Eberswalde Finow
Managing director:
L. Waltl

Phoenix Mecano Electronic GmbH
D-36404 Sünna
Managing director:
M. Kleinle, P. Scherer

Hungary
Phoenix Mecano Kecskemét KFT
H-6000 Kecskemét
Managing directors:
Dr. Z. Nagy, Ch. Porde

Romania
Phoenix Mecano Plastic S. r. l.
RO-550052 Sibiu
Managing director:
C. Marinescu

Tunisia
Hartu Electronique S. à. r. l.
TN-2013 Ben Arous
Managing director:
Dr. H. Oweinah

Phoenix Mecano Tunisie S. à. r. l.
TN-2084 Z.I. Borj-Cedria
Managing directors:
K. H. Malsch, R. Bormet

PHOENIX MECANO ELCOM SARL
TN-1100 Djebel El Quest-Zaghouan
Managing director:
Dr. H. Oweinah

SALES COMPANIES

Switzerland
Phoenix Mecano Komponenten AG
CH-8260 Stein am Rhein
Managing director:
R. Gamper

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

France
Phoenix Mecano S. à. r. l.
F-94121 Fontenay sur Bois, Cedex
Managing director:
T. Glemnitz

Great Britain
Phoenix Mecano Ltd.
GB-Aylesbury, HP 198 TX
Managing director:
D. B. Schaadt

Italy
Phoenix Mecano S. r. l.
I-20065 Inzago (Milano)
Managing director:
D. B. Schaadt

Austria
AVS-Phoenix Mecano GmbH
A-1232 Vienna
Managing director:
R. Kleinrath

Benelux
PM Komponenten B.V.
NL-7005 AG Doetinchem
Managing directors:
C. Van der Zaal, G. H. B. Hartmann

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

Spain
Sistemas Phoenix Mecano España S. A.
E-50011 Zaragoza
Managing director:
C. Aranda-Hutchinson

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

Korea (South Korea)
Phoenix Mecano Korea Co. Ltd.
Seoul 153-863
Managing director:
L. Ki

Brazil
Phoenix Mecano Comercial e Técnica Ltda.
São Paulo
Managing director:
H. Deschoomeester

India
Phoenix Mecano (India) Ltd.
Dist. Pune 412108
Managing director:
S. Shukla

People's Republic of China
Mecano Components (Shanghai) Co. Ltd.
Shanghai 201802
Managing director:
K. W. Phoon

Phoenix Mecano Components (Shanghai) Co. Ltd.
Shanghai 201802
Managing director:
K. W. Phoon

2006 was a good year for business. A year of improved profitability and greater efficiency, with sales volumes up and a marked increase in sales value. Twelve months characterised by more investments in new manufacturing technologies and products – investments in our future. With the period (annual) result up to some EUR 28 million, the success of our strategy speaks for itself.

Because growth is not about size.

INFORMATION ON THE ANNUAL ACCOUNTS

Consolidated balance sheet as at 31 December 2006 Phoenix Mecano Group

Assets		2006	2005
EUR 1 000	Note		
Fixed assets			
Goodwill	3	277	277
Other intangible assets	4	4 724	5 621
Tangible assets	5	87 055	83 327
Investments in associated companies	6	547	413
Other financial assets	7	852	221
Derivative financial instruments	20	846	554
Deferred tax assets	23	2 712	2 795
Total fixed assets		**97 013**	**93 208**
Current assets			
Inventories	8	78 111	61 326
Trade receivables	9	44 156	40 125
Derivative financial instruments	20	1 239	1 045
Income tax receivables		1 614	854
Other receivables	10	5 249	3 817
Current asset securities	11	7 948	25 962
Cash and cash equivalents	12	24 677	35 054
Deferred charges and prepaid expenses		831	867
Assets held for sale	13	2 886	22 735
Total current assets		**166 711**	**191 785**
Total assets		**263 724**	**284 993**

Equity and liabilities		2006	2005
EUR 1 000	Note		
Equity			
Share capital	15	665	684
Own shares	16	– 652	– 5 384
Revenue reserves		165 576	146 644
Profit/loss from IAS 39		1 751	1 764
Translation differences		– 641	– 2 984
Equity attributable to shareholders of the parent company		**166 699**	**140 724**
Minority interests	17	243	183
Total equity		**166 942**	**140 907**
Liabilities			
Liabilities from financial leasing	18	53	73
Other long-term financial liabilities	19	21 799	15
Derivative financial instruments	20	0	110
Long-term provisions	21, 22	7 201	6 771
Deferred tax liabilities	23	8 762	10 653
Long-term liabilities		**37 815**	**17 622**
Trade payables	24	13 803	12 772
Outstanding bonds	25	0	64 283
Short-term financial liabilities	26	21 698	15 074
Derivative financial instruments	20	136	1 015
Short-term provisions	21, 22	6 249	3 549
Income tax liabilities		4 471	3 172
Other liabilities	27	8 924	10 513
Deferred income		322	386
Liabilities directly associated with assets held for sale	13	3 364	15 700
Short-term liabilities		**58 967**	**126 464**
Total liabilities		**96 782**	**144 086**
Total equity and liabilities		**263 724**	**284 993**

Consolidated statement of income 2006

EUR 1 000	Note	2006	2005
Continued operations			
Gross sales	32	346 506	314 966
Revenue reductions		– 3 621	– 3 438
Net sales		**342 885**	**311 528**
Changes in inventories		1 246	– 1 974
Own work capitalised		1 555	1 441
Other operating income	33	1 506	1 719
Total operating performance		**347 192**	**312 714**
Cost of materials	34	– 142 206	– 125 487
Personnel expenses	35	– 104 121	– 96 569
Amortisation of intangible assets	36	– 2 189	– 2 971
Depreciation on tangible assets	37	– 13 744	– 14 190
Other operating expenses	38	– 49 122	– 45 962
Operating expenses		**– 311 382**	**– 285 179**
Operating result before restructuring expenses		**35 810**	**27 535**
Restructuring expenses	39	0	– 3 765
Result before interest and tax		**35 810**	**23 770**
Result from associated companies		134	84
Financial income	40	5 350	5 449
Financial expenses	41	– 10 087	– 8 074
Financial result		– 4 603	– 2 541
Result before tax		**31 207**	**21 229**
Income tax	42	– 4 258	– 4 796
Result of the period from continued operations		**26 949**	**16 433**
Discontinued operations			
Result of the period from discontinued operations	43	**855**	**– 25 256**
Result of the period		**27 804**	**– 8 823**
of which			
Shareholders in the parent company		27 722	– 8 939
Minority interests		82	116
Earnings per share			
From continued and discontinued operations			
Earnings per share – undiluted (in EUR)	44	25,97	– 8,22
Earnings per share – diluted (in EUR)	44	25,97	– 8,22
From continued operations			
Earnings per share – undiluted (in EUR)	44	25,17	15,01
Earnings per share – diluted (in EUR)	44	25,17	15,01

Consolidated statement of cash flow 2006

EUR 1 000	Note	2006	2005
Continued and discontinued operations			
Result before tax continued operations		31 207	21 229
Result before tax discontinued operations	43	914	– 25 256
Result before tax		**32 121**	**– 4 027**
Amortisation of intangible assets		2 189	3 024
Depreciation on tangible assets		13 744	16 258
Losses/(profits) from the disposal of intangible and tangible assets		– 179	– 6
Profits from the disposal of assets discontinued operations	43	– 1 147	– 1 306
Devaluation losses on/(appreciation of) intangible and tangible assets	4,5	3 222	9 413
Losses and value adjustments on inventories	8	1 066	7 446
Result from associated companies		– 134	– 84
Other expenses/(income) not affecting liquidity	41	4 248	4 157
(Decrease)/increase in long-term provisions		430	238
Interest paid		– 4 053	– 3 943
Income tax paid		– 5 892	– 4 911
Operating cash flow before changes in working capital		**45 615**	**26 259**
(Increase)/decrease in inventories		– 16 873	4 433
(Increase)/decrease in trade receivables		4 875	1 498
(Increase)/decrease in other receivables, deferred charges and prepaid expenses		– 513	2 876
(Decrease)/increase in trade payables		– 4 205	– 159
(Decrease)/increase in short-term provisions		– 1 418	3 501
(Decrease)/increase in other short-term liabilities and deferred income		– 2 024	– 323
Cash flow from operating activities		**25 457**	**38 085**
Capital expenditure			
Intangible assets		– 2 447	– 1 892
Tangible assets		– 19 371	– 13 328
Financial assets		– 1 993	– 295
Current asset securities		– 1 019	– 5 101
Acquisition of Group companies	47	0	83
Disinvestments			
Intangible assets		447	3
Tangible assets		8 147	2 218
Financial assets		0	33
Current asset securities		18 737	3 255
Disposal of Group companies	48	0	491
Interest received		1 961	1 627
Dividends received		35	44
Cash used in investing activities		**4 497**	**– 12 862**
Dividends paid		– 2 717	– 2 818
Change in minority interests		– 18	3
(Purchase)/sale of own shares		– 1 360	– 5 056
Repayment of bonds		– 63 600	0
Issue of financial liabilities		32 706	243
Repayment of financial liabilities		– 5 035	– 13 515
Cash flow from financing activities		**– 40 024**	**– 21 143**
Translation differences in cash and cash equivalents		– 307	283
Change in cash and cash equivalents		**– 10 377**	**4 363**
Cash and cash equivalents as at 1 January	12	35 054	30 691
Cash and cash equivalents as at 31 December	12	24 677	35 054
Change in cash and cash equivalents		**– 10 377**	**4 363**

Consolidated statement of changes in equity 2006

EUR 1 000	Note	Share capital	Own shares
Equity as at 31 December 2004		**684**	**– 331**
Application of new accounting standards	14		
Correction in errors of stock valuation of OMP S.r.l (I) after IAS 8	14		
Equity as at 31 December 2004 following changes to balance sheet procedures		**684**	**– 331**
Fluctuations in fair value of financial assets			
Realised results of financial assets			
Fluctuations in fair value of cash flow hedges			
Realised results of cash flow hedges			
Deferred taxes not affecting net income			
Translation differences			
Income and expenses directly recognised in equity		**0**	**0**
Result for the period			
Total of all recognised income and expenses for the period		**0**	**0**
Change in own shares	16		– 5 053
Dividends paid			
Change in minority interests			
Equity as at 31 December 2005		**684**	**– 5 384**
Fluctuations in fair value of financial assets			
Realised results of financial assets			
Fluctuations in fair value of cash flow hedges			
Realised results of cash flow hedges			
Deferred taxes not affecting net income			
Translation differences			
Income and expenses directly recognised in equity		**0**	**0**
Result of the period			
Total of all income and expenses for the period		**0**	**0**
Capital decrease	16	– 19	
Change in own shares	16		4 732
Dividends paid			
Equity as at 31 December 2006		**665**	**– 652**

Revenue reserves	Profit/(loss) from IAS 39	Translation differences	Equity attributable to shareholders of the parent company	Minority interests	Total equity
164 683	**1 504**	**– 6 607**	**159 933**	**57**	**159 990**
83		1 068	1 151		1 151
– 6 362			– 6 362		– 6 362
158 404	**1 504**	**– 5 539**	**154 722**	**57**	**154 779**
	512		512		512
	– 115		– 115		– 115
	– 1 188		– 1 188		– 1 188
	1 067		1 067		1 067
	– 16		– 16		– 16
		2 555	2 555	7	2 562
0	**260**	**2 555**	**2 815**	**7**	**2 822**
– 8 939			**– 8 939**	**116**	**– 8 823**
– 8 939	**260**	**2 555**	**– 6 124**	**123**	**– 6 001**
– 3			– 5 056		– 5 056
– 2 818			– 2 818		– 2 818
			0	3	3
146 644	**1 764**	**– 2 984**	**140 724**	**183**	**140 907**
	139		139		139
	– 587		– 587		– 587
	– 116		– 116		– 116
	725		725		725
	– 174		– 174		– 174
		2 343	2 343	– 4	2 339
0	**– 13**	**2 343**	**2 330**	**– 4**	**2 326**
27 722			**27 722**	**82**	**27 804**
27 722	**– 13**	**2 343**	**30 052**	**78**	**30 130**
– 6 340			– 6 359		– 6 359
267			4 999		4 999
– 2 717			– 2 717	– 18	– 2 735
165 576	**1 751**	**– 641**	**166 699**	**243**	**166 942**

Segment information 2006

By division	Enclosures 2006	Enclosures 2005	ELCOM/EMS 2006	ELCOM/EMS 2005
EUR 1 000				
Gross sales to third parties	**139 597**	**127 596**	**70 403**	**59 756**
Gross sales between divisions	615	655	5 676	5 167
Depreciation on intangible and tangible assets included in the result before interest and tax	– 59	– 314	– 250	
Amortisation of intangible assets and depreciation on tangible assets	– 5 789	– 6 128	– 4 215	– 4 373
Operating result before restructuring expenses	**27 038**	**21 901**	**7 300**	**3 173**
Restructuring expenses/revenues[1]				– 2 972
Result before interest and tax continued operations	**27 038**	**21 901**	**7 300**	**201**
Financial result				
Result before tax				
Income tax				
Result of the period continued operations				
Investments in intangible and tangible assets continued operations	**6 855**	**4 897**	**4 346**	**3 579**
Operating assets continued operations	73 014	68 967	51 827	45 949
Assets held for sale[2]				
Cash and cash equivalents				
Other assets				
Total assets				
Operating liabilities continued operations	13 924	13 442	8 249	7 107
Liabilities directly associated with discontinued operations[2]				
Financial and other debts				
Total liabilities				
Net operating assets continued operations	**59 090**	**55 525**	**43 578**	**38 842**

By region	Europe 2006	Europe 2005	Rest of world 2006	Rest of world 2005	Total 2006	Total 2005
EUR 1 000						
Gross sales continued operations	288 657	261 001	57 849	53 965	346 506	314 966
Gross sales discontinued operations[2]	4 875	28 169	114	772	4 989	28 941
Operating assets continued operations	182 247	167 575	36 248	26 108	218 495	193 683
Investment in intangible and tangible assets continued operations	18 923	12 911	2 895	1 330	21 818	14 241

[1] The restructuring expenses for the ELCOM/EMS division include devaluation losses on intangible and tangible assets totalling EUR 2.6 million.
[2] Refers to the discontinued OMP product area (see notes 13 and 43)

Mechanical Components		Other/elimination		Total continued operations	
2006	2005	2006	2005	2006	2005
135 593	**126 214**	**913**	**1 400**	**346 506**	**314 966**
20	76	– 6 311	– 5 898	0	0
– 1 653	– 1 662		– 17	– 1 962	– 1 993
– 5 685	– 6 314	– 244	– 346	– 15 933	– 17 161
4 407	**5 632**	**– 2 935**	**– 3 171**	**35 810**	**27 535**
	– 793			0	– 3 765
4 407	**4 839**	**– 2 935**	**– 3 171**	**35 810**	**23 770**
				– 4 603	– 2 541
				31 207	**21 229**
				– 4 258	– 4 796
				26 949	**16 433**
10 428	**5 603**	**189**	**162**	**21 818**	**14 241**
92 544	77 513	1 110	1 254	218 495	193 683
				2 886	22 735
				24 677	35 054
				17 666	33 521
				263 724	**284 993**
12 295	10 999	1 855	1 567	36 323	33 115
				3 364	12 171
				57 095	98 800
				96 782	**144 086**
80 249	**66 514**	**– 745**	**– 313**	**182 172**	**160 568**

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 Group accounts of Phoenix Mecano AG were drawn up in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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 upon audited annual or interim financial statements as at 31 December 2006, 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 than the book value.

Application of new accounting standards

The following nine IFRS rules were applied for the first time on 1 January 2006:

IAS 19 (employee benefits) As of 1 January 2006 and in accordance with IAS 19, it is possible to post actuarial gains and losses under equity. Since Phoenix Mecano has not altered the method it uses for posting actuarial gains and losses on the balance sheet, application of the revised IAS 19 will affect only the presentation and extent of the notes.

Further adjustments The application of other new or revised IFRS/IAS standards and IFRIC interpretations had no major impact on the 2006 Group annual accounts.

The following new and revised standards and interpretations have been approved but will only enter into force at a later date and as such have not been applied in these Group accounts. Their impact on the Phoenix Mecano Group accounts has not yet been systematically analysed; consequently, the expected effects listed at the base of the table are an initial estimate only.

Standard/Interpretation			Entry into force	Planned implementation by Phoenix Mecano
IFRS 7	Financial Instruments: Disclosures	2	1 January 2007	Financial year 2007
Amendments to IAS 1	Presentation of Financial Statements: Capital Disclosures	2	1 January 2007	Financial year 2007
IFRS 8	Operating Segments	3	1 January 2009	Financial year 2009
IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies	1	1 March 2006	Financial year 2007
IFRIC 8	Scope of IFRS 2	1	1 May 2006	Financial year 2007
IFRIC 9	Reassessment of Embedded Derivatives	1	1 June 2006	Financial year 2007
IFRIC 10	Interim Financial Reporting and Impairment	1	1 November 2006	Financial year 2007
IFRIC 11	Group and Treasury Share Transactions after IFRS 2	1	1 March 2007	Financial year 2008
IFRIC 12	Service Concession Arrangements	1	1 January 2008	Financial year 2008

1 No or negligible impact expected on Phoenix Mecano's Group accounts.
2 Main impact expected to be additional disclosures in Phoenix Mecano's Group accounts.
3 Impact on Phoenix Mecano's Group accounts cannot yet be determined with sufficient certainty.

Scope of consolidation

The Group accounts cover all companies over which Phoenix Mecano AG exercises direct or indirect control. 'Control' means exercising a decisive influence on financial and operational activity with a view to deriving corresponding benefit. This is the case where Phoenix Mecano AG directly or indirectly holds over 50% of the voting rights in a company or where its management of the company is contractually guaranteed or exercised in practice.

The integrated Group companies are combined using the full consolidation method. 100% of all assets and liabilities, as well as income and expenditure, are included in the Group accounts, 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 accounts from the date on which control was acquired, while companies disposed of during the reporting year are excluded from the date on which control was relinquished.

Associated companies

Investments in associated companies, in which Phoenix Mecano has a voting share of between 20% and 50% or exerts a significant influence in some other way, as with joint ventures (50% interests, which Phoenix Mecano controls jointly with partners), 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 – including contingent liabilities – of the company acquired, determined according to these accounting principles, is capitalised as goodwill. Should the goodwill be negative, it is reported directly in the statement of income.

Currency conversion

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.

The items contained in a Group company's annual accounts are valued on the basis of the currency of the primary economic environment in which the company operates (functional currency). Foreign currency transactions are converted into the functional currency at the exchange rates prevailing at the time of the transaction. Gains and losses resulting from the transactions themselves and from the conversion of monetary assets and liabilities in foreign currencies at the relevant closing rate are reported in the statement of income.

The results and balance sheet items of all Group companies with a functional currency other than the reporting currency, Euro, are converted to Euro. The assets and liabilities are converted at the closing rate for each balance sheet date, income and expenses at the average exchange rate for each statement of income. Any resulting translation differences and any translation differences on long-term loans which are considered to be similar in nature to equity are posted in equity as a separate item. The statement of cash flow is converted at the average exchange rate.

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. Unrealised losses on transactions within the Group are also eliminated, unless the transaction indicates an impairment of the transferred asset.

Segment information

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

The Phoenix Mecano Group is divided into three divisions:

- **Enclosures** (enclosures made of aluminium, plastic and glass-fibre reinforced polyester, as well as machine control boards and suspension systems for protecting electronics in an array of industrial applications)

- **ELCOM/EMS** (coding switches, inductive components, plug connectors, backplanes, circuit board equipment and the development of complete subsystems)

- **Mechanical Components** (aluminium profile assembly systems, linear positioner systems, industrial terminals and linear drives for machine construction and electrically adjustable furniture for the home and hospital care sector)

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

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 of the respective business division. Operating liabilities include provisions, trade liabilities, other liabilities (minus interest liabilities) and deferred income per business division. The remaining asset and liability items are recorded at Group level (under Cash and cash equivalents, Other assets or Financial and other liabilities).

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.

Other intangible assets

Capitalised development costs Development costs for new products, which satisfy the criteria for capitalisation specified by IAS 38 (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 cumulative depreciation and, where appropriate, additional devaluation losses resulting from impairment. The depreciation is performed on a straight-line basis over the estimated useful life of the asset, which must not exceed 8 years, in accordance with standard Group practice. Phoenix Mecano possesses no other intangible assets with an indeterminate useful life.

Tangible assets

Tangible assets are stated in the balance sheet at acquisition or manufacturing cost, less cumulative depreciation and where appropriate less additional devaluation losses resulting from impairment. The straight-line method of depreciation is applied over the depreciation periods specified in the useful life catalogues used by the whole Group. Where components of larger assets have different useful lives, these are written off as separate items.

Follow-on investments are only capitalised if the Group is likely to derive future economic benefit as a result and if the costs can be reliably determined.

The useful lives of assets are estimated as follows:

Land	unlimited
Buildings	35 years
Outside facilities and building installations	10 to 15 years
Machinery and equipment	4 to 9 years

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

Leased assets

Lease contracts are included in the balance sheet if the risks and opportunities associated with ownership belong largely to the Group company when the contract is concluded. They are valued at the cash value of the minimum lease rates or at the lower market value. The corresponding financial leasing commitments are posted as liabilities. The leasing rates are divided up into interest and repayment sums in accordance with the annuity method. The leased assets are written off over the estimated useful life or shorter lease term.

Operating lease payments are expensed directly to the statement of income on a straight-line basis over the lease term.

Devaluation losses (impairment)

Goodwill is checked annually for impairment. Other intangible assets, tangible assets and other long-term assets are consistently checked for impairment if there are indications to suggest that this has taken place. The realisable value (higher amount of fair value less costs to sell 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, provided the latter exceeds the realisable value. The utility value corresponds to the cash value of the expected future cash flow of the respective asset.

Impairments are cancelled (except on goodwill) if the estimates used to calculate the recoverable amount have altered and the impairment has reduced or disappeared as a result. The increase in book value may not exceed the amount that would have resulted if no impairment loss had been reported for the asset in the preceding years.

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 their fair value upon initial recognition and at amortised cost in subsequent periods, 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. Resulting changes in value are posted under equity without affecting operating income and only transferred to the statement of income in the event of sale (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. Such reductions in value are not cancelled.

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. The production costs include all material costs, production wages and pro rata manufacturing overheads, but no financing costs. Appropriate value adjustments are made for risks of inventory obsolescence wherever necessary, based on corresponding analyses of scope or coverage.

Receivables

Receivables are reported at amortised cost (usually equivalent to their nominal value) less value adjustments for bad debts. Accounts payable and receivable between Group companies are eliminated, provided that the companies are consolidated.

Current asset securities

Securities are valued at fair value, both on initial recognition and subsequently. This 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). Any reductions in value (impairment) are taken into account through corresponding devaluations which affect net income. Impairment on equity instruments is not cancelled. Accumulated interest on bonds is deferred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, in bank and in postal accounts, together with cheques. They also include fixed deposits with an agreed term not exceeding three months.

Assets held for sale

Long-term assets are classified as held for sale and shown on the balance sheet in a separate item under assets or liabilities if the book value is to be realised by selling, rather than using, the assets. This is conditional upon the sale being very likely to take place and the assets being ready for immediate sale. For a sale to be classified as very likely, it must meet a number of criteria, including being expected to take place within one year.

Assets held for sale are valued at the lower of the book value or the fair value less costs to sell. From the time they are classified as 'for sale', depreciable assets are no longer written off.

Financial liabilities

Upon initial recognition, financial liabilities are recorded at fair value less transaction costs. In subsequent periods they are valued at amortised cost; any discrepancy between the disbursement amount (less transaction costs) and the repayable amount is amortised throughout the term using the effective interest method and reported in income.

Short-term liabilities are those with a remaining term of less than one year.

Provisions

Provisions are formed if a past event has resulted in a present legal or actual obligation and there is likely to be an outflow of funds which can be reliably determined.

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, independent pension providers in accordance with the defined contribution principle. The pension solution adopted for the Group's Swiss companies is affiliation to a collective foundation (Sammelstiftung) with its own legal personality, financed through employer and employee contributions. This pension plan is assessed under IAS 19 as defined benefit and is included in the balance sheet accordingly. In several Group companies in Germany, existing pension plans are also treated as defined benefit pension plans. Corresponding pension provisions are posted on the balance sheet for these plans.

The commitments associated with defined benefit pension plans are assessed annually for each plan by calculating the cash value of the expected claims using the projected unit credit method and then subtracting the market value of the plan assets. The discount rate is based on the interest rate for top-quality corporate bonds with similar durations to the commitments. The commitment is calculated annually by independent insurance experts.

Pension costs linked to service during the reporting period are reported in income. The increase in pension costs for past service resulting from new or improved pension benefits is recorded on a straight-line basis under staff pension expenses until entitlement can be claimed. If there is immediate entitlement, these costs are reported in income immediately.

Actuarial gains and losses resulting from periodic recalculations are reported in income on a straight-line basis over the average remaining working life, provided they exceed 10% of the greater of the plan assets and pension commitment.

Surplus cover is only capitalised if actually available to the Group in the form of future contribution repayments or reductions.

With defined contribution pension plans, the expenses posted in the statement of income correspond to the payments made by the employer.

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 using the projected unit credit method. Actuarial gains and losses are reported in income in the period in which they occur.

Employee participation plans There are no employee participation plans.

Trade payables and other short-term liabilities

Trade payables and other short-term liabilities are entered at amortised cost, which generally corresponds to their nominal value.

Equity

Own shares are deducted from equity and posted as a separate item within equity. Gains and losses on own shares are posted without affecting operating income.

Dividends are posted in the Group accounts in the period in which they were agreed upon by the Shareholders' General Meeting of Phoenix Mecano AG.

Financial instruments

The financial instruments used are posted as per trading day.

Risk management The 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 the impairment 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 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 mathematical models. Book gains and losses from derivative financial instruments are dealt with as described below.

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 statement of income 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 soon as the hedged transaction has taken place, the cumulative gains and losses are carried over into the statement of 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 statement of income.

Realisation of income

Sales are realised when assets are delivered and ownership is 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 reported in income in accordance with the straight-line method over the useful life of the supported asset. Allowances for research and development accordingly reduce the costs incurred in this area.

Income tax

Income tax covers both current and deferred income taxes. They are reflected in the statement of income, with the exception of income taxes on transactions reported directly in equity. In such cases, the corresponding income taxes are also recognised in equity.

Current income taxes include expected tax owed on the taxable result, calculated according to the tax rates prevailing on the balance sheet date and adjustments to tax liabilities or credits from previous years.

Deferred taxes are calculated on temporary differences between the values in the tax accounts and the Group accounts in accordance with the balance sheet liability method. No deferred taxes on the valuation differences upon initial recognition of goodwill or on investments in subsidiary companies are taken into consideration, if these differences are unlikely to cancel each other out in the foreseeable future. Calculation of the deferred taxes takes into account when and how the realisation or repayment of the relevant assets and liabilities is likely to take place. This calculation uses the tax rates prevailing or announced on the balance sheet date.

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.

Statement of cash flow

Cash flow from operating activities is calculated using the indirect method. The funds consist of cash and cash equivalents.

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. If estimations and assumptions made by the management based on the best knowledge available at the time of balance sheet preparation differ from the actual circumstances subsequently observed, the original estimations and assumptions are adapted accordingly in the reporting year in which the circumstances altered.

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. For the book values of intangible and tangible assets, see notes 4 and 5.

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 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. For the book values of inventories, see note 8.

Assets held for sale When discontinuing business operations, extensive estimations have to be made both as regards the assessment of corresponding assets and as regards the discontinuation of necessary provisions. Appraisal reports are commissioned from third parties to assess important assets. For the book values of assets held for sale, see note 13.

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 healthcare 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. For the book values of provisions, see note 21.

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). For the book values of the pension commitments posted on the balance sheet, see note 22.

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

Income tax Extensive estimations based on existing tax legislation and regulations are required to determine receivables and liabilities from current and deferred income taxes.

Clarification of the Group accounts 2006

1 Currency exchange rates

	Balance sheet		Statements of income and cash flow	
	2006	2005	2006	2005
Euro for				
1 CHF	0.621	0.642	0.636	0.646
1 GBP	1.484	1.453	1.467	1.462
1 USD	0.758	0.844	0.797	0.805
100 HUF	0.398	0.397	0.379	0.403
1 RON	0.296	0.272	0.285	0.279
1 TND	0.591	0.621	0.605	0.621
1 SGD	0.494	0.507	0.502	0.481
1 CNY	0.097	0.105	0.100	0.098
1 BRL	0.355	0.363	0.367	0.333
1 INR	0.017	0.019	0.018	0.018
1 AUD	0.598	0.617	0.600	0.613

2 Scope of consolidation

2006 Phoenix Mecano ELCOM S.a.r.l. with head office in Djebel El Ouest, Tunisia, was founded in June 2006, and Shenzhen ELCOM Trading Co. Ltd. in China in August 2006. Both companies operate for the ELCOM/EMS division and have been fully consolidated in the 2006 Group accounts. The liquidation of PTR France S.a.r.l. was completed in April 2006 without affecting the statement of income in the 2006 Group accounts.

2005 In early 2005, the Phoenix Mecano Group acquired a 70% stake in Dewert Australia Pty Ltd., a company founded in 2003. 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. In June 2005, the 78% stake in Phoenix Mecano Mould SRL (RO) was sold off and correspondingly excluded from the scope of consolidation. Finally, the former subsidiary in Korea was made into a separate company in 2005.

The following companies were fully consolidated as at 31 December 2006:

Fully consolidated companies

Company	Head office	Activity	Currency	Registered capital in in 1 000	Stake %
Phoenix Mecano AG	Stein am Rhein, Switzerland	Finance	CHF	1 070	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

Fully consolidated companies (continued)

Company	Head office	Activity	Currency	Registered capital in in 1 000	Stake %
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	Köln, 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-Schwenningen, Germany	Finance	EUR	26	100
PTR Messtechnik Verwaltungs-GmbH	Werne, Germany	Finance	EUR	26	100
Phoenix Mecano S.à.r.l.	Fontenay s/Bois, France	Sales	EUR	620	100
Phoenix Mecano Ltd.	Aylesbury, England	Sales	GBP	300	100
Phoenix Mecano Finance Ltd.	St. Helier, Channel Islands	Finance	USD	1 969	100
Phoenix Mecano S.r.l.	Inzago, Milan, Italy	Sales	EUR	300	100
Compact S.R.L.	Inzago, Milan, Italy	Finance	EUR	99	100
OMP Officina Meccanica di Precisione S.r.l. in liquidation	Proserpio, Italy	Production/Sales	EUR	5 000	100
PM Komponenten B.V.	Doetinchem, The Netherlands	Sales	EUR	20	100
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.	Huntingdon, 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.	Pune, 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
Shenzhen ELCOM Trading Co. Ltd.	Shenzhen, China	Sales	CNY	500	100
Hartu S.à.r.l.	Ben Arous, Tunisia	Production	TND	500	100
Phoenix Mecano Tunisie S.à.r.l.	Borj-Cedria, Tunisia	Production	TND	100	100
PHOENIX MECANO ELCOM SARL	Djebel El Ouest, Tunisia	Production	TND	500	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 Mecano Plastic S.r.l.	Sibiu, Romania	Production	EUR	750	100

3 Goodwill

	2006	2005
EUR 1 000		
Acquisition costs 1 January	**277**	**48 142**
Elimination of cumulative amortisation before IFRS 3	0	– 47 865
Acquisition costs 31 December	**277**	**277**
Cumulative amortisation 1 January	**0**	**47 865**
Elimination of cumulative amortisation before IFRS 3	0	– 47 865
Cumulative amortisation 31 December	**0**	**0**
Net 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 (utility value). Zero growth was assumed after the projection period. The recoverability was also tested using sensitivity analyses.

4 Other intangible assets

EUR 1 000	Note	Development costs	Concessions, licences, similar rights and assets	Advance payments and development costs in progress	Total
Acquisition costs 31 December 2004		**15 993**	**19 196**	**250**	**35 439**
Application of new accounting standards	14		11		11
Changes in scope of consolidation	47, 48		– 74		– 74
Translation differences		– 5	10		5
Additions		529	818	545	1 892
Disposals		– 642	– 1 684	– 35	– 2 361
Reclassification	13	127	– 1 132	– 134	– 1 139
Acquisition costs 31 December 2005		**16 002**	**17 145**	**626**	**33 773**
Cumulative amortisation 31 December 2004		**10 720**	**16 189**	**0**	**26 909**
Application of new accounting standards	14		9		9
Changes in scope of consolidation	47, 48		– 59		– 59
Translation differences		– 5	3		– 2
Scheduled amortisation	36	1 732	1 292		3 024
Devaluation losses		1 145	542	42	1 729
Appreciations					0
Disposals		– 642	– 1 681		– 2 323
Reclassification	13		– 1 135		– 1 135
Cumulative amortisation 31 December 2005		**12 950**	**15 160**	**42**	**28 152**
Net values 31 December 2005		**3 052**	**1 985**	**584**	**5 621**
Acquisition costs 31 December 2005		**16 002**	**17 145**	**626**	**33 773**
Changes in scope of consolidation					0
Translation differences		– 6	– 35	– 27	– 68
Acquisitions		638	679	1 130	2 447
Disposals		– 987	– 1 692		– 2 679
Reclassification		366		– 366	0
Acquisition costs 31 December 2006		**16 013**	**16 097**	**1 363**	**33 473**

Other intangible assets (continued)

EUR 1 000	Note	Development costs	Concessions, licences, similar rights and assets	Advance payments and development costs in progress	Total
Acquisition costs 31 December 2006		**16 013**	**16 097**	**1 363**	**33 473**
Cumulative amortisation 31 December 2005		**12 950**	**15 160**	**42**	**28 152**
Changes in scope of consolidation					0
Translation differences		– 7	– 23		– 30
Scheduled amortisation	36	1 278	911		2 189
Devaluation losses	38	1 115	2		1 117
Appreciations					0
Disposals		– 987	– 1 692		– 2 679
Reclassification		42		– 42	0
Cumulative amortisation 31 December 2006		**14 391**	**14 358**	**0**	**28 749**
Net values 31 December 2006		**1 622**	**1 739**	**1 363**	**4 724**

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

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

Under the new accounting principles introduced in 2005, 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.

Depreciation per capital asset of intangible assets, mainly for development projects, was performed within the framework of the annual impairment tests, since these projects did not develop as originally planned. The five-year plans for the relevant cash flow-generating entity were used as a basis. A discount rate (WAAC) of 9% was applied to determine the cash value (utility value).

Zero or moderate growth rates were assumed after the projection period. The breakdown by division of devaluation losses is clear from the segment information provided. In the statement of income, the devaluation losses are presented as follows:

EUR 1 000	Note	2006	2005
Devaluation losses – intangible assets included in the item			
Other operating expenses	38	1 117	1 187
Restructuring expenses	39	0	450
Result of the period from discontinued operations	43	0	92
Total		**1 117**	**1 729**

5 Tangible assets

EUR 1 000	Note	Land and buildings	Machinery and equipment	Advance payments and construction in progress	Total
Acquisition costs 31 December 2004		**84 087**	**168 373**	**3 199**	**255 659**
Application of new accounting standards	14	665	999		1 664
Changes in scope of consolidation	47,48		– 767		– 767
Translation differences		1 022	899	4	1 925
Acquisitions		1 143	9 809	2 376	13 328
Disposals		– 1 291	– 11 747	– 36	– 13 074
Reclassification	13	– 8 783	– 14 709	– 3 004	– 26 496
Acquisition costs 31 December 2005		**76 843**	**152 857**	**2 539**	**232 239**
Cumulative depreciation 31 December 2004		**27 699**	**124 487**	**21**	**152 207**
Application of new accounting standards	14	101	592		693
Changes in scope of consolidation	47,48		– 477		– 477
Translation differences		285	671		956
Scheduled depreciation	37	2 424	13 834		16 258
Devaluation losses		4 860	2 935	7	7 802
Appreciations	43		– 118		– 118
Disposals		– 311	– 9 823		– 10 134
Reclassification	13	– 5 059	– 13 209	– 7	– 18 275
Cumulative depreciation 31 December 2005		**29 999**	**118 892**	**21**	**148 912**
Net values 31 December 2005		**46 844**	**33 965**	**2 518**	**83 327**
Acquisition costs 31 December 2005		**76 843**	**152 857**	**2 539**	**232 239**
Changes in scope of consolidation					0
Translation differences		– 920	– 825	– 8	– 1 753
Acquisitions		5 205	11 550	2 616	19 371
Disposals		– 376	– 5 707	– 4	– 6 087
Reclassification		924	1 791	– 2 715	0
Acquisition costs 31 December 2006		**81 676**	**159 666**	**2 428**	**243 770**
Cumulative depreciation 31 December 2005		**29 999**	**118 892**	**21**	**148 912**
Changes in scope of consolidation					0
Translation differences		– 315	– 649		– 964
Scheduled depreciation	37	2 222	11 522		13 744
Devaluation losses	38	146	699		845
Appreciations					0
Disposals		– 376	– 5 446		– 5 822
Reclassification		19	– 19		0
Cumulative depreciation 31 December 2006		**31 695**	**124 999**	**21**	**156 715**
Net values 31 December 2006		**49 981**	**34 667**	**2 407**	**87 055**

Land and buildings are divided into developed and undeveloped land with a book value of EUR 7.3 million (previous year EUR 6.8 million) and factory and administration buildings with a balance sheet value of EUR 42.7 million (previous year EUR 40.0 million).

The balance sheet value of capitalised leased financial assets (machinery) was EUR 0.05 million, compared with EUR 0.1 million the previous year (not including capitalised leased financial assets held for sale).

The fire insurance value of the tangible assets amounted to EUR 197.6 million on the balance sheet date compared to EUR 188.2 million the previous year (not including fire insurance value of assets held for sale).

Land and buildings with a book value of EUR 6.7 million (previous year EUR 3.8 million) were mortgaged to cover debts (property is not included) which are posted on the balance sheet under Assets held for sale (see note 13). The amount of the corresponding credit taken up totalled EUR 3.9 million (previous year EUR 0.7 million). Fixed assets to a balance sheet value of EUR 0.7 million (previous year EUR 0.8 million) were subject to reservation of title on the balance sheet date.

Under the new accounting principles introduced in 2005, 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.

Depreciation per capital asset or per group of capital assets, mainly for leasehold improvements, production machinery and tools, was performed within the framework of the annual impairment tests. It was caused primarily by a reduction in the use of production equipment due to changing customer needs. 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 (utility value). 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. Zero or moderate growth rates were assumed after the projection period.

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 devaluation losses is clear from the segment information provided. In the statement of income, the devaluation losses are presented as follows:

		2006	2005
EUR 1 000	Note		
Devaluation losses tangible assets included in the item			
Other operating expenses	38	845	806
Restructuring expenses	39	0	2 162
Result of the period from discontinued operations	43	1 260	4 834
Total		**2 105**	**7 802**

6 Investments in associated companies

		2006	2005
EUR 1 000	Investment %		
Investments in associated companies AVS-Phoenix Mecano GmbH, Vienna (A)	50	547	413
Balance sheet value		**547**	**413**
Financial figures AVS-Phoenix Mecano GmbH Fixed assets		9	12
Current assets		1 474	1 195
Liabilities		389	382
Income		4 498	3 963
Expenses		4 229	3 795

Phoenix Mecano products are sold in Austria through the joint venture AVS-Phoenix Mecano GmbH (A). Purchases of goods by Group companies totalled EUR 3.1 million (previous year EUR 2.7 million).

7 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 was 4.3% (previous year 4.4%).

8 Inventories

	2006	2005
EUR 1 000		
Raw and ancillary materials	52 222	43 944
Work in progress	4 206	3 293
Finished goods and merchandise for resale	27 386	20 474
Advance payments	488	425
Value adjustments	– 6 191	– 6 810
Balance sheet value	**78 111**	**61 326**

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 become effective on 1 July 2006. Value adjustments and losses on inventories had the following effects on the statement of income:

		2006	2005
EUR 1 000	Note		
Losses and value adjustments inventories included in the item			
Other operating expenses	38	1 066	2 058
Restructuring expenses	39	0	815
Result of the period from discontinued operations	43	0	4 573
Total		**1 066**	**7 446**

No stocks had liens on them as at 31 December 2006 and 2005.

9 Trade receivables

	2006	2005
EUR 1 000		
Trade receivables 3rd parties	46 261	42 352
Receivables from associated companies	76	127
Value adjustments	– 2 181	– 2 354
Balance sheet value	**44 156**	**40 125**

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

10 Other receivables

	2006	2005
EUR 1 000		
Tax receivables from VAT and other taxes	2 427	1 294
Financial receivables	1 711	1 078
Other	1 111	1 445
Balance sheet value	**5 249**	**3 817**

The financial receivables include the current portion of long-term loans in EUR and deposits receivable from agreements providing for part-time work for older employees in Germany. The latter are secured by liens of EUR 1.0 million in favour of the employees concerned (previous year EUR 0.9 million). The average interest rate for the financial receivables was 3.2% (previous year 2.5%).

11 Current asset securities

	2006	2005
EUR 1 000		
Financial assets held for sale		
Shares and equity funds	1 899	3 500
Bonds and bond funds	6 049	22 462
Balance sheet value	**7 948**	**25 962**
By currency		
CHF	1 741	9 168
EUR	6 207	16 794
Balance sheet value	**7 948**	**25 962**
By maturities		
in 1 year	3 635	13 203
in 2 years	1 185	3 756
in 3 years	894	1 202
in 4 years	0	920
in 5 years	0	0
after 5 years	240	3 294
none	1 994	3 587
Balance sheet value	**7 948**	**25 962**
	2006	**2005**
%		
Effective interest rate bonds		
CHF	1.3	1.3
EUR	4.0	4.9

The current asset securities can be converted into cash and cash equivalents at short notice. They are kept as cash reserves. The drop on the previous year is linked to the refinancing of the Phoenix Mecano AG bond (see note 25).

12 Cash and cash equivalents

	2006	2005
EUR 1 000		
Means of payment		
Cash at bank and in postal accounts	8 691	13 479
Cash on hand and cheques	219	157
Total	**8 910**	**13 636**
Other cash and cash equivalents		
Fixed-term deposits (to 3 months)	15 767	21 418
Balance sheet value	**24 677**	**35 054**
By currency		
CHF	1 854	8 105
EUR	17 215	21 039
USD	1 379	1 916
Other currencies	4 229	3 994
Balance sheet value	**24 677**	**35 054**

	2006	2005
%		
Average rate of interest		
CHF	0.2	0.5
EUR	2.7	1.6
USD	2.5	2.0

13 Assets held for sale

	2006	2005
EUR 1 000		
Intangible assets	0	0
Tangible assets	2 031	8 225
Inventories	0	1 393
Trade receivables	747	12 335
Other assets	108	782
Assets held for sale	**2 886**	**22 735**
Financial liabilities	2 032	3 529
Provisions	962	5 132
Trade payables	302	5 672
Other liabilities	68	1 367
Liabilities directly linked to assets held for sale	**3 364**	**15 700**
Net value	**– 478**	**7 035**

The assets held for sale and their associated liabilities relate to business in customer specific switchgear cabinets and electronic packaging solutions (OMP product area). On 12 October 2005, Phoenix Mecano AG's Board of Directors decided to withdraw from this business and on 31 October 2005 decided to proceed with the voluntary liquidation of OMP S. r. l. (I). This liquidation was largely completed during the reporting year.

The substantial fixed asset still unsold on 31 December 2006 is a production and administration building in Italy. This land was valued based on an estimation by an external assessor, also taking account of special factors. For all other fixed assets, the valuation is based on own estimations. The devaluation losses on intangible and tangible assets resulting from this valuation are presented in note 43.

The booked financial liabilities refer to a mortgage on the property held for sale. The provisions relate to future staff payments, including statutory retirement pay in Italy ("Trattamento Fine Rapporto"), provisions for contractual and/or legal risks, deferred environmental clean-up costs and other liquidation costs. The provision requirement for contractual and/or legal risks is 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 arrangements with liquidators, lawyers and so on.

14 Effects of accounting changes

	1.1.2005
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
Effects 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 January	**– 5 211**

During preparations for withdrawal from the OMP business in Italy in 2005, an error was discovered in the stock valuation. Where this related to annual accounts before 31 December 2004, a corresponding adjustment was made at 1 January 2005.

15 Share capital

In line with a decision by the Shareholders' General Meeting of 26 May 2006, the share capital of Phoenix Mecano AG was reduced from CHF 1 100 000 to CHF 1 069 500 by the elimination of 30 500 shares from the 2005 - 06 share buyback programme on 15 September 2006 (CHF is the statutory currency of Phoenix Mecano AG). The share capital is fully paid up and divided into 1 069 500 bearer shares (previous year 1 100 000) with a nominal value of CHF 1.00. The conversion into Euro is effected at the historical exchange rate of 0.622. There is no authorised or contingent capital.

The principal shareholders of Phoenix Mecano AG are:

	2006	2005
%		
Planalto AG, Luxembourg	30.9	30.0
Tweedy, Browne Company LLC, New York	9.3	9.2
UBS Fund Management (Switzerland) AG, Basel	6.0	5.0

16 Own shares

	Number of shares		Acquisition costs	
	2006	2005	2006	2005
			EUR 1 000	EUR 1 000
As at 1 January	**25 949**	**1 558**	**5 384**	**331**
Share purchases	4 130	661	1 189	130
Share sales	– 2 964	– 1 430	– 758	– 321
Share buybacks	5 340	25 160	1 196	5 244
Capital decrease	– 30 500	0	– 6 359	0
As at 31 December	**1 955**	**25 949**	**652**	**5 384**

Under the 2005 - 06 share buyback programme, a total of 30 500 shares were bought back and eliminated in 2006. Detailed information on the purchases and sales effected in 2006 can be found on page 85 of the notes to the annual financial statements of Phoenix Mecano AG (note 4).

17 Minority interests

The principal minority interests are:

	2006	2005
%		
Dewert Australia Pty Ltd.	30	30
Phoenix Mecano S.E. Asia Pte. Ltd. (Singapore)	25	25
Phoenix Mecano Korea Co. Ltd.	25	25
Sistemas Phoenix Mecano Espana S.A.	10	10

18 Liabilities from financial leasing

EUR 1 000	Note	2006	2005
Minimum leasing liabilities			
Minimum leasing liabilities up to 1 year		30	36
Minimum leasing liabilities 2 to 5 years		58	83
Minimum leasing liabilities over 5 years		0	0
Total		**88**	**119**
Less future interest charge		– 9	– 14
Cash value of leasing liabilities		**79**	**105**
Less current portion	26	– 26	– 32
Balance sheet value (long-term portion)		**53**	**73**
By currency			
SGD and AUD		53	73
Balance sheet value (long-term portion)		**53**	**73**
By maturities			
in 2 years		26	28
in 3 years		18	16
in 4 years		9	18
in 5 years		0	11
Balance sheet value		**53**	**73**

The average interest rate for liabilities from financial leasing is 10.2% (previous year 11.4%).

19 Other long-term financial liabilities

EUR 1 000	Note	2006	2005
Liabilities towards financial institutions		27 092	4 463
Current portion of long-term financial liabilities	26	– 5 293	– 4 448
Balance sheet value		**21 799**	**15**
By currency			
CHF		5 590	0
EUR		16 187	0
Other currencies		22	15
Balance sheet value		**21 799**	**15**
By maturities			
in 2 years		4 261	5
in 3 years		5 810	6
in 4 years		4 253	4
in 5 years		5 355	0
after 5 years		2 120	0
Balance sheet value		**21 799**	**15**
		2006	**2005**
		%	%
Interest rates			
CHF		3,4	
EUR		3,7	
Other currencies		13,5	11,0

The sharp rise in other long-term financial liabilities is due to the refinancing of the Phoenix Mecano AG bond (see note 25).

For the securing of bank liabilities by mortgage see note 5.

Existing mortgages for the discontinued operations is posted under liabilities directly linked to assets held for sale (see note 13).

20 Derivative financial instruments

	Contract value		Positive replacement value		Negative replacement value	
	2006	2005	2006	2005	2006	2005
EUR 1 000						
Forward exchange transactions by currency						
CHF	0	12 840	0	0	0	311
USD	1 314	7 423	3	0	0	465
HUF	19 624	10 373	2 032	1 476	0	0
Other currencies	900	0	34	0	0	0
Total	**21 838**	**30 636**	**2 069**	**1 476**	**0**	**776**
Forward exchange transactions by maturities						
in 1 year			1 223	922	0	666
in 2 years			483	554	0	60
in 3 years			363	0	0	50
Total			**2 069**	**1 476**	**0**	**776**
Interest rate change contracts by currency						
EUR	23 000	8 532	0	0	136	349
CHF	0	25 680	0	83	0	0
USD	2 273	2 535	16	40	0	0
Total	**25 273**	**36 747**	**16**	**123**	**136**	**349**
Interest rate change contracts by maturities						
in 1 year			16	123	136	349
Total			**16**	**123**	**136**	**349**
Net balance sheet value by maturities						
Total long-term			846	554	0	110
Total short-term			1 239	1 045	136	1 015
Net balance sheet value			**2 085**	**1 599**	**136**	**1 125**

The forward exchange purchases of HUF and RON (posted under Other currencies) for EUR are treated as a cash flow hedge and are used for partial hedging of the planned operating expenses in Hungary and Romania respectively. An underlying fixed-rate loan is variabilised with a EUR 18 million receiver swap. This interest rate change contract in EUR is treated as a fair value hedge. The interest rate change contract in USD is a payer swap treated as a cash flow hedge at a nominal value of EUR 2.3 million intended to set the interest rate for a corresponding bank loan.

Interest rate swaps in CHF reported in the previous year were fair value hedges linked to the Phoenix Mecano AG bond paid back in 2006. All other derivative financial instruments in the Group accounts to 31 December 2006 are held for trading purposes.

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

21 Provisions

EUR 1 000	Provisions for long-term benefits to employees: Pension commitments	Provisions for long-term benefits to employees: Other	Guarantee provisions	Other provisions	2006 Total	2005 Total
Provisions as at 1 January	**3 073**	**3 127**	**1 608**	**2 512**	**10 320**	**11 658**
Changes in scope of consolidation					0	0
Translation differences		– 3	– 25	– 20	– 48	50
Usage	– 135	– 394	– 547	– 1 551	– 2 627	– 2 951
Releases		– 61	– 128	– 281	– 470	– 659
Reclassification					0	– 5 132
Allocations	264	1 301	832	3 878	6 275	7 354
Provisions as at 31 December	**3 202**	**3 970**	**1 740**	**4 538**	**13 450**	**10 320**
Due within 1 year	116	230	1 733	4 170	6 249	3 549
Due over 1 year	3 086	3 740	7	368	7 201	6 771

Provisions for long-term benefits to employees relate to pension commitments in Germany (under Pension commitments) and 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 (under Provisions for other long-term benefits to employees).

Other provisions include provisions for short-term payments to employees (e.g. indemnities and salary bonuses) totalling EUR 2.9 million (previous year EUR 1.3 million) and provisions for lawsuit risks and other conceivable risks or contingent obligations.

22 Pension commitments

EUR 1 000	2006	2005
Financial position of defined benefit pension plans		
Present value of pension commitments from defined benefit plans **As at 1 January**	**12 298**	**11 133**
Service costs	826	771
Interest expenses	377	387
Capital	390	671
Pension payments	– 838	– 1 588
Actuarial (gains)/losses	– 646	1 004
Translation differences	– 295	– 80
As at 31 December	**12 112**	**12 298**

Pension commitments (continued)		2006	2005
EUR 1 000	Note		
Market value of plan assets **As at 1 January**		**7 743**	**7 700**
Expected return		230	231
Employer contributions		446	417
Employee contributions		386	417
Capital		390	671
Pension payments		– 703	– 1 457
Actuarial (gains)/losses		– 312	– 163
Translation differences		– 263	– 73
As at 31 December		**7 917**	**7 743**
Net balance sheet value pension commitments Cash value of pension commitments from defined benefit plans financed using a pension fund		– 8 769	– 8 854
Fair value of plan assets		7 917	7 743
		– 852	**– 1 111**
Cash value of pension commitments from defined benefit plans not financed using a pension fund		– 3 343	– 3 444
Non-reported actuarial (gains)/losses		993	1 482
Net balance sheet value of defined benefit plans (provision)	21	– 3 202	– 3 073
Pension expenses Service costs		826	771
Interest expenses		377	387
Expected return		– 230	– 231
Employee contributions		– 386	– 417
Amortisation of actuarial gains/losses		127	163
Pension expenses for defined benefit plans		**714**	**673**
Pension expenses for defined contribution plans		**273**	**120**
Total pension expenses		**987**	**793**
Actuarial assumptions Weighted discount rate		3,2 %	3,3 %
Expected return on plan assets		3,0 %	3,0 %
Weighted expected rate of salary increase		1,8 %	1,8 %
Weighted expected rate of pension increase		0,8 %	0,8 %
Funding of defined benefit pension contributions Plan assets		7 917	7 743
Commitments from pension plans		12 112	12 298
Funding difference of which EUR 3.2 million (previous year EUR 3.1 million) is reported in the balance sheet as provisions		– 4 195	– 4 555
Experience adjustment of benefit commitments Actuarial and experience adjustment of benefit commitment		– 70	– 354

The expected 3% return on plan assets corresponds to the anticipated long-term income derived from the legal minimum interest rate in Switzerland and the surplus from the collective foundation. The actual return on capital tallies more or less with the expected income.

The plan assets relate to the Swiss pension plan and take the form of a repurchase value on the corresponding collective life insurance contract with the insurance provider.

The expected outflow of funds for employer contributions from defined benefit plans in 2007 is EUR 0.5 million.

Other long-term benefits to employees Provisions for agreements providing for part-time work for older employees in Germany, statutory retirement pay in Italy ("Trattamento Fine Rapporto") and length-of-service awards were set aside in accordance with IAS 19 (see note 21).

23 Deferred taxes

	2006	2005
EUR 1 000		
Deferred tax assets on:		
Fixed assets	2 030	4 707
Inventories	1 886	3 293
Receivables	107	191
Provisions	1 083	1 557
Other	170	337
Deferred tax assets on temporary differences	**5 276**	**10 085**
Deferred tax on losses carried forward	21 027	29 348
Total deferred tax assets	**26 303**	**39 433**
Netting with deferred tax liabilities	– 7 554	– 5 449
Value adjustments	– 16 037	– 31 189
Balance sheet value	**2 712**	**2 795**
Deferred tax liabilities on:		
Fixed assets	– 6 023	– 6 043
Inventories	– 1 850	– 1 735
Receivables	– 7 982	– 7 944
Provisions	– 138	– 157
Other	– 323	– 223
Total deferred tax liabilities	**– 16 316**	**– 16 102**
Netting with deferred tax assets	7 554	5 449
Balance sheet value	**– 8 762**	**– 10 653**
Net position deferred taxes	**– 6 050**	**– 7 858**
Trend of deferred taxes **As at 1 January**	**– 7 858**	**– 6 963**
Change of tax rate	– 127	– 2
Translation differences	– 162	188
Reduction/(increase) in valuation adjustments not affecting income	– 174	– 15
Usage/(increase)	2 271	– 1 066
As at 31 December	**– 6 050**	**– 7 858**
Non-capitalised tax losses carried forward Up to 1 year	8 002	5 236
2 to 5 years	27 386	33 064
Over 5 years	23 163	69 513
Total	**58 551**	**107 813**

Due to uncertainties regarding usability of tax losses carried forward totalling EUR 59 million (previous year 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, totalling EUR 35 million (previous year EUR 38 million).

In the previous year further value adjustments applied to other deferred tax assets. The sharp drop in non-capitalised losses carried forward is due to a number of factors (expiry, higher netting with deferred tax liabilities, use and adjustments arising from tax reviews).

Deferred tax liabilities include deferred taxes totalling EUR 0.4 million (previous year EUR 0.2 million) on fluctuations in fair value on cash flow hedges posted without affecting income.

Valuation differences on investments in fully consolidated companies on which no deferred taxes have been calculated amount to EUR 41.9 million (previous year EUR 28.8 million).

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

Of the tax losses carried forward maturing at over 5 years, EUR 8.8 million (previous year EUR 6.2 million) expire within 20 years. The remaining losses can be carried forward for an indefinite period.

24 Trade payables

	2006	2005
EUR 1 000		
Trade payables 3rd parties	13 803	12 772
Liabilities to associated companies	0	0
Balance sheet value	**13 803**	**12 772**

25 Outstanding bonds

The 4% bond for CHF 100 million was paid back on 25 September 2006. The funds used for the repayment came partly from refinancing through bank loans and partly from the Group's cash reserves.

26 Short-term financial liabilities

		2006	2005
EUR 1 000	Note		
Liabilities towards financial institutions		16 365	10 583
Liabilities to associated companies		0	0
Other		14	11
Current portion of liabilities from financial leasing	18	26	32
Current portion of other financial liabilities	19	5 293	4 448
Balance sheet value		**21 698**	**15 074**
By currency			
CHF		2 487	3 210
EUR		14 851	5 628
USD		4 320	5 733
Other currencies		40	503
Balance sheet value		**21 698**	**15 074**
Interest rates			
CHF		2.5%	4.5%
EUR		4.2%	3.2%
USD		6.0%	5.6%
Other currencies		8.7%	3.0%

27 Other liabilities

	2006	2005
EUR 1 000		
Social security liabilities	1 037	2 239
Liabilities to employees	3 331	3 247
Liabilities from VAT and other taxes	3 098	3 007
Other	1 458	2 020
Balance sheet value	**8 924**	**10 513**

28 Net indebtedness

	2006	2005
EUR 1 000		
Outstanding bonds	0	64 283
Liabilities from financial leasing	53	73
Other long-term financial liabilities	21 799	15
Short-term financial liabilities	21 698	15 074
Financial liabilities directly linked to assets held for sale	2 032	3 529
Interest-bearing liabilities	**45 582**	**82 974**
less		
Current asset securities	7 948	25 962
Cash and cash equivalents	24 677	35 054
Net indebtedness	**12 957**	**21 958**

29 Contingent liabilities

	2006	2005
EUR 1 000		
Sureties and guarantees	99	62
Commitments from bills of exchange	28	39
Total	**127**	**101**

30 Commitments to purchase tangible assets

The purchase commitment for tangible assets as at 31 December 2006 was EUR 1.3 million (previous year EUR 1.6 million).

31 Operating leasing, rent and leasehold rent

	2006	2005
EUR 1 000		
Minimum commitments up to 1 year	1 955	2 383
Minimum commitments within 1 to 5 years	3 007	3 984
Minimum commitments over 5 years	4 622	4 760
Minimum liabilities from operating leasing, rent and leasehold rent	9 584	11 127
Minimum claims up to 1 year	236	348
Minimum claims within 1 to 5 years	601	794
Minimum claims over 5 years	390	535
Minimum claims from rent and leasehold rent	**1 227**	**1 677**

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

32 Gross sales

		2006	2005
EUR 1 000	Note		
Gross sales from continued operations		346 506	314 966
Gross sales from discontinued operations	43	4 989	28 941
Total		**351 495**	**343 907**

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 10.0% on the previous year (previous year 1.5%). Differences in foreign exchange rates and changes to the scope of consolidation had a minimal effect on gross sales (less than 0.1% each).

33 Other operating income

	2006	2005
EUR 1 000		
Insurance compensation	153	140
Gains on the disposal of intangible and tangible assets	316	211
Government subsidies	160	74
Other	877	1 294
Total	**1 506**	**1 719**

In the previous year, other operating income included management charges totalling EUR 0.1 million, which were charged to the discontinued OMP product area from continued operations.

34 Cost of materials

	2006	2005
EUR 1 000		
Cost of raw and ancillary materials, merchandise for resale and external services	137 561	121 310
Incidental acquisition costs	4 645	4 177
Total	**142 206**	**125 487**

Note 8 shows where value adjustments and losses on inventories are posted on the statement of income.

35 Personnel expenses

	2006	2005
EUR 1 000		
Wages and salaries	83 691	77 554
Social costs	17 750	16 973
Supplementary staff costs	2 680	2 042
Total	**104 121**	**96 569**

36 Amortisation of intangible assets

	2006	2005
EUR 1 000		
Development services	1 278	1 732
Concessions, licences, similar rights and assets	911	1 239
Total	**2 189**	**2 971**

37 Depreciation on tangible assets

	2006	2005
EUR 1 000		
Land and buildings	2 222	2 146
Machinery and equipment	11 522	12 044
Total	**13 744**	**14 190**

38 Other operating expenses

		2006	2005
EUR 1 000	Note		
External development costs		549	595
External expenses		14 986	13 126
Rent, leasehold rent, leasing		2 698	2 867
Administration expenses		5 866	5 925
Advertising expenses		3 839	3 611
Sales expenses		13 936	12 184
Losses from the disposal of intangible and tangible assets		138	189
Devaluation losses on intangible and tangible assets	4, 5	1 962	1 993
Losses and value adjustments on inventories	8	1 066	2 058
Capital and other taxes		641	546
Other		3 441	2 868
Total		**49 122**	**45 962**

The total development costs from continued operations, including internal costs, amount to EUR 6.4 million (previous year EUR 6.5 million). See notes 4 and 5 for devaluation losses and note 8 for losses and value adjustments on inventories.

39 Restructuring expenses

EUR 1 000	Note	2006	2005
Devaluation losses on intangible and tangible assets	4, 5	0	2 612
Losses from the disposal of tangible assets	5	0	16
Losses and value adjustments on inventories	8	0	815
Other restructuring expenses		0	322
Total		**0**	**3 765**

In the previous year, there were restructuring expenses totalling EUR 3.0 million for the ELCOM/EMS division and EUR 0.8 million for the Mechanical Components division. 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. The restructuring of the Mechanical Components 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 of the period from discontinued operations (note 43).

40 Financial income

EUR 1 000	Note	2006	2005
Dividend income		35	44
Interest income from third parties		1 671	1 382
Interest income from the financing of discontinued operations		375	594
Capital gains on current assets securities		568	247
Gains from derivative financial instruments	20	1 010	104
Exchange rate gains		1 658	2 790
Gains from the disposal of Group companies	48	0	173
Other financial income		33	115
Total		**5 350**	**5 449**

The financial income from continued operations include interest income totalling EUR 0.4 million (previous year EUR 0.6 million), which was not attained with third parties but instead from the financing within the Group of discontinued operations.

41 Financial expenses

EUR 1 000	Note	2006	2005
Interest expenses		3 232	3 718
Losses from derivative financial instruments	20	123	1 430
Exchange rate losses		5 760	2 838
Value adjustment on financial assets		916	76
Other financial expenses		56	12
Total		**10 087**	**8 074**

In connection with the repayment of the Phoenix Mecano AG bond (see note 25), a capital decrease of EUR 25 million was implemented at Phoenix Mecano Finance Ltd. (Jersey) to free up the necessary liquid funds for Phoenix Mecano AG. In this connection, exchange rate losses totalling EUR 2.8 million, previously posted without affecting income, were listed under Exchange rate losses and posted in the statement of cash flow under Other expenses not affecting liquidity.

The value adjustment on financial assets relates principally to a value reduction resulting from a decline in the expected repayment of financial receivables.

42 Income tax

	2006	2005
EUR 1 000		
Current income tax	6 402	3 730
Deferred taxes	– 2 144	1 066
Income tax continued operations	**4 258**	**4 796**
Income tax discontinued operations	59	0
Income tax	**4 317**	**4 796**
Transfer from theoretical to effective income tax		
Result before tax continued operations	31 207	21 229
Result before tax discontinued operations	914	– 25 256
Result before tax	**32 121**	**– 4 027**
Theoretical income tax	**9 314**	**– 5 346**
Weighted income tax rate	**29,0 %**	**132,8 %**
Change of tax rate deferred taxes	127	– 1
Tax-free income	– 173	– 330
Non-deductible expenses	613	1 659
Non-capitalisation of tax losses carried forward during the reporting year	703	5 779
Use of non-capitalised tax losses carried forward from previous years	– 876	– 640
Income tax relating to other periods	– 5 327	118
Value adjustments on deferred tax assets	0	3 441
Other	– 64	116
Effective income tax	**4 317**	**4 796**
Effective income tax rate	**13,4 %**	**n. a**

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.

In addition to the deferred taxes presented above, EUR 0.2 million (previous year EUR 0.02 million) in deferred taxes expenses linked to fluctuations in fair value of cash flow hedges posted without affecting income were offset directly against equity. See also note 23.

The income posted under Income tax relating to other periods derives mainly from the elimination and/or reassessment of tax risks from earlier tax periods.

43 Result of the period from discontinued operations

EUR 1 000	Note	2006	2005
Result of the period OMP product area		– 754	– 11 197
Result relating to restructuring and/or discontinuation of operations		1 609	– 14 059
Result of the period discontinued operations		**855**	**– 25 256**
Gross sales		4 989	28 941
Revenue reductions		– 5	– 280
Changes in inventories		– 553	– 8
Own work capitalised		0	8
Other operating income		298	59
Cost of materials		– 3 508	– 25 227
Personnel expenses		– 766	– 7 394
Amortisation of intangible assets		0	– 53
Depreciation on tangible assets		– 2	– 2 068
Losses and value adjustments on inventories	8	0	– 565
Other operating expenses		– 639	– 3 691
Financial result		– 509	– 919
Result before tax OMP product area		**– 695**	**– 11 197**
Income tax		– 59	0
Result of the period OMP product area		**– 754**	**– 11 197**
Gains from the disposal of intangible and tangible assets		1 147	1 306
Appreciation of tangible assets		0	118
Devaluation losses on intangible and tangible assets	4, 5	– 1 260	– 4 926
Losses and value adjustments on inventories	8	0	– 4 008
Revenue from sale of inventories		530	0
Other result relating to restructuring and/or discontinuation of operations		1 192	– 6 549
Result relating to restructuring and/or discontinuation of operations		**1 609**	**– 14 059**

The result of the period from discontinued operations relates to business in customer specific switchgear cabinets and electronic packaging solutions (OMP product area). On 12 October 2005, Phoenix Mecano AG's Board of Directors decided to withdraw from this business and on 31 October 2005 decided to proceed with the voluntary liquidation of OMP S. r. l. (I). This liquidation was largely completed during the reporting year.

See note 13 for the accounting of the assets held for sale and of liabilities linked to the OMP product area. The financial result includes interest expenses totalling EUR 0.4 million (previous year EUR 0.6 million) resulting from financing within the Group (see also note 40). Other result relating to the restructuring and/or discontinuation of operations includes the formation and/or release of provisions (including for contractual and legal risks), current liquidation costs and, as in the previous year, severance payments including statutory retirement pay ("Trattamento Fine Rapporto") and supplementary staff costs in Italy totalling EUR 4 million.

Cash flow from operations concerning discontinued activities was positive, totalling EUR 1.7 million (previous year EUR –9.6 million). A balance of EUR 8.2 million (previous year EUR 0.9 million) accrued from investments and disinvestments (cash used in investing activities). Cash flow from financing activities totalled EUR –6.2 million (previous year EUR 8.8 million). It includes financing from continued operations to the discontinued OMP product area.

44 Earnings per share

	2006	2005
EUR 1 000		
Result **Result of the period attributable to shareholders of the parent company** (Basis for earnings per share continued and discontinued operations)	**27 722**	**– 8 939**
Result of the period from discontinued operations	855	– 25 256
Result of the period from continued operations attributable to shareholders of the parent company (Basis for earnings per share continued operations)	**26 867**	**16 317**
	2006	**2005**
Number		
Number of shares Shares issued on 1 January	1 100 000	1 100 000
Capital decrease	– 30 500	0
Own shares (as the average over the year)	– 2 101	– 13 100
Shares outstanding	1 067 399	1 086 900
Basis for diluted earnings per share	**1 067 399**	**1 086 900**
Basis for undiluted earnings per share	**1 067 399**	**1 086 900**

45 Operating cash flow before restructuring expenses

	2006	2005
EUR 1 000		
Operating result before restructuring expenses	35 810	27 535
Amortisation of intangible assets	2 189	2 971
Depreciation on tangible assets	13 744	14 190
Operating cash flow before restructuring expenses from continued operations	**51 743**	**44 696**

46 Free cash flow

	2006	2005
EUR 1 000		
Cash flow from operating activities	25 457	38 085
Investments in intangible assets	– 2 447	– 1 892
Investments in tangible assets	– 19 371	– 13 328
Disinvestments in intangible assets	447	3
Disinvestments in tangible assets	8 147	2 218
Free cash flow (before financial investments)	**12 233**	**25 086**

The free cash flow before financial investments also takes account of the discontinued operations (see note 43).

47 Acquisition of Group companies

	2006	2005
EUR 1 000		
Tangible assets	–	43
Financial assets	–	– 444
Cash and cash equivalents	–	83
Other current assets	–	133
Liabilities	–	185
Purchase price	**0**	**0**
Acquired cash and cash equivalents	–	83
Change in funds	**–**	**83**

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. In addition, 1 January 2005 saw 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.

48 Disposal of Group companies

	2006	2005
EUR 1 000		
Goodwill	–	0
Other fixed assets	–	349
Cash and cash equivalents	–	32
Other current assets	–	280
Liabilities	–	– 264
	0	**397**
Translation differences	–	– 47
Gains on the disposal of Group companies	–	173
Sales price	**0**	**523**
Disposal of cash and cash equivalents	–	– 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 and the result for the period totalled EUR – 0.1 million.

49 Transactions with related parties

	2006	2005
EUR 1 000		
Chairman of the Board of Directors	83	84
Delegate of the Board of Directors	515	366
Other members of the Board of Directors	80	78
Remuneration of the Board of Directors	**678**	**528**
Remuneration of the Executive Committee (excluding the Delegate of the Board of Directors)	**1 721**	**1 728**
Remuneration of the Board of Directors and Executive Committee	**2 399**	**2 256**
Social security contributions	158	143
Pension payments	197	170
Total remuneration of the Board of Directors and Executive Committee	**2 754**	**2 569**

Remuneration includes compensation for termination of an employment contract totalling EUR 0.1 million. Transactions with associated companies are presented in notes 6, 9 and 24.

No significant transactions with other related parties outside the scope of consolidation took place in 2006 or 2005.

50 Events after the balance sheet date

On 1 January 2007, the Phoenix Mecano Group took full ownership of the Leonhardy Group, a player in the plug connector and contact technology sector. The group generates sales of around EUR 10 million and employs some 90 people at plants in Germany and the Czech Republic. The integration will be completed in 2007, with integration costs expected to total approximately EUR 1.5 million.

The costs of the acquisition, including transaction costs, amount to EUR 1.2 million. The acquired assets and assumed liabilities are provisionally as follows:

EUR 1 000	Book value	Fair value
Fixed assets	2 555	2 861
Current assets	3 851	3 851
Liabilities	– 3 977	– 4 187
Net assets acquired	**2 429**	**2 525**

This results in a provisional negative goodwill of EUR 1.3 million.

No other events occurred between 31 December 2006 and 23 March 2007 that would alter the book values of assets and liabilities or should be disclosed under this heading.

51 Approval of the Group's annual accounts

At its meeting on 23 March 2007, the Board of Directors of Phoenix Mecano AG released the 2006 Group annual accounts for publication. These accounts will be submitted to the Shareholders' General Meeting on 1 June 2007 with a recommendation for their approval.

52 Dividend

The Board of Directors recommends to the Shareholders' General Meeting of 1 June 2007 that a dividend of CHF 6.00 (CHF is the statutory currency of Phoenix Mecano AG) per share be paid out (see Proposal for the appropriation of retained earnings on page 88). The total outflow of funds is expected to be CHF 6.4 million. The dividend paid out in 2006 was CHF 4.00 (previous year CHF 4.00) per share. The outflow of funds in 2006 was CHF 4.3 million (previous year CHF 4.4 million).

Report of the Group auditors

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

As group auditors, we have audited the consolidated financial statements of Phoenix Mecano AG, Stein am Rhein, and subsidiaries, presented on pages 40 to 77 and consisting of the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended 31 December 2006. The financial statements of prior period were audited by another auditor. In their report dated 23 March 2006, they expressed an unqualified opinion.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

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

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position, results of operations and cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

KPMG Ltd

Roger Neininger	Thomas Keusch
Swiss Certified Accountant	Swiss Certified Accountant
Auditor in charge	

Zurich, 23 March 2007

Five-year overview

	2006	2005	2004	2003	2002
EUR million					
Consolidated balance sheet					
Total assets	263.7	285.0	311.1	301.7	299.0
Fixed assets	97.0[1]	93.2[1]	116.5	121.9	135.0
in % of total assets	36.8	32.7	37.4	40.4	45.2
Tangible assets	87.1[1]	83.3[1]	103.5	107.3	119.1
Current assets	166.7[1]	191.8[1]	194.6	179.8	164.0
in % of total assets	63.2	67.3	62.6	59.6	54.8
Inventories	78.1[1]	61.3[1]	80.4	83.9	86.0
Cash and cash equivalents	24.7	35.1	30.7	28.8	21.4
Equity	166.9	140.9	160.0	146.0	129.5
in % of total assets	63.3	49.4	51.4	48.4	43.3
Liabilities	96.8	144.1	151.1	155.7	169.5
in % of total assets	36.7	50.6	48.6	51.6	56.7
Net indebtedness	13.0	22.0	41.8	59.7	89.0
in % of equity	7.8	15.6	26.1	40.9	68.7
Consolidated statement of income					
Gross sales	351.5	343.9	348.7	326.1	323.8
Gross sales from continued operations	346.5	315.0	310.2	297.1	295.8
Total operating performance	347.2[2]	312.7[2]	308.1[2]	327.4	321.5
Personnel expenses	104.1[2]	96.6[2]	96.0[2]	103.1	105.7
Amortisation of intangible assets	2.2[2]	3.0[2]	4.3[2]	4.5	7.1
Depreciation on tangible assets	13.7[2]	14.2[2]	14.4[2]	17.3	18.3
Operating result before restructuring expenses	35.8[2]	27.5[2]	27.9[2]	22.5	12.7
Restructuring expenses	0.0[2]	– 3.8[2]	0.0[2]	0.2	– 40.6[3]
Result before interest and tax	35.8[2]	23.8[2]	27.9[2]	22.7	– 27.9
Financial result	– 4.6[2]	– 2.5[2]	– 2.2[2]	– 4.8	– 7.7
Result before tax	31.2[2]	21.2[2]	25.7[2]	17.9	– 35.6
Income tax	– 4.3[2]	– 4.8[2]	– 3.3[2]	– 3.1	– 2.5
Result of the period from continued operations	26.9	16.4	22.5[2]		
Result of the period from discontinued operations	0.9[4]	– 25.3[4]	– 7.6[4]		
Result of the period	27.8	– 8.8	14.9	14.8	– 38.1
in % of gross sales	7.9	– 2.6	4.3	4.5	– 11.8
in % of equity	16.7	– 6.3	9.3	10.1	– 29.4
Consolidated statement of cash flow					
Cash flow from operating activities	25.5	38.1	35.1	35.1	37.2
Cash used in investing activities	4.5	– 12.9	– 28.5	– 20.0	– 23.6
Investments in tangible assets	19.4	13.3	15.3	13.0	21.7
Cash flow from financing activities	– 40.0	– 21.1	– 4.8	– 8.7	– 13.4
Free cash flow	12.2	25.1	19.1	22.2	16.6

[1] The assets held for sale from the discontinued OMP product area are posted in current assets under a separate item.
[2] The figures for 2004, 2005 and 2006 refer to the continued operations, i.e. without the discontinued OMP product area.
[3] Including devaluation losses on goodwill totalling EUR 29.7 million.
[4] The discontinued operations concern the customer specific switchgear cabinets and electronic packaging solutions business (OMP product area).

Thinking economically while acting sustainably. Giving thrust and direction to the company's success. In pursuing this strategy, Phoenix Mecano looks not just to its own, business-related, interests but also to those of its shareholders: the 2006 capital decrease boosted earnings per share, and the 2007 dividend will be substantially higher than the previous year's.

Because success is not about size.

INFORMATION ON THE ANNUAL ACCOUNTS

Balance sheet as at 31 December 2006 Phoenix Mecano AG

Assets		2006	2005
CHF	Note		
Fixed assets **Financial assets**			
Investments	1	140 031 195	179 113 899
Lending to Group companies	2	23 324 486	18 893 232
Other financial assets		0	106 925
Total fixed assets		**163 355 681**	**198 114 056**
Current assets **Receivables**			
Financial receivables from Group companies	3	4 562 108	17 675 548
Other receivables		165 000	103 799
		4 727 108	**17 779 347**
Own shares	4	918 751	8 822 660
Current asset securities	5	2 803 640	19 796 486
Cash and cash equivalents		1 827 841	11 836 481
Total current assets		**10 277 340**	**58 234 974**
Deferred charges and prepaid expenses		89 959	579 566
Total assets		**173 722 980**	**256 928 596**

Liabilities and equity		2006	2005
CHF	Note		
Equity Share capital	6	1 069 500	1 100 000
Statutory reserves		2 500 000	2 500 000
Reserves for own shares		918 751	8 822 660
Special reserves		111 620 000	76 620 000
Retained earnings	7	21 945 125	49 089 793
Total equity		**138 053 376**	**138 132 453**
Liabilities Provisions	8	4 500 000	4 500 000
Long-term liabilities			
Bank loans	9	7 500 000	0
Short-term liabilities			
Outstanding bonds	10	0	100 000 000
Bank liabilities	9	10 100 000	12 896 000
Financial liabilities to Group companies	11	13 262 648	103 784
Liabilities to shareholders		5 388	0
Other liabilities		5 320	19 368
		23 373 356	**113 019 152**
Deferred income		296 248	1 276 991
Total liabilities		**35 669 604**	**118 796 143**
Total liabilities and equity		**173 722 980**	**256 928 596**

Statement of income 2006

CHF	Note	2006	2005
Income			
Income from investments	14	15 325 000	31 886 895
Financial income	15	3 221 603	3 547 915
Other income	16	3 289 800	448 873
Total income		**21 836 403**	**35 883 683**
Expenses			
Financial expenses	17	– 4 890 063	– 5 492 506
Administration expenses		– 771 725	– 758 329
Other expenses	18	– 1 950 010	– 2 795 098
Income and capital taxes		– 33 880	– 16 397
Total expenses		**– 7 645 678**	**– 9 062 330**
Profit for the year		**14 190 725**	**26 821 353**

Notes to the financial statements 2006

General

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

1 Investments

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

Company	Head office	Activity	Currency	Registered capital in 1 000	Stake %
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	1 969	100
PM International B.V.	Doetinchem, The Netherlands	Finance	EUR	4 500	100
AVS-Phoenix Mecano GmbH	Vienna, Austria	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.	Pune, India	Production/Sales	INR	84 484	96
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
Shenzhen Elcom Trading Co.	Shenzhen, China	Purchases	CNY	500	25
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 with the previous year is due to a capital decrease at Phoenix Mecano Finance Ltd. (Channel Islands) and the acquisition of a 25% stake in the Shenzhen Elcom Trading Co. (China), which was founded during the reporting year. Ownership interests in existing investments did not change during the reporting year.

An overview of all directly and indirectly held investments is given on page 56/57.

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 short-term financial receivables (including balances on clearing accounts) 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:

	Number	Share purchases Average price CHF	Number	Share sales Average price CHF
January	0		0	
February	340	404.30	189	380.60
March	919	429.35	0	
April	0		300	518.50
May	316	482.78	225	542.33
June	258	448.67	0	
July	1 527	448.12	45	463.29
August	0		154	501.62
September	0		0	
October	650	498.70	1 143	516.41
November	110	504.75	908	551.25
December	10	518.00	0	
Total year	**4 130**	**452.66**	**2 964**	**519.03**

In addition, as part of the share buyback programme decided by the Board of Directors in March 2005, the following buybacks were made over a second trading line:

	Number	Share purchases Average price CHF
January	5 340	352.21
Total year	**5 340**	**352.21**

A total of 30 500 shares with an equivalent value of CHF 9 998 401 were repurchased through this buyback programme in 2005 and 2006, and eliminated in 2006 in line with a decision taken by the Shareholders' General Meeting of 26 May 2006.

At the balance sheet date, the company owned 1955 own bearer shares (previous year 25 949 shares), which are booked at acquisition costs. No subsidiaries owned shares in Phoenix Mecano AG.

5 Current asset securities

Phoenix Mecano AG has invested some of its liquid funds in securities. As at 31 December 2006, this item only includes outstanding bonds in CHF. As at 31 December 2005, bonds in EUR and shares in CHF and EUR were also held. The reduction in investments in the form of securities is linked to the refinancing of the Phoenix Mecano AG bond.

6 Share capital

In line with a decision by the Shareholders' General Meeting of 26 May 2006, the share capital of Phoenix Mecano AG was reduced from CHF 1 100 000 to CHF 1 069 500 by the elimination of 30 500 shares from the 2005 - 06 share buyback programme on 15 September 2006. The share capital was then re-divided into 1 069 500 bearer shares (previous year 1 100 000) with a par value of CHF 1.00 each. Planalto AG, Luxembourg, holds a 30.9% stake in the share capital (previous year 30.0%). Other shareholders are Tweedy, Browne Company LLC, New York, with 9.3% at the balance sheet date (previous year 9.2%) and UBS Fund Management (Switzerland) AG, Basel, with 6.0% (previous year 5.0%).

7 Retained earnings

The retained earnings brought forward from the previous year total CHF 9 818 393. As a result of posting them in reserves for own shares, retained earnings were reduced by CHF 2 063 993. The 2006 financial year closes with a profit for the year of CHF 14 190 725. Altogether, this places retained earnings totalling CHF 21 945 125 at the disposal of the Shareholders' General Meeting of 1 June 2007. For the Board of Directors' proposal regarding the appropriation of retained earnings, see page 88.

8 Provisions

As in the previous year, this item comprises provisions to cover investment risks totalling CHF 3.5 million as well as provisions to cover exchange rate risks totalling CHF 1.0 million.

9 Bank loans/bank liabilities

Bank loans in CHF with terms of between 3 and 5 years were contracted in order to partially refinance the bond. The short-term bank liabilities include CHF and USD loans.

10 Outstanding bonds

The 4% bond for CHF 100 million was paid back on 25 September 2006. There were no other outstanding bonds at the balance sheet date.

11 Financial liabilities to Group companies

This item contains short-term financial liabilities (including liabilities on clearing accounts) in CHF and EUR towards subsidiary companies in Switzerland and abroad. The increase in financial liabilities is linked to the refinancing of the bond.

12 Derivative financial instruments

	Contract value		Positive replacement value		Negative replacement value	
	2006	2005	2006	2005	2006	2005
CHF 1 000						
Forward exchange transactions by currency CHF/EUR		20 000				484
Total	**0**	**20 000**	**0**	**0**	**0**	**484**
Forward exchange transactions by maturities in 1 year						484
Total			**0**	**0**	**0**	**484**
Interest rate change contracts by currency EUR		5 502				68
CHF		40 000		129		
USD	3 660	3 948	26	63		
Total	**3 660**	**49 450**	**26**	**192**	**0**	**68**
Interest rate change contracts by maturities in 1 year			26	192		68
Total			**26**	**192**		**68**

13 Contingent liabilities

	2006	2005
CHF 1 000		
Guarantees and letters of comfort	**94 101**	**59 797**

The contingent liabilities cover sureties and warranty obligations given for subsidiaries in favour of financial institutions. The actual book value of liabilities held by Group companies totals CHF 51.8 million (previous year CHF 10.0 million).

14 Income from investments

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

15 Financial income

Financial income includes earnings from interest, commissions and securities.

16 Other income

Other income comprises income from the releases of value adjustments totalling CHF 3.3 million for the reporting year and net exchange rate gains totalling CHF 0.4 million (CHF 2.2 million exchange gains less CHF 1.8 million exchange losses) for the previous year, plus income from licences in both years.

17 Financial expenses

This item contains expenses on interest and securities.

18 Other expenses

This item includes net exchange rate losses totalling CHF 1.7 million for the reporting year (CHF 3.1 million exchange rate losses less CHF 1.4 million exchange rate gains) and book losses from the disposal of two lots of investments totalling CHF 1.9 million in the previous year. It also includes the formation of value adjustments and licence expenses for both years.

19 Net release of hidden reserves

The statement of income contains a net release of hidden reserves totalling CHF 3.3 million. No hidden reserves were released the previous year.

20 Events after the balance sheet date

For the purposes of registration for Group VAT taxation from 1 January 2007, Phoenix Mecano AG is entering into a joint guarantee with its Swiss subsidiaries.

No other events occurred between 31 December 2006 and 23 March 2007 that would alter the book values of Phoenix Mecano AG's assets and liabilities or should be disclosed under this heading.

There are no further matters requiring disclosure under Article 663b of the Swiss Code of Obligations.

Proposal for the appropriation of retained earnings

CHF	
Net income for the year 2006	14 190 725
Retained earnings brought forward 2005	9 818 393
Allocation to reserve for own shares	– 2 063 993
Retained earnings	**21 945 125**

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

CHF	
Dividend of CHF 6.00 per share	6 417 000
Carryforward to new account	15 528 125
Total	**21 945 125**

Report of the statutory auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes on pages 82 to 87) of Phoenix Mecano AG, Stein am Rhein, for the year ended 31 December 2006. The financial statements of prior period were audited by another auditor. In their report dated 23 March 2006, they expressed an unqualified opinion.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of 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, financial statements and the proposal by the board of directors for the appropriation of retained earnings comply with Swiss law and the company's articles of association.

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

KPMG Ltd

Roger Neininger	Thomas Keusch
Swiss Certified Accountant	Swiss Certified Accountant
Auditor in charge	

Zurich, 23 March 2007

Acting globally while maintaining regional presence and customer proximity: For Phoenix Mecano, its local presence in the form of production facilities and sales companies in the world's major economic regions is a key part of its corporate strategy and its basis for enduring success: after all, only with an in-depth knowledge of its markets and target groups can a company effectively exploit the differences between them.

Because a global approach is not about size.

FURTHER INFORMATION

International presence – locations

Sales

1 **Australia:** Victoria
2 **Belgium:** Deinze
3 **Brazil:** São Paulo
4 **France:** Fontenay sous Bois
5 **Great Britain:** Aylesbury
6 **Italy:** Inzago
7 **Korea:** Seoul
8 **The Netherlands:** Doetinchem
9 **Austria:** Vienna
10 **Singapore:** Singapore
11 **Spain:** Zaragoza
12 **USA:** Huntingdon Valley, Pennsylvania

Production

13 **Germany:** Eberswalde
14 **Romania:** Sibiu
15 **Tunisia:** Ben Arous, Borj-Cedria, Zaghouan

Production and sales

16 **Brazil:** Manaus
17 **Germany:** Porta Westfalica, Bünde, Villingen-Schwenningen, Minden, Kirchlengern, Baiersdorf, Werne, Grävenwiesbach, Stuttgart, Wutha-Farnroda, Berlin
18 **People's Republic of China:** Shanghai
19 **India:** Pune
20 **Switzerland:** Stein am Rhein, Niederdorf
21 **Hungary:** Kecskemét
22 **USA:** Frederick, Maryland

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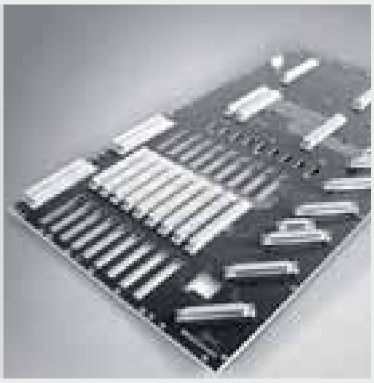

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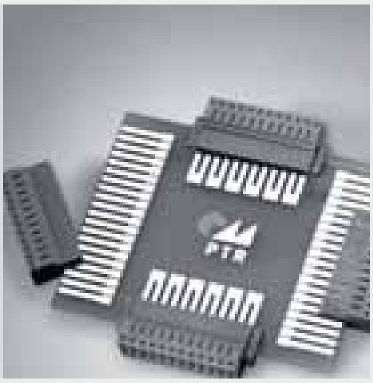

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DIGITAL ELEKTRONIK

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Picture credits
Bilderberg Archiv der Fotografen
D-22765 Hamburg
Drilling rig Norway

Getty Images
D-80469 Munich
Awacs reconnaissance plane

Printed by
Neidhart + Schön Group AG
CH-8037 Zurich

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This annual report is also availabe in German.
The German version is binding.