PHOENIX MECANO

ANNUAL REPORT 2016

FOCUSING ON FUTURE MARKETS

PHOENIX MECANO

PHOENIX MECANO
A–Z

1

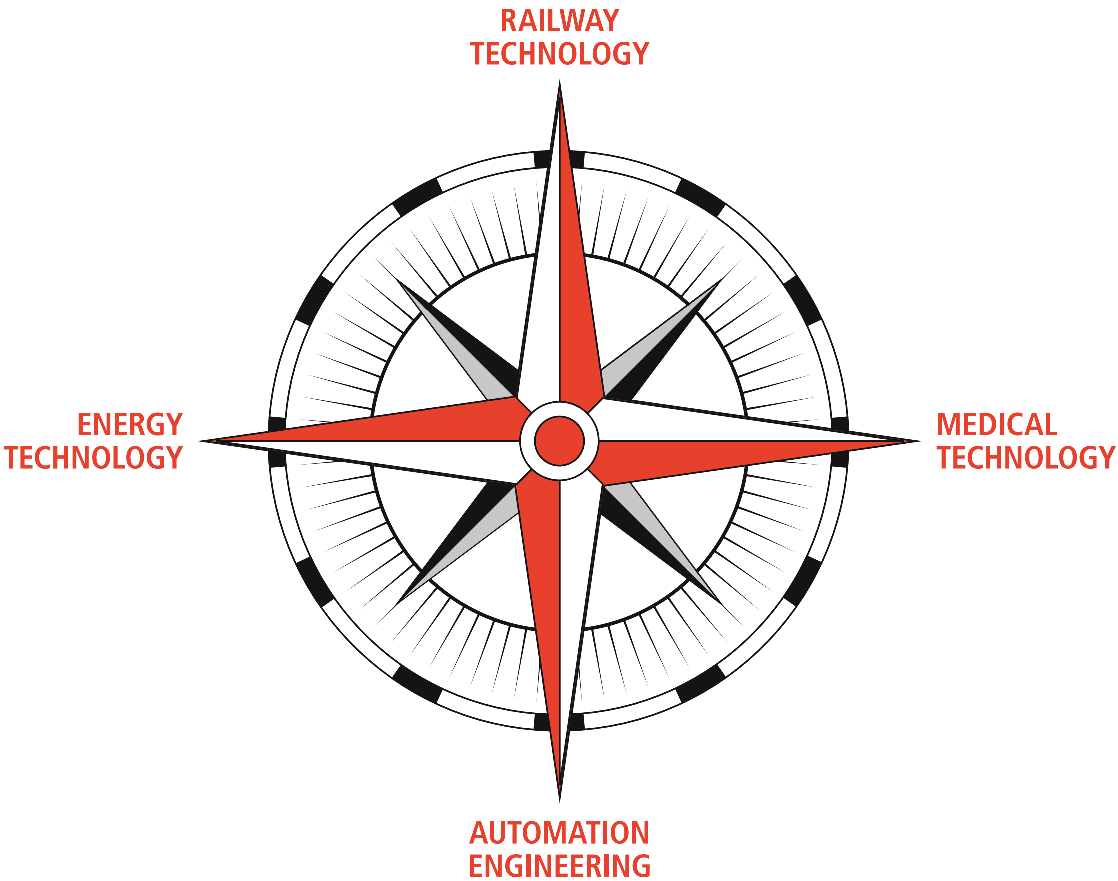
FOCUSING ON FUTURE MARKETS

Our Group's strategic shift towards future markets will safeguard its long-term growth.

With digitalisation and the rapid development of microelectronics opening up new opportunities for differentiation, including in traditional markets, our ability to incorporate market trends into the development of innovative new products is helping us to exploit these opportunities. At the same time, we are capitalising on the Group's existing strengths, such as its broad-based global structure.

In our lexicon you will discover what makes us unique and how we are positioning ourselves in the markets of the future.

NAVIGATING TO THE FUTURE



TOMORROW'S MARKETS

Benedikt A. Goldkamp
Executive Chairman of the Board of Directors

What are the key future markets?

Phoenix Mecano's traditional target markets, such as mechanical engineering, the electrical industry, medical technology and the furniture industry, are constantly evolving in response to technological innovations. Digitalisation and the rise of microelectronics, with sensors and computer chips now found in many everyday objects, open up new opportunities for us, including in traditional markets. A relatively new development for Phoenix Mecano is the focus on energy generation and distribution markets.

What opportunities and challenges do they offer the Group?

Firstly, it is essential that these visible market trends feed into the development of innovative new products. But it is equally important that we capitalise on the Group's existing strengths, such as its broad-based global structure and the consistent customer focus of our sales companies, to create advantages of flexibility and speed.

What indicators do you look for, and how do you identify trends?

Thanks to our vast customer base numbering over 100 000, we often spot market trends before they appear in the press. However, we have to be particularly wary when such trends are subsidised by governments, as they often turn out not to be sustainable.

The proportion of Phoenix Mecano's sales generated in Asia has risen from 14% to 24% in recent years. Can you exploit the growth potential in Asia by yourself or are you on the lookout for strategic alliances?

In theory, we aim to exploit Asian growth potential by ourselves, and thanks to our long-standing presence there we are well positioned to do so. However, Asia is expanding more dynamically than any other region in the world. We therefore see partnerships and acquisitions as a way of harnessing this potential as quickly as possible. Given the specific cultural challenges associated with European-Asian cooperation, we always examine such arrangements extremely carefully.

ADDED VALUE

The Phoenix Mecano Group pursues a long-term growth strategy, which it has been implementing consistently for years. This includes harnessing value-creation potential in existing markets, growth through targeted acquisitions, value-oriented allocation of company resources and a global sales network.

ASIA

Phoenix Mecano has been present in Asia for many years, with numerous sites in its major growth regions, including India since 1994 and China since 1996. The proportion of sales generated in Asia and the Middle East has risen from 14% to 24% over the past five years, making them increasingly important to the Group as a whole.

Aerospace technology

Automation engineering

AEROSPACE TECHNOLOGY

As a manufacturer of power supplies for electronic test equipment, Wiener is one of the Group companies benefiting from steadily rising passenger numbers, the resulting expansion of aircraft fleets and the growth of niche applications.

AUTOMATION ENGINEERING

Growing global demand is being driven not only by Industry 4.0 but also by strong wage growth and the trend towards high-quality products in emerging markets. Rose+Krieger (linear, profile and pipe connection technology), Bopla (electronics enclosures), Rose and Kundisch (human machine interfaces) and the companies making up the ELCOM/EMS division are excellently positioned in this market.

B2B BUSINESS MODEL

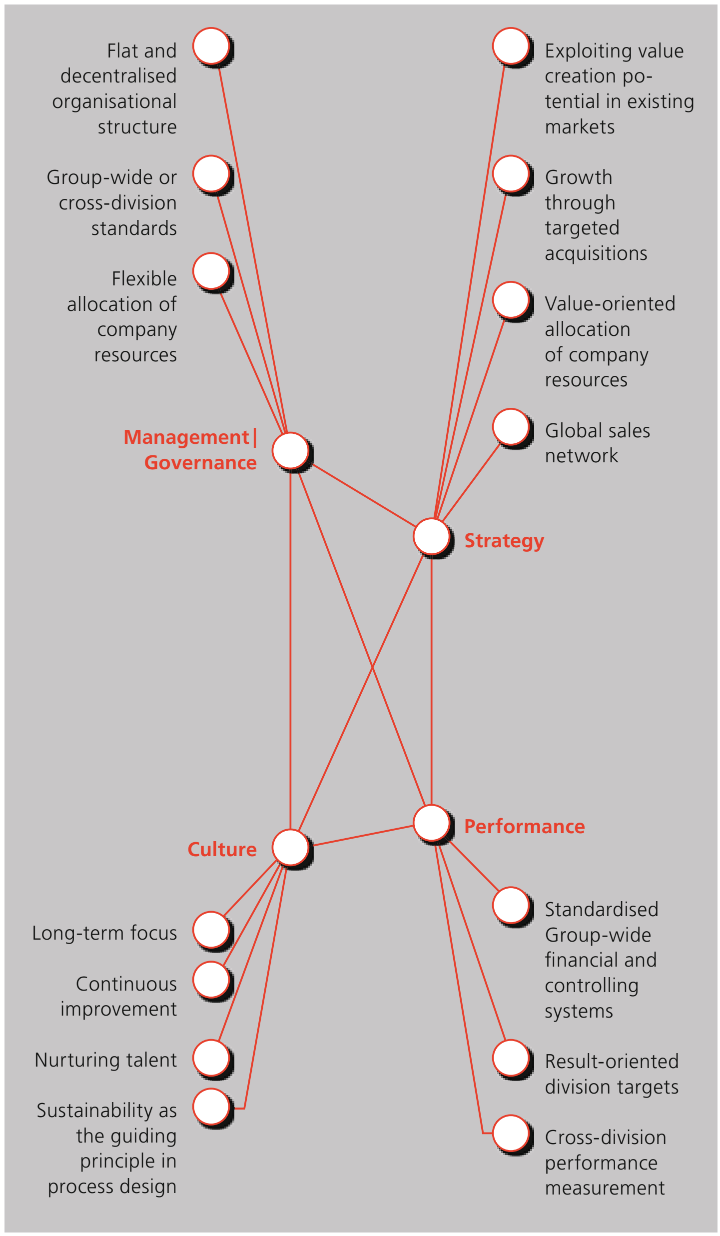
All Phoenix Mecano Group companies act as suppliers of mechanical and electrotechnical components in the B2B market. In most cases, these components are critical to the success of our customers' end products.

BONUS MODEL

For the management and the Executive Chairman of the Board of Directors, the bonus is a recognition of exceptional business performance. A bonus is therefore only paid if the result of the period exceeds a minimum amount of 3% of equity for shareholders. No bonus is paid in the event of a loss.

BUSINESS MODEL

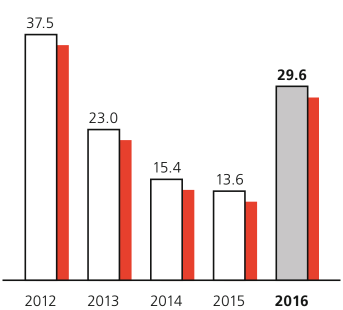
The Phoenix Mecano Group's core business is the development and manufacture of industrial components and modules. Its extensive product range is distinguished by a competitive cost structure and product features tailored to individual customer needs. Combining demand from customers in a wide range of sectors enables it to achieve economies of scale in industrial product development.



CASH FLOW

The Phoenix Mecano Group has enjoyed a high level of free cash flow for years, underscoring its stability and together with its strong balance sheet ensuring the financing of organic growth, any acquisitions and regular dividends.

Free cash flow
in EUR million



COMPETENCE CENTRES

The Group has a number of competence centres that pool technical expertise and forge synergies between Group companies and sites. Key centres include those for aluminium die casting and stainless steel processing in India, plastics manufacturing in Hungary and raw material procurement in Switzerland.

CORPORATE CULTURE

Combining 64 locations worldwide into a single corporate culture is no easy feat. It can only be achieved in the long term through the willingness to cooperate across divisions and regions, the Group's decentralised management structure and the high degree of responsibility granted to individual Group companies and employees. The values of a growth-oriented technology enterprise and a sustainable family business are equally embedded in the company's culture.

CUSTOMER FOCUS

Local presence and proximity to customers are critical factors in Phoenix Mecano's success. Direct on-site contact with customers enables product and solution requirements and other relevant parameters in each local market to be pinpointed effectively.

CUSTOMISED SOLUTIONS

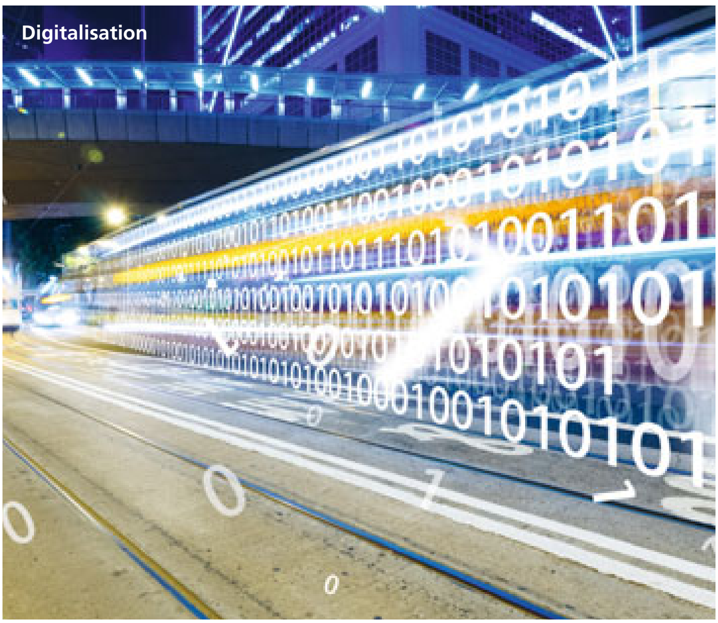
These are the core of all business activities. Phoenix Mecano develops and produces standard industrial components for customers in the mechanical engineering, electrical and furniture industries. The Group exploits economies of scale by pooling customer demand from different industries and areas of application in its global network of production sites. Thanks to this favourable cost position and its ability to customise standard components across its decentralised distribution network, the Group has been able to establish itself as a market leader in industrial niches. Its network brings these processing technologies and services directly to customers.

D

DECENTRALISED MANAGEMENT STRUCTURE

The Group's overall structure has always been very lean. Operational responsibility lies with the management, assisted by the operational managers of the Group's divisions, main business units and regions.

This management structure ensures proximity to markets and enables swift decision-making and speedy implementation.



DIGITALISATION

Increasing digitalisation is synonymous with growth for Phoenix Mecano. It generates demand for electromechanical components such as plugs and coding switches as well as the enclosures used to package and protect the electronics inside digital units. Within the Group, digitalisation enables optimised production and more efficient marketing.

DIVIDEND

The target payout ratio for dividend payments is 40–50% of result after tax, adjusted for special factors. The dividend is currently CHF 15 per share. Phoenix Mecano has made regular dividend payments since going public in 1988.

DIVISIONS

Over time, Phoenix Mecano subsidiaries have come to be divided into three divisions, Enclosures, Mechanical Components and ELCOM/EMS. Importantly, however, knowledge is transferred between the divisions, allowing the Group to offer its customers comprehensive solutions.

ENCLOSURES

- BOPLA
- KUNDISCH
- ROSE

MECHANICAL COMPONENTS

- DEWERT OKIN
- RK ROSE + KRIEGER

ELCOM/ EMS

- ATON
- HARTMANN
- HARTMANN ELECTRONIC
- HARTU
- ISMET
- PHOENIX MECANO DIGITAL ELECTRONIC
- PM SPECIAL MEASURING SYSTEMS
- PTR
- REDUR
- WIENER
- WIJDEVEN

E

ELCOM/EMS

The ELCOM/EMS division's products are used wherever electrical energy flows, whether it be high, medium or low voltage, alternating or direct current. They can be found in all industrial sectors, from medical technology, astrophysics and aerospace, to power distribution networks, switchgear and renewable energy.

EMPLOYEES

Phoenix Mecano's success is built on its 6000 or so employees. Its very low employee turnover is largely attributable to three success factors: successful growth, sustainability and a management culture that fosters mutual trust, creative freedom and personal responsibility.

SINCE 2012

530

NEW JOBS

ENERGY TECHNOLOGY

Phoenix Mecano's current measuring systems accurately and reliably record the voltage and current in power networks. This information is used to detect network outages quickly, thereby preventing damage to system-critical electrotechnical components and facilities.

ENCLOSURES

Phoenix Mecano enclosures protect all types of electronic and electrical equipment, offering exactly the kind of protection the customer requires. Areas of application include plant engineering, railway, automotive and medical technology and offshore oil platforms. In addition to enclosures, Phoenix Mecano also supplies input units such as membrane keyboards and keypads, short-stroke keys, capacitive buttons and touchscreens.

Enclosures: ROSE

ENVIRONMENT

Environmentally responsible behaviour and the sustainable use of natural resources are cornerstones of our business philosophy. Seven companies have acquired ISO 14001 environmental certification, while 19 meet the requirements of ISO 9001. Climate protection measures at Phoenix Mecano Komponenten AG in Stein am Rhein have led to a 37% reduction in CO_2 emissions. Energy audits were carried out at all the Group's German subsidiaries in 2016, which identified further energy-saving measures.

Environmental management systems certified

Bopla Gehäuse Systeme GmbH	ISO 14001:2004	Germany
DewertOkin GmbH	ISO 14001:2004	Germany
Hartmann Codier GmbH	ISO 14001:2004	Germany
Ismet GmbH	ISO 14001:2008	Germany
Phoenix Mecano Kecskemét Kft.	ISO 14001:2004	Hungary
PTR Messtechnik GmbH + Co. KG	ISO 14001:2009	Germany
Wijdeven B.V.	Carbon Footprint	The Netherlands

ERGONOMIC WORKSTATIONS

Rose + Krieger develops and sells high-quality, ergonomic industrial workstations perfectly tailored to the user and work process. Rose + Krieger and DewertOkin supply the rapidly expanding market for lifting columns used in office furniture. All these products enhance users' well-being and efficiency

EQUITY

Equity in relation to total assets/capital has remained stable for years at over 60%. This very solid base provides the necessary financial leeway to exploit organic and acquisition-related growth opportunities.

EQUITY 2016

272.8

EUR MILLION

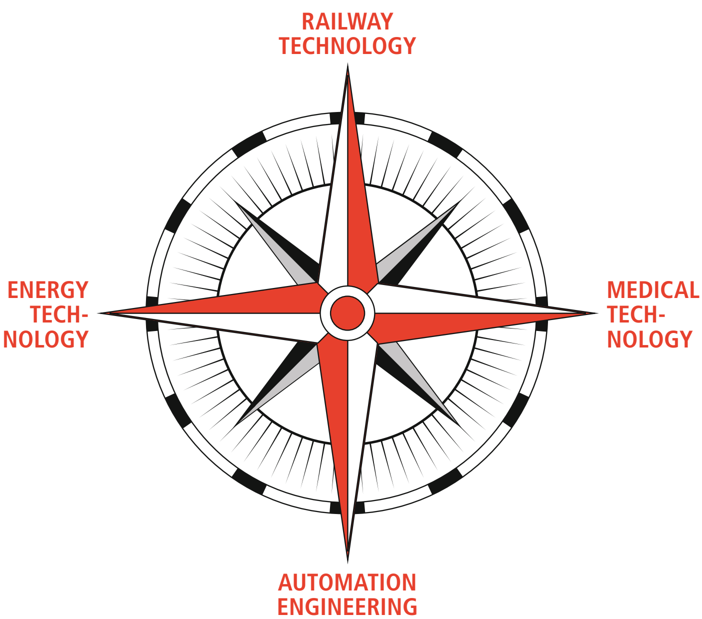
F

FUTURE MARKETS

With a view to sustainable business management, Phoenix Mecano steps up its involvement in successful existing segments and enters emerging markets with lucrative economic potential. It also helps its customers around the world to break into promising growth markets. Activities of increasing importance to the economic region concerned are expanded, with an emphasis on local value added.

FLEXIBILITY

One of the Group's guiding principles is to exploit the agility of production facilities and sales units as a competitive advantage. These units are therefore characterised by decentralised organisational structures, flat hierarchies and fast decision-making. The shared use of production sites and sales companies also helps to pool expertise, processes and local market knowledge, resulting in a short time-to-market and products tailored to market requirements.



G

GLOBAL PRESENCE

Phoenix Mecano's global presence at 64 locations fosters strong customer loyalty and enables it to support its customers' growth close at hand while offering the same range of high-quality products and services both globally and locally.

64 LOCATIONS WORLDWIDE

GLOBAL SOURCING

As well as manufacturing in low-cost countries, Phoenix Mecano has built up a global network of buyers to source raw materials and resources in countries offering the best value for money. By combining the procurement needs of all its subsidiaries, it can negotiate better prices thanks to higher purchase volumes.

GROWTH

Phoenix Mecano has a long-term growth strategy. Innovation and investment in product infrastructure and expertise also take place counter-cyclically where appropriate, ensuring healthy organic growth for the Group.

H

HISTORY

Phoenix Mecano was founded in 1975 and listed on the Swiss stock exchange in 1988. From the outset, its focus was on the high-quality manufacture of niche products. Today, Phoenix Mecano Group companies provide an extensive range of stand-alone products, through to entire system solutions, for use in a variety of industrial applications.

1988

LISTING ON THE SWISS STOCK EXCHANGE

HUNGARY

Kecskemét is home to around 40 000 m² of manufacturing space, used for all three divisions. The broad range of technologies deployed include plastic injection moulding, machining, painting and a variety of complex assembly services. The site is also home to its own development department and a state-of-the-art quality testing lab.

HVDC – HIGH-VOLTAGE, DIRECT CURRENT

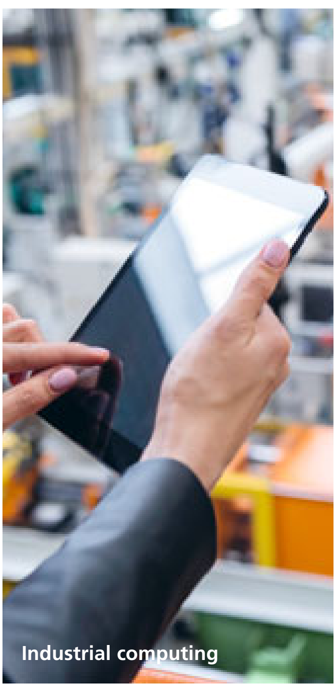
HVDC transmission technology has matured and now offers a superior alternative to alternating current (AC) transmission over long distances. With the increasing use of renewable energy sources and the decentralised and on-site generation of large quantities of power, HVDC is becoming an increasingly attractive means of energy transmission.

The current and voltage measuring systems developed and produced by Phoenix Mecano companies enable these high DC voltages to be measured quickly, accurately and reliably in the most technically demanding of conditions. These systems protect the installations that convert DC into AC and vice versa, as well as voltage transformation equipment. They are key to ensuring the stability of increasingly complex international power networks and smart grids.

HVDC – high-voltage, direct current

INDUSTRIAL COMPUTING

Hartmann Electronic's power and data transmission products are leaders in the high-speed applications niche. This is a market with huge growth potential, driven by digitalisation and the connectivity of high-performance computing systems in numerous fields of application in both research and industry.



Industrial computing

INTERNATIONALISATION

Following the founding of Phoenix Mecano AG in Switzerland in 1975 and the opening of its first plants in Germany, the Group expanded into the US in 1981 and then across Europe – Italy, France, Belgium and Hungary – in the late 1980s. Entry into Asia, now a key market, began in India in 1994. A sales company was established in Brazil in 1995, followed by expansion to China in 1996. Since the opening of its Australian branch, Phoenix Mecano has been present on all six economically relevant continents.

INVESTMENT

Regular investments in expanding and modernising production infrastructure reflect Phoenix Mecano's philosophy of steadily developing production and process expertise, even countercyclically where appropriate. This allows the Group to reap above-average rewards during economic upswings.

J2OX

Journey towards Operational Excellence (J2OX) is a long-term, Group-wide initiative aimed at delivering continuous improvement in operational performance. This means that customer requirements can be met in a faster, more reliable and more cost-effective way, despite rising demands and increased complexity in the global industrial components business. Phoenix Mecano employees at all levels of the Group are central to J2OX. By promoting personal responsibility based on structured, cross-functional problem solving as part of a team, the Group leverages the knowledge and ability of all its employees with the aim of preventing loss and waste.

L

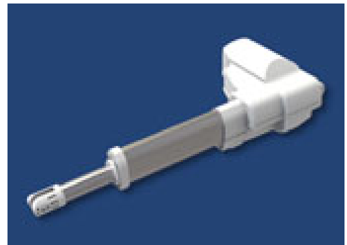
LOW-COST

Since it was founded in 1975, the Phoenix Mecano Group has capitalised on the advantages offered by low-cost countries within its supply chain, including its own production plants in Eastern Europe since 1993 and in Asia since 1994. Within this now global production network, it has established competence centres aimed at fostering leadership in specific fields of process and product technology through continuous improvements in areas such as productivity, quality, delivery reliability and flexibility, as well as targeted promotion of local sales opportunities for Phoenix Mecano products.

M

MEDICAL TECHNOLOGY

The medical technology market is growing by at least 5% a year, and digitalisation is already well advanced in the sector. All three Phoenix Mecano divisions are participating in this expansion. In-demand products include linear actuators, tosion-free lifting columns, membrane keypads, touchscreen solutions, electrotechnical components and enclosures.



Mechanical Components: DEWERT

MECHANICAL COMPONENTS

This division’s wide range of linear actuators, electric cylinders and lifting columns are deployed in industry, workstation installation and the home and hospital care sector. Its profile assembly systems can be used to assemble peripheral production systems right through to entire production lines.

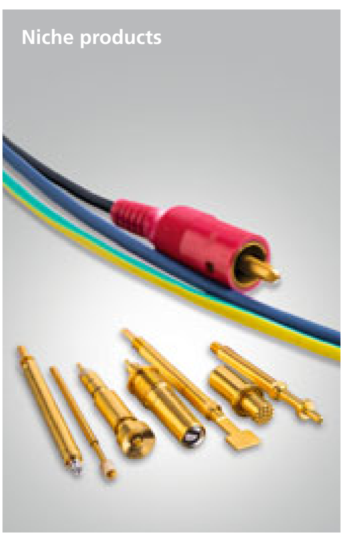
Medical technology

akrus GmbH & Co KG

N

NICHE PRODUCTS

With many of our customers active in market niches that use specific application technology, developing and manufacturing customised solutions is an essential part of what we do. The production of small quantities of parts in a wide range of variations requires the utmost speed and flexibility, but also generates a constant stream of unique product innovations. Such solutions are often instrumental in the development of new industry standards.


Niche products

O

OIL & GAS

Aside from its pioneering products, Phoenix Mecano's success factors in this market are its global teamwork, flexibility and speed. These have enabled it to buck the prevailing trend and expand sales in this sector over the past three years. The Group is also well equipped to achieve further substantial sales growth as investment volumes pick up.


Oil & Gas

PERFECTING

The goal of our management philosophy is to foster a culture of continuous improvement at all levels of the hierarchy. This process began in 2011 with our J2OX programme. The ongoing development of our corporate culture allows us to make continual operational improvements, including a striving for maximum efficiency, top quality and reliable adherence to delivery deadlines, optimised products, processes and services and the reduction of operating costs.

PRODUCTS

Over a million products and product variants ensure customer satisfaction while making the Group more resilient to market and sector fluctuations. They are used in a wide range of applications, sometimes as stand-alone products, often in conjunction with other Phoenix Mecano products wand, increasingly, as entire system solutions.

OVER
1000000
PRODUCTS

PRODUCTION

Many products are manufactured centrally as basic modules. The biggest production locations are Germany, Tunisia, India, Hungary and China. Customised specifications, on the other hand, are undertaken locally where possible, at Phoenix Mecano's global network of processing plants.

Production

Q

QUALITY

Phoenix Mecano strives for perfection by continuously improving its products and processes through committed team work. Where possible, it has its quality and environmental management systems certified according to recognised standards.

Certification standards used in subsidiaries worldwide

Bopla Gehäuse Systeme GmbH	ISO 9001:2008	Germany
DewertOkin GmbH	ISO 9001:2000	Germany
Hartmann Codier GmbH	ISO 9001:2008	Germany
Hartmann Electronic GmbH	ISO 9001:2008	Germany
Ismet GmbH	ISO 9001:2008	Germany
Kundisch GmbH + Co. KG	ISO 9001:2000	Germany
Mecano Components (Shanghai) Co., Ltd.	ISO 9001:2008	China
Phoenix Mecano Components (Taicang) Co., Ltd.	ISO 9001:2008	China
Phoenix Mecano Digital Elektronik GmbH	ISO 9001:2008 / ISO / TS 16949:2009	Germany
Phoenix Mecano Inc.	ISO 9001:2008	USA
Phoenix Mecano (India) Pvt. Ltd.	ISO 9001:2008	India
Phoenix Mecano Kecskemét Kft.	ISO 9001:2008	Hungary
Phoenix Mecano Komponenten AG	ISO 9001:2008	Switzerlnd
Phoenix Mecano Ltd.	BS EN ISO 9001:2008	Great Britain
Phoenix Mecano S.E. Asia Pte Ltd.	ISO 9001:2000	Singapore
PTR Messtechnik GmbH + Co. KG	ISO 9001:2008	Germany
RK Rose + Krieger GmbH	ISO 9001:2008	Germany
Rose Systemtechnik GmbH	ISO 9001:2008	Germany
Wijdeven B.V.	ISO 9001:2008	The Netherlands

R

RAILWAY TECHNOLOGY

Hartmann Electronic manufactures high-tech components for high-performance processors used in leading train control systems. Rose supplies enclosures and electronic components whose strength and durability make them the number one choice for many companies. Passive electrotechnical components produced by our ELCOM/EMS division's connection and measurement technology companies are also deployed in this sector.

RESPONSIBILITY

Sustainable success is at the heart of our responsible approach to business, an approach based on responsibility towards our employees, the environment and society. Phoenix Mecano continuously nurtures its employees and is committed to helping young people in all corners of the globe. Socially responsible behaviour and the sustainable use of resources are the cornerstones of our business philosophy. This belief is also enshrined in our Code of Conduct.

Railway technology

RISK MANAGEMENT

Phoenix Mecano's business model is based on covering a broad range of sectors, customers and products. This means that the Group is not heavily dependent on the performance of individual sectors and customers and the risk to its business from market turbulence and disruptive technologies is small.

S

SALES COMPANIES

Establishing a sales company is the Group’s usual way of entering new countries and hence new markets. Once that firm has successfully opened up the market, it is possible to set up production companies and begin the customised manufacture and machining of components locally. Local sales companies are therefore crucial to overall success.

19 SALES COMPANIES

SHARE

The share capital consists of 960 500 bearer shares, all giving entitlement to vote on the ‘one share - one vote’ principle. There are no restrictions on transferability. Capital that is not required for internal growth is returned to shareholders in the form of dividends, par value repayments and share buybacks. The share capital has not been increased since Phoenix Mecano went public in 1988.

Phoenix Mecano Komponenten AG
and the headquarters of Phoenix Mecano Holding, Stein am Rhein

SWITZERLAND

Switzerland is where Phoenix Mecano was founded and subsequently floated on the stock exchange. Stein am Rhein is home to the holding company and the global purchasing competence centre, while Phoenix Mecano Management AG is based in Kloten.

The production company Phoenix Mecano Komponenten AG, also based in Stein am Rhein, supplies the Swiss market with a wide range of products by Phoenix Mecano subsidiaries. Mechanical components for specialist applications are also developed in Switzerland, from where they are distributed worldwide.

It generated gross sales of EUR 22.6 million in 2016, with a workforce of 113. A further 15 people are employed at Phoenix Mecano Management AG, which is responsible for the operational management of the Phoenix Mecano Group.

T

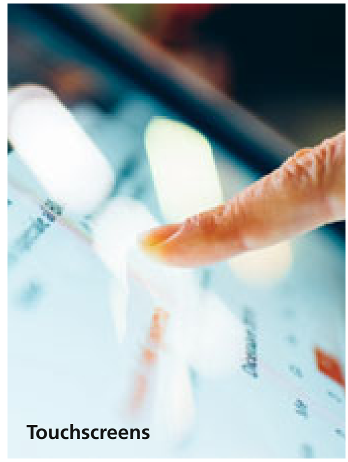
TECHNOLOGY COMPANY

Phoenix Mecano is a manufacturer of innovative, technical components, which are demanding in terms of both their application and manufacture. So demanding that new competitors face high barriers to entry. This is evidenced by the many accolades the Group has won for its innovation. Its subsidiary Rose + Krieger has repeatedly figured in the Top 100 most innovative SMEs in Germany, most recently in 2016.

TOP 100 INNOVATOR OF GERMANY'S SMEs

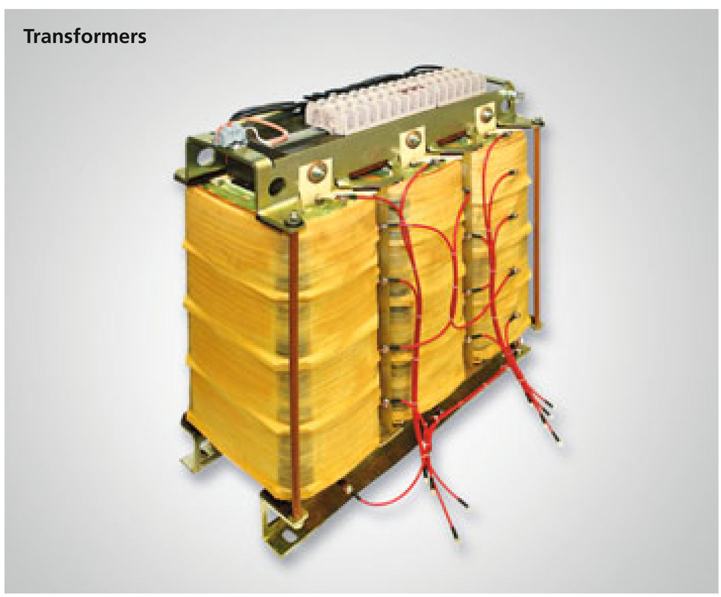
TOUCHSCREENS

Touchscreens have been in widespread use in everyday life, medical technology and industry for some time, and can now also be operated while wearing work gloves. This market has been growing and continues to grow by around 10% a year. The latest trend is towards multi-touch screens, which can be operated with more than one finger. Kundisch supplies systems tailored to this area.


Touchscreens

TRANSFORMERS

Transformers adapt supplied voltage to the needs of the consumer device and are used wherever current flows. They vary from thumbnail-sized devices, with a rating of less than a thousandth of a volt-ampere, to the biggest units weighing hundreds of tonnes, which are capable of handling several million volt-amperes. The global transformer market is worth around EUR 10 billion a year. Group firms Wijdeven, Hartu and Ismet are leading players in this sector. One field of application for instrument transformer products is high-voltage, direct current (HVDC) technology. PM Special Measuring Systems is active in this area, which has good growth prospects.


Transformers

PHOENIX MECANO

PHOENIX MECANO FACTS &FIGURES

2

KEY FIGURES OF THE PHOENIX MECANO GROUP

	Units	2016	2015	2014	2013	2012
KEY FINANCIAL FIGURES						
Gross sales	EUR million	583.2	559.8	505.6	500.6	500.5
– Change	%	4.2	10.7	1.0	0.0	–5.5
Operating cash flow (EBITDA)	EUR million	59.1	52.3	53.1	56.2	54.5
– Change	%	12.9	–1.4	–5.5	3.1	–20.0
– in % of sales	%	10.1	9.4	10.5	11.2	10.9
Operating result	EUR million	34.5	15.0	29.5	35.0	27.9
– Change	%	129.8	–49.2	–15.9	25.5	–22.7
– in % of sales	%	5.9	2.7	5.8	7.0	5.6
– in % of net operating asset	%	11.6	5.4	10.6	14.2	11.1
Result of the period	EUR million	23.0	6.7	20.0	22.4	18.1
– Change	%	244.1	–66.6	–10.7	23.9	–23.6
– in % of sales	%	3.9	1.2	4.0	4.5	3.6
– in % of equity	%	8.4	2.5	7.5	8.8	7.2
Total assets/capital	EUR million	452.4	426.7	414.0	395.6	390.0
Equity	EUR million	272.8	262.6	267.5	254.2	250.7
– in % of total assets	%	60.3	61.5	64.6	64.3	64.3
Net indebtedness/(Net liquidity)	EUR million	30.5	24.5	12.5	–1.5	0.7
– in % of equity	%	11.2	9.3	4.7	–	0.3
Cash flow from operating activities	EUR million	48.7	39.0	38.8	42.3	62.1
Free cash flow	EUR million	29.6	13.6	15.4	23.0	37.5
Purchases of tangible and intangible assets	EUR million	23.9	26.7	24.0	20.3	25.4
SHARE INDICATORS						
Share capital [1] (bearer shares with a par value of CHF 1.00)	CHF	960 500	960 500	960 500	978 000	978 000
Shares entitled to dividend [2]	Number	959 080	960 015	959 240	957 936	963 197
Operating result per share [4]	EUR	35.9	15.6	30.7	36.6	29.0
Result of the period per share [4]	EUR	24.0	7.0	20.8	23.4	18.8
Equity per share [4]	EUR	284.4	273.6	278.8	265.4	260.3
Free cash flow per share [4]	EUR	30.9	14.2	16.1	24.0	38.9
Dividend	CHF	15.00 [3]	15.00	15.00	15.00	13.00
Share price						
– High	CHF	528	560	589	565	575
– Low	CHF	406	407	399	436	431
– Year-end price	CHF	469	467	460	545	431

1 Pursuant to a decision by the Shareholders› General Meeting of 23 May 2014, the share capital was reduced by CHF 17 500 with effect from 26 August 2014 by cancelling 17 500 shares from the 2013/2014 share buy-back programmes.
2 As at the balance sheet date, the company owned 1 420 treasury shares, which are not entitled to dividend.
3 Proposal to the Shareholders' General Meeting of 19 May 2017.
4 Based on shares entitled as at 31 December.

PHOENIX MECANO–
PROFILE

We are a global technology company with a presence in the international growth markets. With our three divisions – Enclosures, Mechanical Components and ELCOM / EMS – we are leaders in many of our markets. Important areas of application are mechanical engineering, measurement and control technology, electrical engineering, automotive and railway technology, energy technology, medical technology, aerospace technology and home and hospital care.

Contents

VISION

As a global player in the components sector Phoenix Mecano develops detailed technical solutions with and for its customers, enabling them to convert ideas into marketable products. In our capacity as a specialised partner we meet our clientele's most stringent requirements with regard to technology, service and a customer-oriented approach, constantly assisting them by supplying anything from components to full systems which can help them enhance their potential for creating value added even further.

MISSION

Our success hangs on that of our customers. Close cooperation, constant communication and intensive exchanges of well targeted ideas are our main precepts.
We support our customers as best as we can, making full use of our employees' know-how.

VALUES

Reliability vis-à-vis all interested parties is a prerequisite for credibility. Every day we work on putting these maxims into practice, with the management setting an example by fulfilling a responsible leadership function. Profitability and growth are key requirements for maintaining competitiveness and value added and for creating new jobs both at home and abroad. The sustainability factor is underpinned by our careful use of natural resources and our commitment to corporate responsibility.

HIGHLIGHTS 2016

RK ROSE+KRIEGER WINS ACCOLADE FOR FIFTH TIME

RK Rose+Krieger (Mechanical Components division) was named as one of Germany's most innovative SMEs, the fifth time it has made the Top 100 list. It won on the strength of its innovation processes, which offer employees plenty of creative freedom while allowing them to focus on the things that matter.

TOP 100 – the only benchmark for innovation management in Germany – has been honouring the country's most innovative SMEs every year for over two decades.

OKIN AMERICA RECEIVES SILVER SUPPLIER AWARD

Okin America Inc. was awarded a silver medal by a major customer in June 2016 for its outstanding performance on quality, service, value for money and innovation.

ACQUISITION OF ISMET

Phoenix Mecano acquired the Ismet Group in July 2016. It employs around 140 staff at two sites in Germany and the Czech Republic. With its strong position in the European transformer and choke market and broad customer base in the DACH region (Germany, Austria and Switzerland), it is a perfect fit for the ELCOM/EMS division.

SURGE IN DEMAND FOR INSTRUMENT TRANSFORMERS

Sales of instrument transformer products rose by 350% in one year. With the strong growth in HVDC (high-voltage, direct current) energy transmission, our transformers for high-voltage applications are becoming a highly sought-after product segment.

PHOENIX MECANO BUILDS GROUP'S BIGGEST PLANT IN CHINA

A plant with floor space of 36000 m² is being built in Jiaxing, Zhejiang Province. Phase one involves the creation of some 600 workstations for the production of electric drives and control components as well as a state-of-the-art development centre for electric drives, control systems and innovative furniture fittings components.

PERFORMANCE GROUP

An improvement in sales in all three divisions and a disproportionate increase in operating result sums up performance in 2016. This demonstrates the success of a strategy geared towards long-term success and sustainability.

Operating result

34.5 EUR MILLION

Operating cash flow (EBITDA)

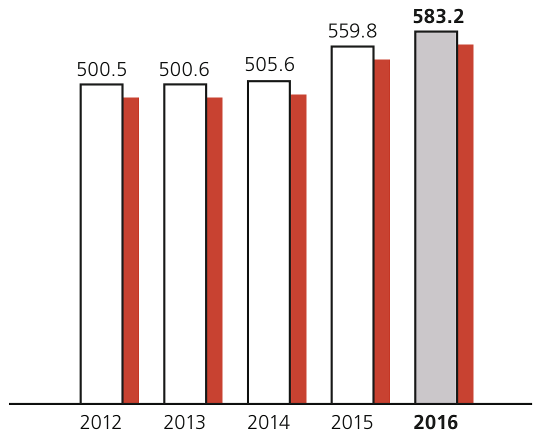
59.1 EUR MILLION

Proposed dividend per share

15.0 CHF

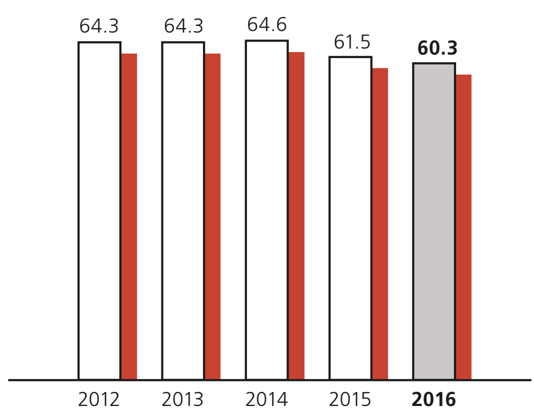
Gross sales 2012–2016

in EUR million



Equity ratio 2012–2016

in %



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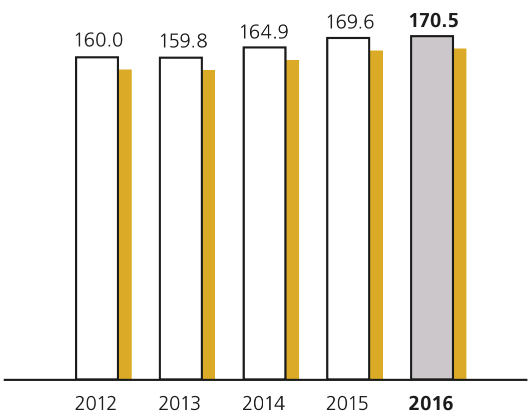
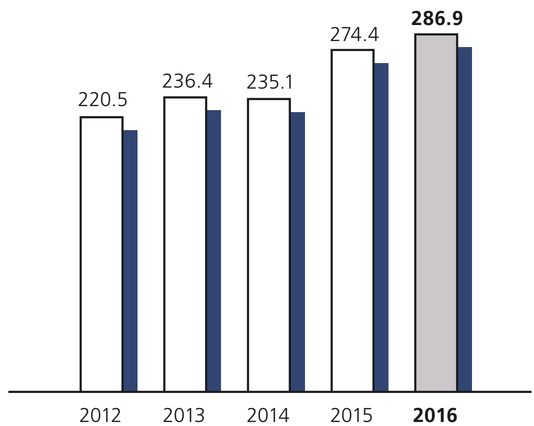
PERFORMANCE DIVISIONS

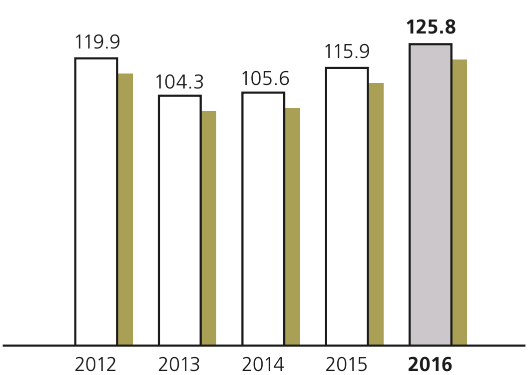
Enclosures
Gross sales 2012–2016
in EUR million



Mechanical Components
Gross sales 2012–2016
in EUR million



ELCOM / EMS
Gross sales 2012–2016
in EUR million



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Enclosures
Cost savings and project successes led to a growth in sales and result, with human machine interfaces (HMIs) performing particularly well. A targeted expansion of the product range got under way with new developments.

Mechanical Components
Broad-based growth in the industrial components business and complete solutions in the automotive sector saw sales increase. Product innovations in drive technology for industrial applications, office and comfort furniture and nursing beds entered serial production.

ELCOM / EMS
The slightly positive operating cash flow is the result of extensive development and integration activities. The Ismet Group, acquired in mid-2016, contributed to the growth in sales. Market successes were achieved in the instrument transformers segment.

GLOBAL PRESENCE

We are present at 64 locations worldwide. This together with our international workforce allows us to guarantee our customers efficient production, market-oriented solutions and resource-effective logistics.

Gross sales North & South America

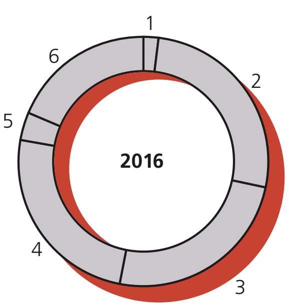
59.6

EUR MILLION

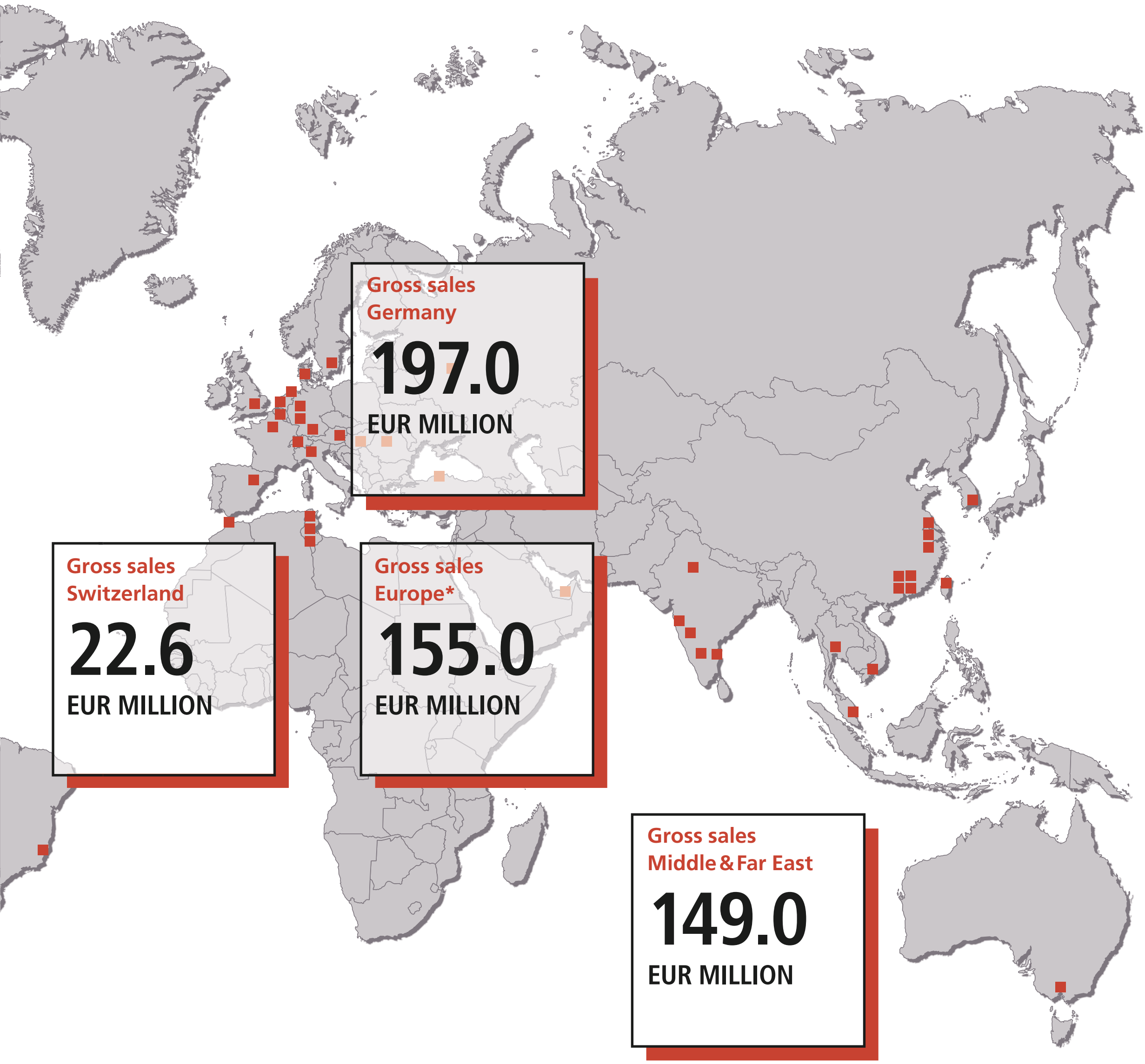
■ Production and sales companies

Employees by region

Number



1 **Switzerland: 128**
2 **Germany: 1663**
3 **Rest of Europe: 1540**
4 **Middle and Far East: 1550**
5 **North and South America: 211**
6 **Rest of World: 1160**



* Excluding Germany and Switzerland

STRATEGY AND BUSINESS MODEL

The Phoenix Mecano Group pursues a long-term growth strategy, which it has been implementing consistently for years. The measures and steps required by the strategy are adapted flexibly to changing underlying conditions.

What we invest in

Intellectual capital
Experience in integrating acquired companies, knowledge of local market conditions, flexible production processes, J2OX, complete customised solutions, patents

Financial capital
Solid capital structure, free cash flow enabling investments to strengthen the Group's innovation and organic growth

Capital goods
State-of-the-art manufacturing facilities, global production and sales locations

Relationships
Key stakeholders
(suppliers, customers, investors)

Employees
Responsible employees: Flat management structures and hierarchies, made-to-measure production line jobs

Natural resources
Global sourcing: Optimisation of global material procurement activities in India, South-East Asia and Eastern Europe, recycling and waste management

Business model: Development and manufacture of industrial components and system solutions

Management, Governance
Flat and decentralised organisational structure

Group-wide and cross-division standards

Flexible allocation of company resources

Culture
Long-term focus

Continuous improvement

Nurturing talent

Sustainability as a guiding principle of process design

FOCUS ON ENHANCING THE VALUE OF THE BUSINESS

Phoenix Mecano's corporate strategy is geared towards the goal of steadily increasing the long-term value of the business. We work continuously to drive the Group's growth and expand the reach of its global sales network using our own resources and through targeted acquisitions. Our transparent and decentralised organisational structure makes us more effective in a highly fragmented market. Together, as a Group, we are stronger. Active management and a clear strategy in the design of our operating segments ensure consistent leadership across the Group and guarantee a high level of transparency. This is supported by a targeted policy of investment and capital expenditure, geared towards clear criteria based on a performance management and value enhancement plan. The divisions are managed in a result-oriented way and are subject to stringent and regular oversight.

Strategy
Harnessing value-creation potential in existing markets

Growth through targeted acquisitions

Value-oriented allocation of company resources

Global sales network

Performance
Standardised Group-wide financial and controlling systems

Result-oriented division targets

Cross-division performance measurement

Outcomes of investment

Intellectual capital
Continuous improvements in LEAN processes, product and process innovations, international expansion, in-depth knowledge of customer and market needs, expertise

Financial capital
Reasonable return on capital employed (ROCE) ensuring long-term access to the capital market, operating margins, targeted acquisitions, free cash flow to be used for dividend payments and capital expenditure

Capital goods
Sustainable productivity improvements and cost reductions through relocation of production facilities and logistics

Relationships
Excellent customer service, local expertise, global network, reliable long-term partnership for system solutions

Employees
Creation of cross-division and interregional expertise in developing new processes and technologies, high level of employee loyalty

Natural resources
Energy-efficient solutions in product developments

LETTER TO SHAREHOLDERS

The Group successfully tapped new growth areas in the financial year. Its technology portfolio and global coverage enabled growth, despite challenging conditions, and it has a full pipeline of new products.

Benedikt A. Goldkamp (left)
Executive Chairman of the Board of Directors,
Dr Rochus Kobler (right)
CEO

Equity

272.8 EUR MILLION

Dividend payout and return of capital to shareholders 2007–2016

173.5 EUR MILLION

DEAR SHAREHOLDERS,

Our Phoenix Mecano Group performed well in 2016. All three divisions increased their sales, albeit to differing degrees. On the earnings side, too, we made progress across the board, despite one or two issues to be ironed out in the year ahead.

All this took place in a mixed operating environment. The relatively stable market conditions in Europe cannot disguise the fact that large swathes of industry distrust the ECB's cheap money policy and despite historically low capital costs are shying away from long-term investments. Further un-certainty was created by the Brexit vote in the middle of the year and sporadically renewed concerns about systemically important banks, for example in Italy. In spite of this, the Group managed to move ahead in its markets on the back of innovative ideas and forward-looking development activities.

Conditions proved challenging in the emerging economies, most notably Russia and Brazil. In China, however, our Group continued to advance thanks to the advantageous mix of sectors in which it operates. India, an increasingly important market, also continues to perform well. In the US, a general reluctance to invest ahead of the presidential elections and the cyclical low in the oil and gas sector led to a decline in sales. While the Mechanical Components division penned another successful chapter in its growth story, the ELCOM/EMS division, which is undergoing re-alignment, managed to achieve a turnaround in EBITDA. Our long-term objectives require further progress in this area in 2017. The acquisition of transformer manufacturer Ismet on 1 July 2016, with sites in Germany and the Czech Republic, should make a significant contribution to this.

Progress in all divisions

The Enclosures division saw a slight upturn in sales and a moderate improvement in operating margin. Underlying market conditions remain challenging in the oil and gas sector, which is in a cyclical low. In its membrane keypads and touchscreen solutions business, the division faced challenges linked to the relocation of production to our Hungarian site, which have not yet been fully overcome. By contrast, it made progress on customised enclosures for the human machine interface (HMI) segment in China, innovative explosion-proof enclosures in India and sector-specific HMI solutions for automotive production in Europe.

The Mechanical Components division performed well, both in the industrial segment (RK Rose+Krieger) and in electrical drive solutions for ergonomic comfort and healthcare furniture (Dewert-Okin). Both areas saw increases in sales and operating margin. With its development expertise and technically proficient, customer-oriented sales personnel, RK Rose+Krieger is able to successfully meet the increasing demands of the automation sector for precision, durability and customisability of mechanical and electromechanical components, all around the globe. DewertOkin strategically expanded its portfolio of drives, electronic control systems and innovative fittings components. As a global system supplier for electrically adjustable comfort furniture, it is in a strategically unrivalled position to lead the development of this market of the future. In this connection, the construction of our new 36000 m^2 plant in Jiaxing, China in 2016 paves the way for a continuation of the growth story.

The ELCOM/EMS division reached some key milestones in its realignment. Following a two-year lean period, some major project successes were achieved in instrument transformers for HVDC (high-voltage, direct current) technology. On the development side, the portfolio of instrument transformers for medium- and low-voltage applications was rounded off, and some key product certifications were gained. However, the profitable segment of backplanes and power supplies for high-tech applications in physical research, mechanical engineering and aerospace technology was hit by a cyclical downturn. Consequently, the target of a break-even in EBIT was not met in 2016, although a breakthrough in operating cash flow (EBITDA) was achieved, which is a critical factor in turnaround situations. Further substantial progress is expected in this division in 2017.

Stable dividend

The Group's high equity ratio of 60.3% and steady cash-flow generation mean that, despite the significant and necessary investments in growth, the Board of Directors can propose to the Shareholders' General Meeting a dividend of CHF 15 per share, in line with the previous year.

Thank you to our employees

For a globally active SME like Phoenix Mecano, the differing dynamics of industrial markets in Europa, Asia and America, as well as regional and national requirements in terms of product specifications and certification, necessitate the creation of local technical competence centres. Initially, this requires greater input and expenditure than with a centralised structure. However, if these local competence centres foster the exchange of technical expertise between equals, this vastly enhances the organisation's learning potential and technological innovation. Within Phoenix Mecano, these outcomes are being achieved to a significant degree. For this we have to thank our employees, whose open-mindedness and willingness to learn across cultures mean that they still see globalisation as an opportunity rather than a threat. In this day and age that is not something that can be taken for granted, which is why the Board of Directors and management would like to say a big thank you to the entire Phoenix Mecano team.

Outlook

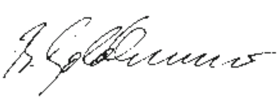
Rising oil prices, the expected return of inflation and generally improving economic data in the US and important core European markets, in particular Germany, raise the hope of an increased willingness to invest, at least in the short term. In this environment, Phoenix Mecano has had a solid start to 2017.

At present, it is difficult to say how likely this positive sentiment is to continue throughout the year in the light of the increasingly protectionist rhetoric of the US government and the still unclear ramifications of the Brexit vote.

Despite the ever-changing economic forecasts, Phoenix Mecano will continue to make long-term investments in new growth areas. These are an expression of our future ambitions as a global SME.

Mechanical and electronic solutions for ergonomic seating and reclining furniture and a wide range of instrument transformers to address the challenges posed by renewable energy sources and smart grids are just a few key examples of this.

The management and Board of Directors of the Phoenix Mecano Group will observe economic developments closely and if necessary take prompt action to align the company flexibly to changing circumstances.



Benedikt A. Goldkamp
Executive Chairman of the Board of Directors

Dr Rochus Kobler
CEO

MANAGEMENT REPORT

CONTENTS

BUSINESS PERFORMANCE GROUP

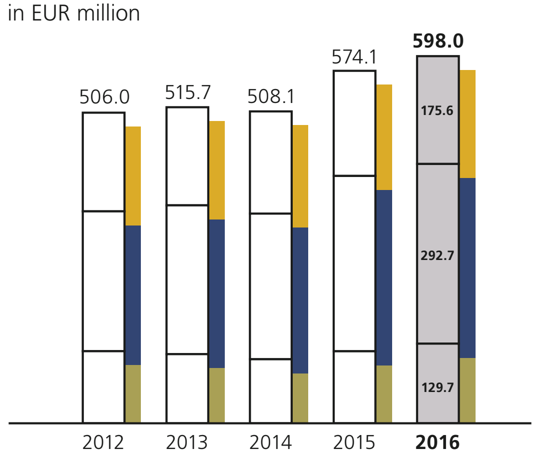
Progress in sales and improvements in earnings in all three divisions characterised business development in 2016. The volatile environment and lack of market transparency posed enormous challenges for our team. Even against this backdrop, the Group succeeded in seizing opportunities quickly and implementing necessary structural adjustments in a proportionate and efficient way thanks to its strategy and management culture geared towards long-term success and sustainability.

Divisions of the Phoenix Mecano Group

- Enclosures
- Mechanical Components
- ELCOM / EMS

Incoming orders Group and Divisions

in EUR million



BUSINESS ACTIVITY

Megatrends such as rising global demand for energy generation and distribution solutions, the increasing use of microelectronics in virtually all areas of daily life, the need to improve the quality of life of the world's growing and longer-living middle classes, and the increased focus on sustainability in the manufacture and use of technology products will provide Phoenix Mecano with opportunities to develop innovative components and modules for decades to come.

This situation gives cause for optimism, despite some justified concerns: the ailing public finances of Western industrial nations, the funding shortfalls in pension systems, the trends towards protectionism and the erection of trade barriers, and the plethora of political and military crises facing the world at the start of 2017.

Phoenix Mecano is operating from an excellent strategic base. With a global network of well-established production and distribution facilities, a strong brand and technology portfolio, the cultural and financial flexibility to exploit opportunities swiftly and systematically, and an experienced team of independent and dedicated employees around the world, the Group has what it takes to grow and create value for all of its stakeholders.

In the past year we have built new production plants in China and India, modernised production facilities at existing sites around the world, optimised logistics processes and developed and brought to market a raft of new products. Further ambitious business and investment plans to bolster our growth strategy have been approved for 2017. Last year we successfully acquired the German-Czech transformer manufacturer Ismet, which will help to deliver the improvement in result needed within the ELCOM/EMS division.
This year, we will again examine a range of possible acquisitions in the light of our strict criteria, with the aim of adding value to our Group sustainably through strategic M&A activity in addition to organic growth.

SALES AND PROFITABILITY

Strong order situation

Consolidated incoming orders for the Phoenix Mecano Group rose by 4.2% to EUR 598.0 million, compared with EUR 574.1 million the previous year. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 102.5%, compared with 102.6% the previous year. It was well above 100% in all three divisions.

Sales up in all three divisions

The Phoenix Mecano Group's consolidated gross sales rose by 4.2% in 2016, from EUR 559.8 million to EUR 583.2 million. Sales growth in local currencies was 5.8%. Changes in the scope of consolidation contributed 1.7% to the increase in sales.

Sales in Europe grew by 2.7% overall (0.1% in organic terms), with differing trends in individual markets. While sales increased in Germany and the Netherlands (acquisition-related in both cases) as well as the UK and Spain, other markets saw sales decline. The Asian markets recorded an increase of 15.5%, primarily in China, India and South Korea. In North and South America, sales fell by 9.6%. The change in North America and Asia was mainly attributable to business performance in drives for electrically adjustable comfort and healthcare furniture.

The fairly challenging economic climate in some European industrial markets and the US energy sector held back sales growth in the Enclosures division. This stood at 0.6%, mostly generated in Asia.

The strongest organic growth was recorded by the Group's largest division, Mechanical Components.

Following a 16.7% increase the previous year, sales in 2016 rose by a further 4.6%, driven by dynamic growth in drive technology for electrically adjustable comfort and reclining furniture in China and broad-based growth in the division's industrial segment.

The ELCOM/EMS division posted an acquisition-related sales increase of 8.6%. Organically, sales were up by 0.3%.

The Electromechanical Components and Electronic Manufacturing and Packaging business areas saw a slight drop in sales. However, sales were up in the Power Quality business area, mainly owing to project successes in the transformers segment and the acquisition of the Ismet Group (D/CZ) on 1 July 2016.

Disproportionate rise in operating result

The operating result increased from EUR 15.0 million the previous year to EUR 34.5 million in 2016. Compared with the previous year's operating result stripped of exceptional expenses (EUR 30.4 million), the result was up by 13.5% and the operating margin improved from 2.7% to 5.9%.

The Enclosures division saw its result rise by 10.4% to EUR 18.8 million, with a corresponding improvement in profitability of 2.9 percentage points. The Mechanical Components division also posted an increase in operating profit, up by 12.9% to EUR 25.1 million, while its profitability rose by 1.7 percentage points. The ELCOM/EMS division reduced its operating loss compared with the previous year from EUR 21.7 million to EUR 8.4 million. This division's 2016 operating result includes one-off costs of EUR 2.4 million relating to the integration of the Ismet Group, acquired on 1 July 2016, and amortisations of acquisition-related intangible assets totalling EUR 3.4 million. Following challenging development and integration activities, the ELCOM/EMS division managed to achieve a turnaround in its operating cash flow in 2016.

In the reporting year, an accounting profit of EUR 1.8 million was generated from the sale of a property in Italy.

The material use rate remained largely stable (46.6% compared with 46.3% the previous year), as did the Group's gross margin.

Personnel expenses rose by 2.8%, which was disproportionately low compared with the increase in sales owing to the disappearance of one-off costs linked to restructuring measures in the previous year. Average staff numbers over the year increased slightly as the result of acquisitions (6 252 employees compared with 6 204 the previous year).

Amortisation of intangible assets fell from EUR 8.3 million to EUR 7.4 million. This was owing to a reduction in amortisation due to exceptional impairment charges in the previous year and the discontinuation of amortisation. Depreciation on tangible assets remained virtually unchanged from the previous year at EUR 17.7 million.

Other operating expenses rose by 1.5%, which was disproportionately low compared with the increase in sales because of lower administration and advertising expenses.

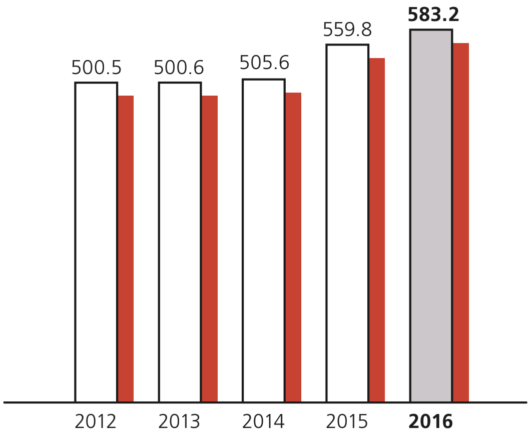
Increase in result of the period to EUR 23.0 million

The financial result was EUR –2.3 million, marginally lower than the previous year (EUR –2.2 million). In the reporting year, there were expenses from the adjustment of residual purchase price liabilities totalling EUR 0.3 million net and value adjustments on financial assets worth the same amount, plus an increased loss of EUR 0.5 million from investments in associated companies. In the previous year, exchange rate losses caused by the scrapping of the minimum exchange rate of 1.20 Swiss francs to the euro adversely affected the financial result to the tune of EUR 1.7 million, while in the reporting year there were exchange rate losses of EUR 0.5 million due to the weakening of the British pound following the Brexit vote.

The income tax rate in 2016 was 28.5%, down from 47.8% the previous year. The high tax rate in the previous year was largely owing to the impairment of goodwill, which was not tax-deductible.

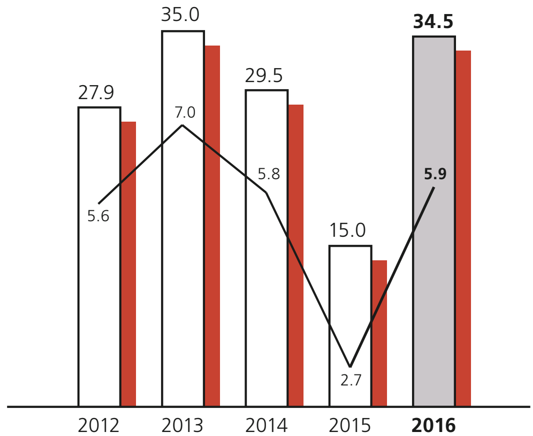
Gross sales 2012–2016

in EUR million



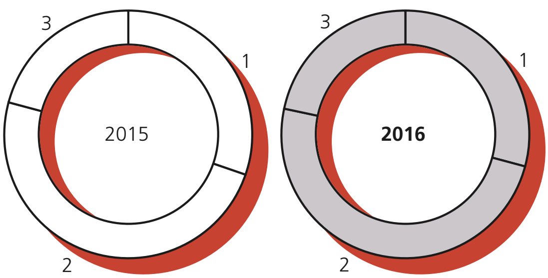
Operating result and margin 2012–2016

in EUR million | in %



Gross sales by division 2015 and 2016

in %



1 **Enclosures:** 30.3 | **29.2**
2 **Mechanical Components:** 49.0 | **49.2**
3 **ELCOM/EMS:** 20.7 | **21.6**

Profitability by division*

in %

	Change to prior year in %	**2016**	2015
Enclosures	11.0	29.2	26.3
Mechanical Components	10.0	18.4	16.7
ELCOM/EMS	68.7	–8.6	–27.4
Group	**111.8**	**11.6**	**5.5**

* Operating result as a percentage of net operating assets at the balance sheet date

The result of the period increased by 244.1% from EUR 6.7 million to EUR 23.0 million. The net margin rose to 3.9% (previous year 1.2%).

ASSET AND CAPITAL STRUCTURE

Continued high capital expenditure

Purchases of tangible assets totalled EUR 20.8 million (previous year EUR 23.5 million). Purchases of intangible assets stood at EUR 3.1 million (previous year EUR 3.2 million). The biggest single investment in 2016 was a newly-built drive technology plant in China, opening in 2017.

High equity ratio

The equity ratio at the balance sheet date of 31 December 2016 was 60.3%, which is slightly down on the previous year (61.5%) owing to the expansion of the balance sheet, but still high.

Net indebtedness at 11.2% of equity

Net indebtedness totalled EUR 30.5 million (previous year EUR 24.5 million). This includes the outflow of funds for the acquisition of the Ismet Group totalling EUR 16.8 million and the still above-average purchases of tangible and intangible assets.

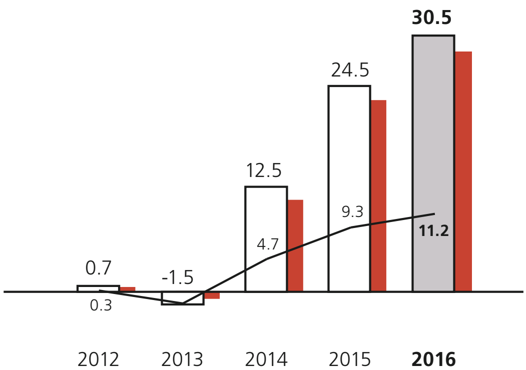
In the first quarter of 2017, the Group took out a five-year promissory note loan (Schuldschein) for EUR 35 million and USD 13.5 million. This has given it even greater financial leeway to exploit organic and acquisition-related growth opportunities.

OUTLOOK

Despite an uncertain business environment, the Phoenix Mecano Group has made a good start to 2017. As always, it will be essential for the Group to react quickly to any deterioration in the investment and economic climate where necessary. At the same time, it must make systematic use of any identifiable market opportunities and invest in the Group's expertise and technologies with vision and courage. With its management culture based on rapid decision-making and trust, and its decentralised expertise, the Group has been successfully negotiating this vital balancing act for many years. We therefore look to the future, both in 2017 and beyond, with cautious optimism.

Net debt and gearing 2012–2016

in EUR million | in % of equity



Purchases of tangible and intangible assets

	2016 in 1 000 EUR	2016 in %	2015 in 1 000 EUR	2015 in %
BY TYPE OF ASSET				
Intangible assets	3 077	12.9	3 223	12.1
Land and buildings	3 060	12.8	3 336	12.5
Machinery and equipment	10 007	41.9	9 664	36.2
Tools	1 347	5.7	3 363	12.6
Construction in progress	6 378	26.7	7 088	26.6
Total	**23 869**	**100.0**	**26 674**	**100.0**
BY DIVISION				
Enclosures	6 213	26.0	7 532	28.2
Mechanical Components	11 262	47.2	11 206	42.0
ELCOM/EMS	5 555	23.3	6 869	25.8
Total for all divisions (segments)	23 030	96.5	25 607	96.0
Reconciliation*	839	3.5	1 067	4.0
Total	**23 869**	**100.0**	**26 674**	**100.0**

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

Among other products, Phoenix Mecano supplies high-tech components for high-performance processors used in train control systems by leading manufacturers.

BUSINESS PERFORMANCE ENCLOSURES

The division develops and manufactures high-quality industrial enclosures made of aluminium, stainless steel and plastics as well as system solutions for use in mechanical and plant engineering, electrical engineering, automation, measurement and control technology, railway, automotive and medical technology and for explosive environments in the petrochemical and onshore and offshore industries. Input units such as membrane keypads, short-stroke keys and touchscreens complement the product range.

In a mixed market environment, the division managed to increase its sales slightly, mainly on the back of project successes in the oil and gas business in Asia and in human machine interfaces (HMIs). The result rose disproportionately despite cost savings.

Operating result

18.8 EUR MILLION

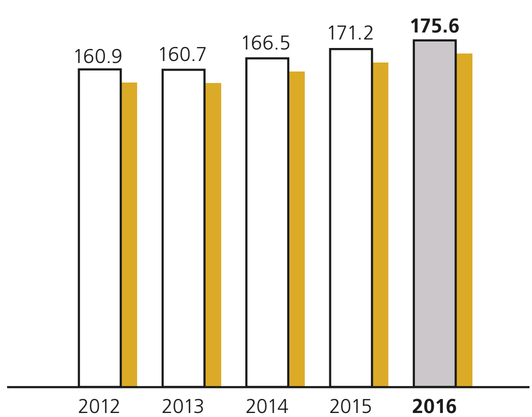
Margin

11.0%

Investments

6.2 EUR MILLION

Incoming orders 2012–2016
in EUR million



ORDERS, SALES AND PROFITABILITY

Orders

The Enclosures division's incoming orders were up 2.5% on the previous year at EUR 175.6 million, also outperforming sales in the reporting year. This gives a book-to-bill ratio (incoming orders as a percentage of gross sales) of 102.9% (previous year 101.0%).

Sales

The division saw sales increase by 0.6% in 2016, to EUR 170.5 million. Corrected for differences in foreign-exchange rates, gross sales were up by 1.4%. There were no consolidation effects. In Europe, sales were down by 1.1% overall, despite growth in France, Italy, the Benelux countries and Austria. Sales in North and South America fell by 4.1%, mainly due to continuing pressure in the oil and gas business. However, in the Middle and Far East they were up across the board, rising by 14.1% overall.

Gross sales of industrial enclosures (including control panels and equipment carriers) rose by 1.3% worldwide. Encouraging growth was recorded in HMIs. In the oil and gas business, sales were up again thanks mainly to project successes in South Korea and despite declines in North America. By contrast, sales of standard enclosures were down somewhat in the traditional markets of mechanical and plant engineering. The division's product range underwent a strategic expansion with the aim of tapping into growth potential. This included the development of a new handheld enclosure specially designed to accommodate HMI components such as membrane keypads, displays and touchscreens, the redesign of a successful equipment carrier system, the upgrading of the SL 4000 control enclosure system into one of the most modular systems on the market and the expansion of the Ex d range.

Sales of input systems fell by 5.3% in 2016 owing to teething problems following modernisation of the production site in Hungary, which resulted in increased delivery times. These issues have now been resolved. The closure of the membrane keypad plant in Obergünzburg, Germany, was completed in July 2016. This was offset by the development in 2016 of in-house manufacturing expertise in capacitive buttons using copper and conductive silver.

Result

The division's operating result increased by 10.4% to EUR 18.8 million. The main contributing factors were increases in gross profit and reduced operating expenses in industrial enclosures and the disappearance of one-off costs linked to the closure of a membrane keypad plant in Obergünzburg, as reported in the previous year.

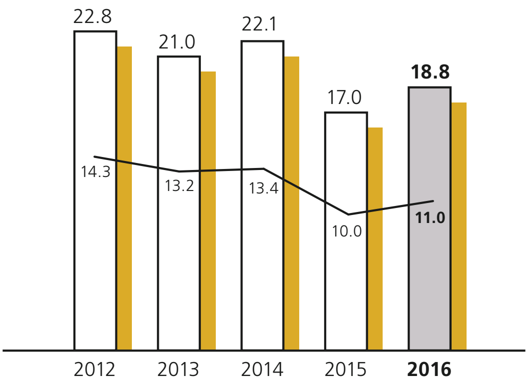
ASSET AND CAPITAL STRUCTURE

Purchases of tangible and intangible assets in 2016 stood at EUR 6.2 million, down on the previous year's figure of EUR 7.5 million, owing among other things to lower capital expenditure on tools. Investment focused primarily on machinery and operational infrastructure in Germany and Hungary and expanding die-casting capacity in India.

Net operating assets decreased by 0.6% from EUR 64.6 million to EUR 64.3 million. The return on capital employed (ROCE) rose to 29.2% (previous year 26.3%), owing to the higher operating result.

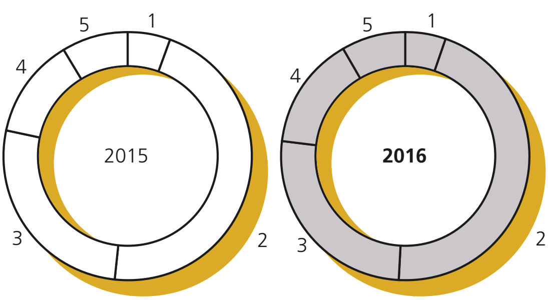
Operating result and margin 2012 – 2016

in EUR million | in %



Gross sales by region 2015 and 2016

in %



1 **Switzerland:** 5.8 | **5.4**
2 **Germany:** 46.1 | **45.5**
3 **Europe (excluding GER and CH):** 26.7 | **26.3**
4 **Middle and Far East:** 12.8 | **14.5**
5 **North and South America:** 8.6 | **8.3**

Purchases of tangible and intangible assets

	2016 in 1 000 EUR	**2016** in %	2015 in 1 000 EUR	2015 in %
Intangible assets	816	13.1	755	10.0
Land and buildings	781	12.6	728	9.7
Machinery and equipment	3 648	58.7	3 230	42.9
Tools	392	6.3	1 194	15.8
Construction in progress	576	9.3	1 625	21.6
Total	**6 213**	**100.0**	7 532	100.0

Ergonomic office workstations require high-quality, elegant and torsion-free lifting columns. The same products are also used in ergonomic industrial workstations.

BUSINESS PERFORMANCE MECHANICAL COMPONENTS

Profile assembly systems, linear units and drive and pipe connection technology offer a wide range of applications in the construction of machinery and equipment, protective enclosures and ergonomic workstations. High-performance linear actuators, electric cylinders and lifting columns facilitate comfort and lifestyle solutions in the home and hospital care sector and in workstation design.

Broad-based growth in the division's industrial business and the dynamic performance of the comfort beds and armchairs sector in China enabled sales growth of 4.6% and a further improvement in operating margin.

Operating result

25.1 EUR MILLION

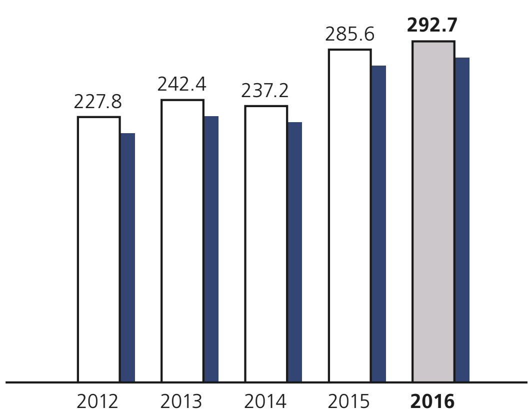
Margin

8.7%

Investments

11.3 EUR MILLION

Incoming orders 2012 – 2016
in EUR million



ORDERS, SALES AND PROFITABILITY

Orders

The Mechanical Components division's incoming orders were up 2.0% on the previous year at EUR 292.7 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 102.0% (previous year 104.1%).

Sales

The division's gross sales rose by 4.6% in 2016, to EUR 286.9 million. Corrected for differences in foreign-exchange rates, they were up by 7.2%. There were no consolidation effects. In Europe, sales increased slightly by 2.1%, driven by industrial business. Sales were down by 12.2% in North and South America but up by 16.4% in the Middle and Far East, with sales performance in the furniture industry being the primary factor in both regions.

The industrial components business saw broad-based growth. Notable developments include the 14% growth in Asia and project successes in Hungary linked to the provision of complete solutions in the automotive sector. Gross sales of industrial assembly systems rose by 11.0% overall.

The linear drives business for the furniture and healthcare market benefited primarily from the continuing increases in production volumes for electrically adjustable comfort beds and armchairs in Asia, with sales up by 16.6% in this region. Overall gross sales of linear adjustment and positioning systems increased by 3.4%. Drive technology continues to be a focus for product innovations. 2016 saw a number of new drive solutions enter serial production, for industrial applications, office furniture, nursing beds and comfort furniture.

Result

The division's operating result rose by 12.9% to EUR 25.1 million, which was disproportionately high compared to the increase in sales. This performance was driven by the increase in gross profit in linear drives for the furniture market in Asia and in the industrial components business. Reduced amortisation of intangible assets was another contributing factor.

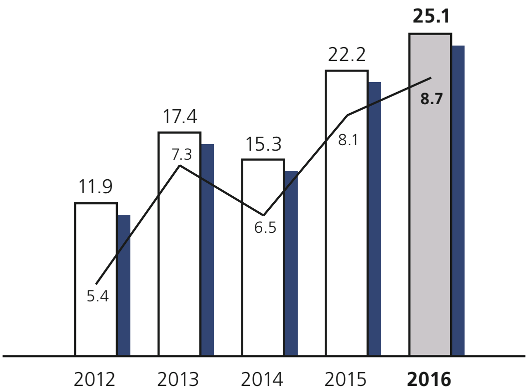
ASSET AND CAPITAL STRUCTURE

Purchases of tangible and intangible assets totalled EUR 11.3 million, practically unchanged from the previous year. The biggest single investment related to the construction of a production plant in Jiaxing with a usable floor area of 36 000 m^2. The plant began operating in early 2017 and will set a new benchmark for drive manufacturers in China. Also in Jiaxing, an automated production facility for electric motors came on stream in 2016.

Net operating assets increased by 2.6% due to business expansion. On the back of the higher operating result, the return on capital employed (ROCE) climbed to 18.4%, from 16.7% the previous year.

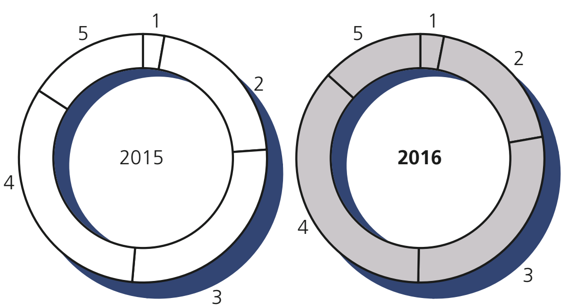
Operating result and margin 2012–2016

in EUR million | in %



Gross sales by region 2015 and 2016

in %



1 **Switzerland:** 3.0 | **3.1**
2 **Germany:** 20.9 | **19.3**
3 **Europe (excluding GER and CH):** 27.6 | **28.0**
4 **Middle and Far East:** 32.8 | **36.4**
5 **North and South America:** 15.7 | **13.2**

Purchases of tangible and intangible assets

	2016 in 1 000 EUR	**2016** in %	2015 in 1 000 EUR	2015 in %
Intangible assets	1 438	12.8	1 498	13.4
Land and buildings	1 471	13.1	2 153	19.2
Machinery and equipment	2 818	25.0	2 706	24.1
Tools	671	6.0	1 636	14.6
Construction in progress	4 864	43.1	3 213	28.7
Total	11 262	100.0	11 206	100.0

Phoenix Mecano's current measuring systems ensure that power network outages are detected quickly, thereby preventing damage.

BUSINESS PERFORMANCE ELCOM / EMS

This division comprises three business areas: Electromechanical Components, including terminal blocks, connector systems, test probes, series terminals and switches for industrial electronics (PTR, Hartmann); Electronic Manufacturing and Packaging, comprising power supplies, backplanes and electronic assemblies, used in areas such as medical technology, measurement technology, astrophysics and research facilities like CERN (Phoenix Mecano Digital Elektronik, WIENER, Hartmann Electronic, ATON); and Power Quality, encompassing transformers, instrument transformers and inductors for use in renewable energies, drive technology, switchgear and power distribution networks (REDUR, PM Special Measuring Systems, HARTU, Wijdeven, Ismet).

The Power Quality business area was strengthened with the acquisition of the Ismet Group. Following intensive development and integration activities, the division managed to achieve a turnaround in its operating cash flow.

Operating result

-8.4 EUR MILLION

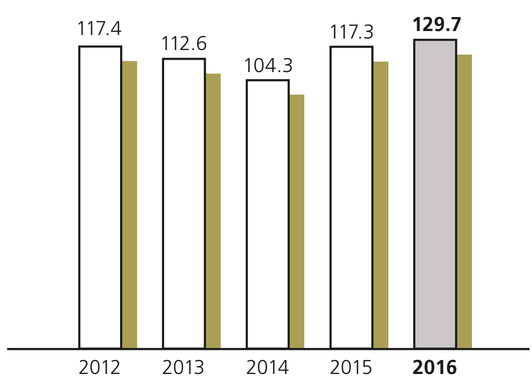
Margin

-6.7%

Investments

5.6 EUR MILLION

Incoming orders 2012 – 2016
in EUR million



ORDERS, SALES AND PROFITABILITY

Orders

The ELCOM / EMS division's incoming orders were up 3.1% on the previous year at EUR 129.7 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 103.1%, compared with 101.2% the previous year.

Sales

The division's gross sales rose by 8.6% in 2016, to EUR 125.8 million. Corrected for differences in foreign-exchange rates, sales growth was 8.9%; adjusted for consolidation effects, sales were up by 0.3%. In Europe, sales increased by 9.1% overall, mainly as the result of acquisition-related growth in the Netherlands and Germany and organic growth in Italy, Spain and Belgium. Sales in North and South America were down by 5.6% while in the Middle and Far East they were up by 12.8%.

Gross sales of electromechanical components fell by 4.4% to EUR 47.8 million. In the test probes business, newly generated projects involving customised solutions (e.g. high-current probes, miniature test probes) were offset by a loss of sales following the expiry of an automotive contract. The switches business saw a decline in sales owing to increased competition in Asia, mainly in push-button switches. A switch with 32 positions was added to the portfolio of thumb wheel switches for DIN-rail enclosures during the reporting year.

Gross sales in the Power Quality business area increased by 45.9% to EUR 40.9 million. Organic growth stood at 11.6%. Market successes were achieved in the instrument transformers segment, particularly with regard to HVDC applications. The Ismet Group (D / CZ), which was acquired on 1 July 2016 and strengthens the business area with its solid positioning in the European transformer and choke market, contributed EUR 5.7 million to the growth in sales.

The Electronic Manufacturing and Packaging business area saw sales decline by 1.9% to EUR 37.1 million. A slight increase in electronic manufacturing sales, particularly for automation and medical technology and LED street lighting, was offset by weak demand for backplanes in the mechanical engineering and railway technology sectors and slight declines in sales of power supplies. However, progress was made in the VPX market, with the delivery of initial prototypes for a new VPX power supply unit.

Result

The ELCOM / EMS division's operating loss shrank from EUR 21.7 million to EUR 8.4 million. Non-recurring expenses of EUR 14.1 million were included in the previous year's operating result. The 2016 result includes one-off costs of EUR 2.4 million in connection with the integration of the Ismet Group, which was acquired on 1 July 2016. The division's result was also impacted by amortisations of acquisition-related intangible assets totalling EUR 3.4 million (previous year EUR 3.5 million). Following extensive development and integration activities, the division generated a slightly positive operating cash flow in 2016.

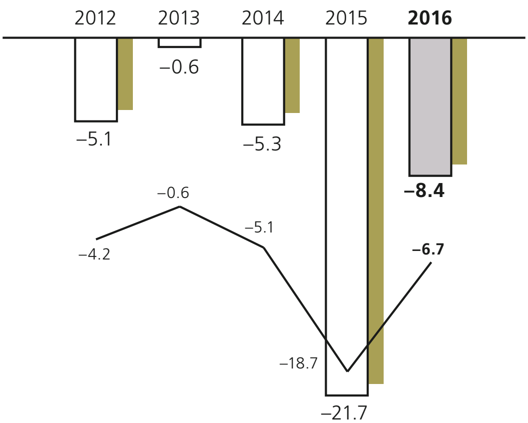
ASSET AND CAPITAL STRUCTURE

Purchases of tangible and intangible assets fell to EUR 5.6 million. They related mainly to optimisation of electronic manufacturing in Germany and automation of electromechanical component manufacturing in southern China.

Net operating assets increased from EUR 79.2 million to EUR 97.8 million, primarily due to the aforementioned acquisition of the Ismet Group.

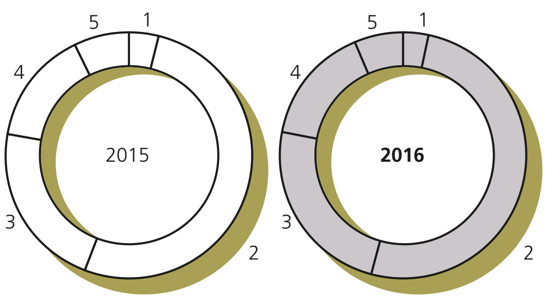
Operating result and margin 2012 – 2016

in EUR million | in %



Gross sales by region 2015 and 2016

in %



1 **Switzerland:** 3.9 | **3.5**
2 **Germany:** 52.0 | **50.9**
3 **Europe (excluding GER and CH):** 22.0 | **23.8**
4 **Middle and Far East:** 15.0 | **15.6**
5 **North and South America:** 7.1 | **6.2**

Purchases of tangible and intangible assets

	2016 in 1 000 EUR	**2016** in %	2015 in 1 000 EUR	2015 in %
Intangible assets	433	7.8	321	4.7
Land and buildings	806	14.5	455	6.6
Machinery and equipment	3 096	55.7	3 310	48.2
Tools	284	5.1	533	7.8
Construction in progress	936	16.9	2 250	32.7
Total	5 555	100.0	6 869	100.0

CORPORATE RESPONSIBILITY

Transparent and open communication creates trust by giving shareholders, employees and all other stakeholders a comprehensive insight into the company. We are therefore committed to informing our stakeholders about all relevant aspects of our business. The Phoenix Mecano Group pursues a strategy of sustainable growth, rather than short-term gain and maximum quarterly profits. The foundation for sustainable business success is provided by the Phoenix Mecano Group's mission statement. This is based on ecological, social and economical aspects.

Creation of value added

in 1 000 EUR	Note	2016	2015
1 Net sales		577 481	554 462
2 Own work capitalised and other income		8 299	5 905
3 Cost of materials		–271 499	–258 933
4 Other operating expenses	A	–72 020	–71 089
5 Depreciation/amortisation		–24 665	–37 356
6 Other non-operating result	B	–1 582	–1 261
Value added		**216 014**	**191 728**

A Excluding capital taxes and other non-profit-related taxes
B Financial result excluding net interest expense plus share of result from associated companies.

Distribution of value added

in %	Note	2016	2015
1 Employees	C	84.0	92.0
2 Government (Taxes)	D	5.0	4.0
3 Shareholders	E	6.2	7.5
4 Lenders (net interest expense)		0.4	0.5
5 Companies (retained earnings)	F	4.4	–4.0
Value added		**100.0**	**100.0**

C Personnel expenses
D Current income tax, capital taxes and other non-profit-related taxes
E Dividends paid in the financial year and share repurchases under the share buy-back programme
F Result of the period less dividends already paid in the financial year and share repurchases under the share buy-back programme

SHARE

Phoenix Mecano AG's shares are listed on the SIX Swiss Exchange in Zurich. Phoenix Mecano AG's share capital of CHF 960 500 is divided up into 960 500 bearer shares with a par value of CHF 1.00 each. There are no restrictions on ownership or voting rights. Capital that is not required for internal growth is returned to shareholders in the form of dividends, par value repayments and share buy-backs. 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.

Opting-out und Opting-up

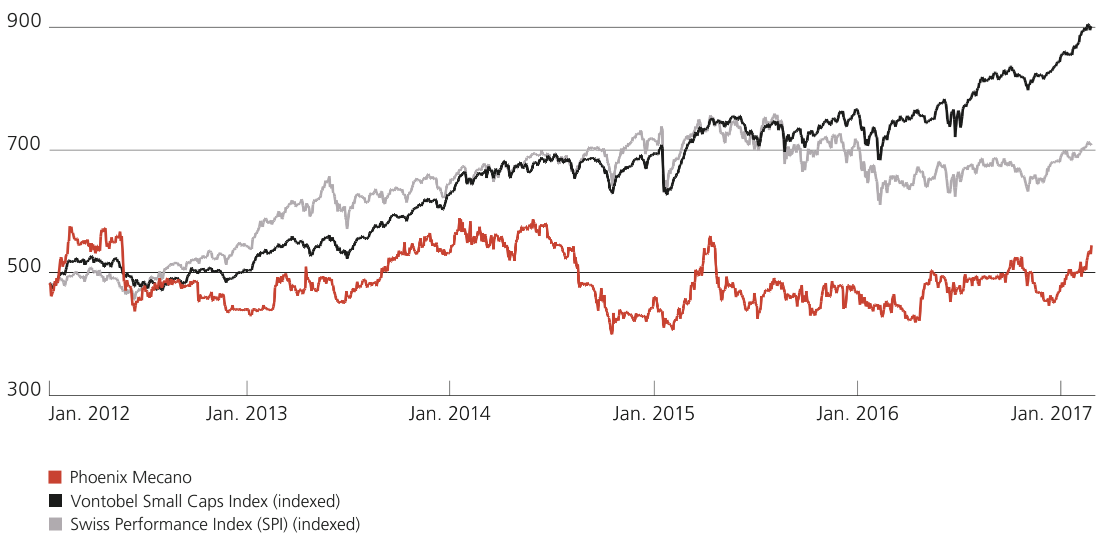
The company has not made any use of the possibility provided for in the Stock Exchange Act of excluding an acquiring company from the obligation to make a public purchase bid. The limit for the obligation to make an offer pursuant to Article 32 of the Swiss Federal Act on Stock Exchanges and Securities Trading is 45% of voting rights.

Payout and dividend policy

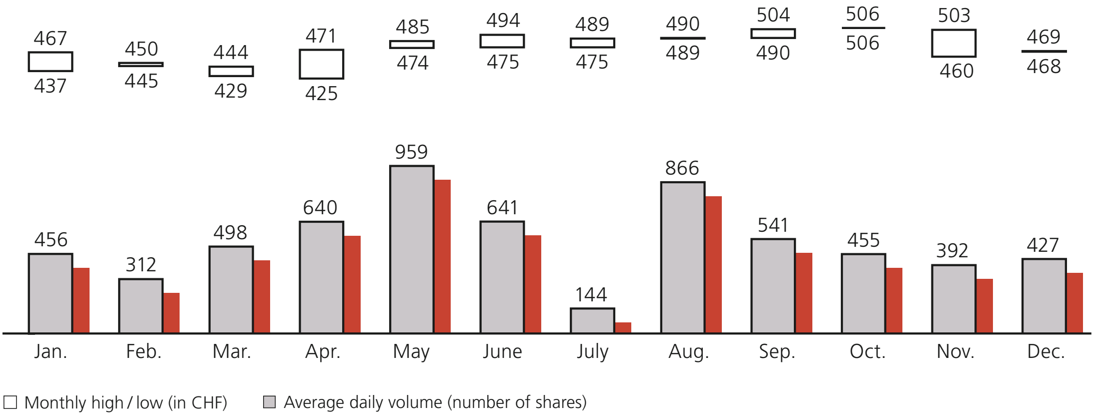
The target payout ratio for dividend payments is 40 to 50% of result after tax, adjusted for special factors. The strong balance sheet and high free cash flow can sustainably finance organic growth as well as any acquisitions. The Board of Directors will propose to the Shareholders' General Meeting of 19 May 2017 a dividend of CHF 15 per share.

Share price 1 January 2012–28 February 2017

in CHF

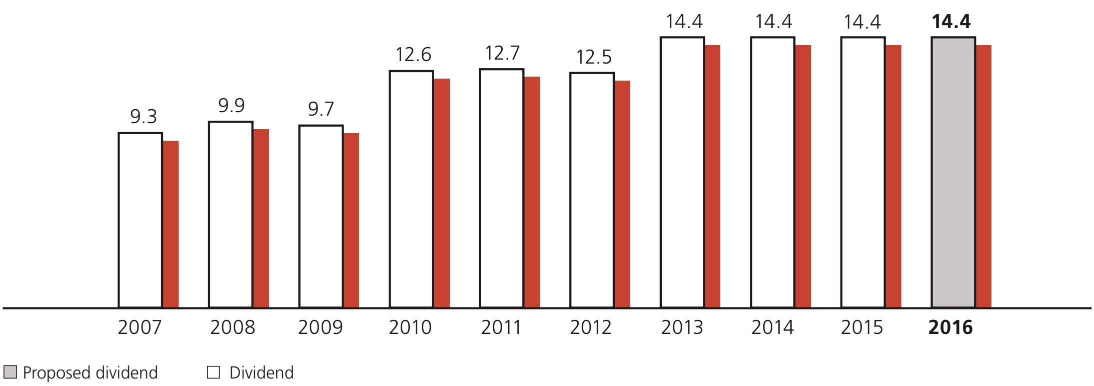


Monthly highs and lows and average daily volume 2016



Dividend payout 2007–2016

in million CHF



Dividend payout and return of capital to shareholders 2007–2016

in million CHF

in million CHF	2007–2011	2012	2013	2014	2015	**2016**	Total
Proposed dividend	54.2	12.5	14.4	14.4	14.4	14.4	124.3
Share buy-back	41.0	4.8	3.4	–	–	–	49.2
Total	**95.2**	**17.3**	**17.8**	**14.4**	**14.4**	**14.4**	173.5

Dialogue with the capital market

To help nurture the ongoing relationship with shareholders and investors, various roadshows and analyst presentations were held in Zurich during the reporting year. A number of one-on-one meetings also took place at the company's headquarters.

Analyst coverage and recommendation

The ongoing development of our company and the performance of the Phoenix Mecano share are regularly covered by various analysts. The share is covered by the following analysts:

- UBS AG (CH): joern.iffert@ubs.com
- Baader Helvea (CH): ramstalden@helvea.com
- Zürcher Kantonalbank (CH): richard.frei@zkb.ch

Share information

Listing	SIX Swiss Exchange/Zurich
Securities No.	Inh. 218781
ISIN	CH0002187810
Reuters	PM.S
Bloomberg	PM SE Equity
Telekurs/Telerate	PM

Share indicators at a glance

	Unit	**2016**	2015	2014	2013	2012
Share capital[1] (bearer shares with a par value of CHF 1.00)	Number	960 500	960 500	960 500	978 000	978 000
Treasury shares	Number	1 420	485	1 260	20 064	14 803
Shares entitled to dividend	Number	959 080	960 015	959 240	957 936	963 197
Operating result per share[2]	EUR	35.9	15.6	30.7	36.6	29.0
Result of the period per share[2]	EUR	24.0	7.0	20.8	23.4	18.8
Equity per share[2]	EUR	284.4	273.6	278.8	265.4	260.3
Free cash flow per share[2]	EUR	30.9	14.2	16.1	24.0	38.9
Dividend	CHF	15.00[5]	15.00	15.00	15.00	13.00
Share price						
– High	CHF	528	560	589	565	575
– Low	CHF	406	407	399	436	431
– Year-end price	CHF	469	467	460	545	431
Market capitalisation	million CHF	450.5	448.6	441.8	533.0	421.5
Dividend yield[3]	%	3.2[5]	3.2	3.3	2.8	3.0
Total shareholder return	%	3.6	4.8	–12.8	29.9	–9.4
Payout ratio[4]	%	57[5]	202	59	52	58
Price/profit ratio 31 December		17.9	62.8	18.2	19.0	19.1

1 Pursuant to a decision by the Shareholders' General Meeting of 23 May 2014, the share capital was reduced by CHF 17 500 with effect from 26 August 2014 by cancelling 17 500 shares from the 2013/2014 share buy-back programme.
2 Based on shares entitled to dividend as at 31 December.
3 Dividend in relation to year-end price.
4 Dividend (shares entitled to dividend only) in relation to result of the period.
5 Proposal to the Shareholders' General Meeting of 19 May 2017.

Financial calendar

16 February 2017 7.00 a.m.	**Media release** Financial year 2016, Provisional figures
25 April 2017 7.00 a.m.	**Media release** Financial year 2016 Q1 2017 Publication of 2016 annual report
25 April 2017 9.30 a.m.	**Media conference** Financial year 2016 Q1 2017 Widder Hotel, Rennweg 7, 8001 Zurich
25 April 2017 11.30 a.m.	**Financial analysts' conference** Financial year 2016 Q1 2017 Widder Hotel, Rennweg 7, 8001 Zurich
19 May 2017 3.00 p.m.	**Shareholders' General Meeting** Hotel Chlosterhof, 8260 Stein am Rhein
15 August 2017 7.00 a.m.	**Media release** Half-yearly results 2017 Publication of 2017 semi-annual report
31 October 2017 7.00 a.m.	**Media release** Q3 2017

Further information
Benedikt Goldkamp
Chairman of the Board of Directors

Dr Rochus Kobler
Chief Executive Officer

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info@phoenix-mecano.com
www.phoenix-mecano.com

EMPLOYEES

Our 6252 employees worldwide helped to continuously enhance our offering in 2016 with their great expertise, motivation and commitment. A range of continuing training opportunities support them in their professional and individual development. This helps to improve operational processes, enhance the quality of products and services and promote safety at work, while also strengthening employees' identification with the Phoenix Mecano Group as a whole and boosting motivation. By creating demanding new jobs and promoting knowledge transfer, the company contributes to ongoing economic development in a wide range of countries.

The Phoenix Mecano Group operates as a responsible employer, always acting in accordance with ethical values and principles. Equal opportunities, equal treatment of employees and respect for health and safety are firmly enshrined in the Group's Code of Conduct and embedded in all its divisions and subsidiaries.

Cultural characteristics and differences between sites and subsidiaries are naturally respected and used as an opportunity to learn from one another.

As a globally active, listed company, it goes without saying that Phoenix Mecano must comply with international legislation, regulations and guidelines. Failure to do so could harm the company's reputation and undermine the trust of stakeholders, thereby jeopardising the company's value and the long-term job security of our employees. For this reason, the Group's Board of Directors and management introduced a Code of Conduct in 2009, whose principles they apply themselves as role models for the rest of the Group. Employees must comply with applicable laws and guidelines and the Code of Conduct in their day-to-day work.

Key figures at a glance

Annual average/Number unless otherwise indicated	Change 2016 to 2015/ Number/1 000 EUR	**2016**	2015	2014	2013	2012
Employees	48	**6 252**	**6 204**	**6 207**	**5 839**	**5 722**
BY DIVISION						
Enclosures	58	1 906	1 848	1 779	1 715	1 666
Mechanical Components	100	2 017	1 917	1 908	1 914	1 906
ELCOM/EMS	–111	2 290	2 401	2 488	2 182	2 124
Others	1	39	38	32	28	26
BY REGION						
Switzerland	–9	128	137	139	137	137
Germany	33	1 663	1 630	1 587	1 552	1 561
Rest of Europe	81	1 540	1 459	1 459	1 467	1 647
North and South America	–3	211	214	201	204	194
Middle and Far East	96	1 550	1 454	1 441	1 251	891
Africa	–151	1 145	1 296	1 367	1 215	1 280
Australia	1	15	14	13	13	12
Personnel expenses in 1 000 EUR	0.5	29.0	28.5	26.0	25.9	25.4
Gross sales per employee in 1 000 EUR	3.1	93.3	90.2	81.5	85.7	87.5

Phoenix Mecano expects all employees to comply with applicable laws and guidelines in their day-to-day work. The following internal regulations, among others, must also be observed:

Do's:
- Compliance with anti-trust laws and competition and fair trading legislation
- Transparent and legally-compliant accounting and financial reporting
- Treating Phoenix Mecano Group property with respect

Don'ts:
- Insider trading, and disseminating or exploiting insider information
- Fraudulent activities
- Unauthorised transfer of confidential data and documents
- Bribery, corruption and donations to political parties
- Accepting unreasonable financial benefits
- Actions giving rise to conflicts of interest

All employees can report violations to their superior or the next highest level of management and, if in doubt, directly to the Group's CEO. Major violations will be punished, and may even lead to dismissal, in addition to criminal prosecution and disciplinary measures.

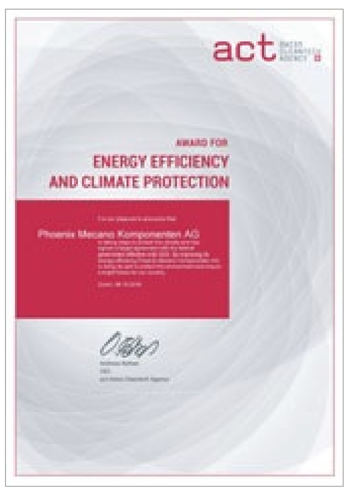
SOCIETY AND ENVIRONMENT

Society
Societal commitment is an integral part of sustainable and responsible business. For this reason, the Phoenix Mecano Group is involved in numerous social projects, both regionally and globally, helping to foster development in the regions concerned. The projects we support are identified and implemented in a decentralised way by individual Group companies.

Environment
Given the growing urgency of issues such as climate change and resource scarcity, conscientious and respectful interaction with the environment is essential and a fundamental part of responsible business practice. Accordingly, energy audits were conducted at all the Group's German plants in 2016, in which energy consumption and flows were analysed with the aim of making more efficient use of energy. This resulted in a catalogue of measures highlighting energy-saving approaches, their potential, technical feasibility, practicability and economic viability, and setting out recommendations for action. In Switzerland, Phoenix Mecano Komponenten AG was recognised for its energy efficiency and climate protection measures, having achieved a 37% reduction in CO_2 emissions.

Phoenix Mecano always complies with the standards laid down by relevant environmental legislation and has established the issue of environmental awareness as part of its corporate culture. Where possible, measures are adopted and extended to continuously minimise negative environmental impacts and to enhance environmental protection. As part of this process, where reasonable and feasible the Group has its quality and environmental management systems certified according to recognised standards such as ISO 9001 (since 2000) and ISO 14001 (since 2004), to ensure uniform Group-wide assessment of companies' environmental protection measures. To date, 19 companies have acquired ISO 9001 quality management certification and seven are also ISO 14001-certified for environmental management.

However, despite our commitment to the environment, we are aware that the high ecological standards of Switzerland and Germany cannot be



Phoenix Mecano Komponenten AG is taking steps to protect the climate and has signed a target agreement with the federal government effective until 2025.

applied as a benchmark in all countries. Nonetheless, we continually strive to improve environmental awareness at all levels and in all regions. Our environmental commitment is based heavily on the standards implemented in the EU, and Germany in particular.

RISK REPORT

The Phoenix Mecano Group understands risk management as the entrepreneurial activity of weighing up risks and opportunities. Active and swift risk management is a competitive advantage, the aim being not only to identify potential risks early on and avoid them but also to create long-term scope for action that allows informed entrepreneurial risk-taking. In 2002, the Phoenix Mecano Board of Directors introduced a Group-wide, system-based risk management system, which is continuously enhanced through consultation between the Board of Directors, management, Group Controlling and the Internal Auditing Department.

Group-wide risk and opportunity management

The Board of Directors is responsible for monitoring risk and opportunity management. Regular reporting to the management and Board of Directors ensures that key threats arising from entrepreneurial risks as well as potential opportunities are identified at an early stage and suitable measures are adopted in a timely manner.

The objectives of risk management are to achieve and maintain a consistently high level of risk awareness and to create risk transparency throughout the Phoenix Mecano Group. It also aims to ensure compliance with legal obligations and the requirements pertaining to a listed company.

The risks faced by the Phoenix Mecano Group are divided into five main categories: external, financial, operational, legal and strategic risks. More information about financial risk management can be found in the consolidated financial statements (pages 122 ff.). Risk management within the Phoenix Mecano Group is undertaken autonomously by individual Group companies and is the decentralised responsibility of each company's managing director(s). It involves identifying, assessing and managing risks and determining and continuously updating measures to address them.

Group companies' risk management processes are regularly reviewed by the Internal Auditing Department at the request of the Board of Directors. The Internal Auditing Department reports on a half-yearly basis to the management and the Board of Directors' Audit Committee concerning significant risks and Group companies' risk management processes. Internal Auditing Department risk reports are discussed in the Audit Committee on a half-yearly basis. The Internal Auditing Department reports to the whole Board of Directors once a year. In between regular reporting dates, Group companies are required to report on an ad-hoc basis if significant new risks arise. This process ensures that risks are recorded and assessed in a timely and comprehensive way and allows the Board of Directors to carry out its own risk assessment.

CORPORATE GOVERNANCE & REMUNERATION REPORT

CONTENTS

CORPORATE GOVERNANCE

Phoenix Mecano's corporate governance promotes transparent and responsible management of the business and sustainable value creation. This corporate governance report generally follows the structure of the Directive on Corporate Governance (DCG) published by SIX Swiss Exchange. The remuneration report follows in a separate section starting on page 54.

Group structure and shareholders

Phoenix Mecano is a global technology enterprise in the enclosures and industrial components sectors and has significant market shares in the international growth markets. It manufactures technical enclosures, electronics components, linear actuators and complete system integrations in three technical divisions. Its important areas of application are mechanical engineering, measurement and control technology, electrical engineering, automotive and railway technology, energy technology, medical technology, aerospace technology and home and hospital care.

The Group is split into three divisions: Enclosures, Mechanical Components and ELCOM/EMS. Within these divisions, parent companies responsible for product management operate with the help of global production sites and sales companies. In Switzerland, Phoenix Mecano is present at two locations: Kloten, from where Phoenix Mecano Management AG runs the Group's operations, and Stein am Rhein, which is home to the headquarters of the Group's holding company as well as to Phoenix Mecano Komponenten AG, which distributes the various products manufactured by Phoenix Mecano subsidiaries in Switzerland, and the purchasing company Phoenix Mecano Trading AG.

The Group's overall structure has always been very lean. Operational responsibility lies with the management, also referred to as the Executive Committee. The Extended Group Leadership Committee, including the operational managers of the Group's divisions, main business units and regions, assists with the coordination of business activities. The Group's operational structure is presented on pages 60 and 61. Detailed information about the scope of consolidation can be found on pages 90–93 of the consolidated financial statements. None of the shareholdings is listed.

Cross-ownership

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

Shareholders' agreements

There are no shareholders' agreements.

Capital structure

Capital / shares and participation certificates

As at 31 December 2016, Phoenix Mecano AG's share capital was fully paid up and consisted of 960 500 bearer shares (securities No. Inh. 218781; Reuters: PM.S; Telekurs/Telerate: PM, Bloomberg: PM SE Equity) 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 at the balance sheet date, the company owned 1 420 treasury bearer shares. There are no nominal shares and no participation or dividend-right certificates.

Contingent and authorised capital

At present the Group has no contingent or authorised capital.

Changes in capital

No changes in capital took place in 2016 and 2015. The Shareholders' General Meeting of 23 May 2014 approved the cancellation of 17 500 shares from the 2012/2013 buy-back programme. The share capital was reduced from CHF 978 000 to CHF 960 500, with effect from 26 August 2014. No changes in capital took place in 2013 and 2012.

Limitations on transferability and nominee registrations

Since Phoenix Mecano AG has issued no nominal shares, there are no limits on transferability.

Convertible bonds and options

There are no convertible bonds and no options.

Major shareholders, each holding a share of the voting rights equivalent to over 3% of the share capital as at 31 December 2016

Name in %	Head office	**2016**	2015
Planalto AG	Luxembourg, Luxembourg	34.6*	34.6*
Tweedy, Browne Global Value Fund (a subdivision of Tweedy, Browne Fund Inc., New York, USA)	New York, USA	5.5*	5.5*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9*	4.9
Credit Suisse Funds AG	Zurich, Switzerland	3.3	–

* Shareholding not notified in the year indicated.
This information is based on notifications by the aforementioned shareholders.

Individual notifications can be viewed at the following link of SIX Swiss Exchange:
https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

Changes in capital

Year of buy-back	Cancelled shares	Average repurchase price	Shares outstanding
	Number	CHF	Number
2007/2008	58 500	510.74	1 011 000
2008/2009	33 000	336.42	978 000
2012/2013	17 500	467.54	960 500

Board of Directors

The Board of Directors is the company's senior management body and comprises at least four members. In 2016, the Board of Directors had five members. They met four times in 2016, each meeting lasting an average of four hours.

Elections and terms of office

The members of the Board of Directors are elected individually by the Shareholders' General Meeting for a term of one year until the end of the next ordinary Shareholders' General Meeting. There are no restrictions on re-election. The Chairman is elected by the Shareholders' General Meeting from among the members of the Board of Directors for a term of office of one year, until the end of the next ordinary Shareholders' General Meeting. This term may also be renewed. The Board of Directors designates someone to take the minutes, who does not necessarily have to be a member of the Board of Directors.

Definition of areas of responsibility

The powers of the Board of Directors are set out in the Swiss Code of Obligations 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 other natural persons, pursuant to its own rules of procedure governing organisational matters, except where mandatory legal provisions stipulate otherwise. 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, financial statements 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 legal 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, approval of the principles governing the company's finances and accounts and also internal and external audits
- Preparation of the remuneration report

Other activities and vested interests

Mr Benedikt Goldkamp,
Chairman of the Board of Directors

Activities in governing and supervisory bodies

- Model Holding AG, Weinfelden, Switzerland (Member of the Board of Directors)

Mr Ulrich Hocker,
Member of the Board of Directors

Activities in governing and supervisory bodies
– Feri Finance AG, Bad Homburg, Germany (Deputy Chairman of the Supervisory Board)
– DMG Mori Seiki AG, Bielefeld, Germany (Vice Chairman of the Board of Directors)

Permanent management and consultancy functions
– Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW), Düsseldorf, Germany

Official functions and political posts
– German Financial Reporting Enforcement Panel (FREP), Member of the Governing Board

Mr Beat Siegrist,
Member of the Board of Directors

Activities in governing and supervisory bodies
– Schweiter Technologies, Horgen, Switzerland (Chairman of the Board of Directors)
– INFICON Holding AG, Bad Ragaz, Switzerland (Member of the Board of Directors)
– Garaventa Accessibility AG, Goldau, Switzerland (Chairman of the Board of Directors)

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

Number of permitted activities pursuant to Article 12(1)(1) ERCO (rules laid down in Article 22 of the Articles of Incorporation)
Members of the Board of Directors, the management and any advisory board may not hold or perform more than the following number of additional positions or activities in senior management or administrative bodies of other legal entities which are required to register themselves in the commercial register or an equivalent foreign register and which do not control or are not controlled by the company:
– 5 mandates with companies whose equity securities are listed on a stock exchange, where multiple mandates with different companies belonging to the same group count as one mandate; and
– 10 paid mandates with other legal entities, where multiple mandates with different companies belonging to the same group count as one mandate; and
– 10 unpaid mandates, where the reimbursement of expenses is not considered as remuneration.

Mandates fulfilled by a member of the Board of Directors or the management at the instruction of the company are not covered by this restriction on additional mandates.

There are no rules in the Articles of Incorporation that differ from the statutory legal provisions with regard to the appointment of the Chairman of the Board of Directors, the members of the Compensation Committee or the independent proxy.

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 member of the Board of Directors.

Internal organisational structure
The Board of Directors is deliberately kept small and usually performs its duties collectively. The Audit Committee, first set up in 2003, is primarily responsible for monitoring external audits.
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. Dr Ernst is a certified auditor and has the necessary knowledge and experience of finance and accounting. Another member of the Audit Committee since 2003 is Ulrich Hocker, a non-executive member of the Board of Directors. Mr Benedikt Goldkamp, Chairman of the Board of Directors, has been an Audit Committee member since 28 September 2016. The CFO also attends meetings. The Committee held two meetings in 2016, each lasting an average of three hours.

The Audit Committee works in an advisory capacity and prepares draft resolutions and recommendations for the attention of all members of the Board of Directors. Decisions are taken by the whole Board of Directors.

The Compensation Committee is the remuneration committee required by the Swiss Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO). The present members of the Beat Siegrist, Ulrich Hocker, Dr Martin Furrer were proposed to the 2016 Shareholders' General Meeting for election individually. The Compensation Committee draws up proposed remuneration guidelines for the Board of Directors and management. It also makes recommendations for Board of Directors compensation and the fixed and variable remuneration components for management. It prepares the Board of Directors' decision concerning the remuneration of the Board of Directors and management and submits a proposal to the Board of Directors on this matter. Based on the Compensation Committee's proposal, the whole Board of Directors decides on the remuneration of members of the Board of Directors and management and submits its decision to the Shareholders' General Meeting for approval, in accordance with the Articles of Incorporation. The Chairman of the Board of Directors attends meetings of the Compensation Committee in an advisory capacity. He leaves the meeting when his own remuneration is being discussed.

Information and control instruments vis-à-vis the management

The Board of Directors has a number of instruments to enable it to perform its duties vis-à-vis the management to the fullest extent. For example, the company has a management information system encompassing all Phoenix Mecano Group companies. It includes detailed balance sheet and statement of income figures and enables the company to obtain 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 ensure that Board members are fully informed and have a sound basis for decision-making.

The dedicated, full-time Internal Auditing Department was set up in 2002. It is accountable to the Board of Directors and reports directly to it. Key audit issues in 2016 were accounts receivable and inventory management, the internal control system, the risk management system, transfer pricing documentation, compliance, employee inventions (in Germany) and IT. A review of construction expenditure was also conducted at a number of companies. A quality assessment performed by an external auditor (Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany) in early 2017 confirmed that the Phoenix Mecano Group's Internal Auditing Department complied with international standards. A quality assessment is carried out every five years.

A Group-wide risk management system was introduced in 2002 and a Group-wide internal control system in 2008. Both systems have proved invaluable and are continuously updated. Integrated software for both areas was rolled out in the fourth quarter of 2012. An in-depth review of internal control guidelines took place in 2014, covering control requirements and frequencies as well as documentation requirements. Risk management system processes were optimised in 2016.

Members of the Board of Directors and its committees

Board of Directors

Benedikt A. Goldkamp
Chairman
Executive role
Member since 2000

Ulrich Hocker
Independent Lead Director
Non-executive role
Member since 1988

Dr Florian Ernst
Non-executive role
Member since 2003

Dr Martin Furrer
Non-executive role
Member since 2003

Beat Siegrist
Non-executive role
Member since 2003

Audit Committee

Dr Florian Ernst (Chairman)
Member since 2003

Ulrich Hocker
Member since 2003

Compensation Committee

Beat Siegrist (Chairman)
Member since 2013

Ulrich Hocker
Member since 2013

Dr Martin Furrer
Member since 2013

All members of the Board of Directors are elected for one year until the 2017 Shareholders' General Meeting.

BOARD OF DIRECTORS

as at 31 December 2016

Benedikt A. Goldkamp (CH)
Chairman of the Board of Directors since 20 May 2016. Delegate of the Board of Directors from 1 July 2001 to 20 May 2016. Born in 1969. Resident in Lufingen (Switzerland).

Gained a degree in financial consultancy, followed by a Master of Business Administration from Duke University. 1996 – 1997 Worked as an auditor and strategy consultant at McKinsey & Co. 1998 – 2000 Managed the Group's own production company 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.

Ulrich Hocker (D)
Independent Lead Director. Member of the Board of Directors since 1988. Chairman of the Board of Directors from 2003 to 20 May 2016. Born in 1950. Resident in Düsseldorf (Germany).

Trained as a banker. Law degree, attorney at law. Managing Director of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW) from 1985 to November 2011 and President since 21 November 2011.

Dr Florian Ernst (CH)

Member of the Board of Directors since 2003. Born in 1966. Resident in Zollikon (Switzerland).

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 held various positions in the banking sector, including as a mergers & acquisitions consultant and the CFO of an alternative investment company in Pfäffikon, Schwyz. 2008–2015 occupied a number of posts at Deutsche Bank (Switzerland) AG, Zurich, including as Global Head Private Equity Distribution and advising clients in the Asset & Wealth Management Division. Since 2016 has performed various roles in the field of private markets, real estate and infrastructure as a partner at Arth Krawietz Pfau AG, Zurich.

Dr Martin Furrer (CH)

Member of the Board of Directors since 2003. Born in 1965. Resident in Zumikon (Switzerland).

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 & Co. 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 (CH)

Member of the Board of Directors since 2003. Born in 1960. Resident in Herrliberg (Switzerland).

Gained the following qualifications: Dipl. Ing. ETH in 1985, MBA INSEAD, Fontainebleau and McKinsey Fellowship in 1988. Development engineer for data transfer with Contraves, Consultant and Project Manager at McKinsey & Co. responsible for reorganisations and turnaround projects in the machine industry. 1996–2008 CEO of Schweiter Technologies, Horgen. Since 2008 member and since 2011 chairman of the Board of Directors of Schweiter Technologies Horgen. Member of the Board of Directors of INFICON Holding AG, Bad Ragaz, since 2010. 2008–2012 Managing Director of the Satisloh Group. Since 2013 Chairman of the Board of Directors of Garaventa Accessibility AG, Goldau.

Management

The management comprises the company's CEO and CFO. It is chaired by the CEO. The CEO and CFO are appointed by the Chairman of the Board of Directors. The management aids the Chairman of the Board by coordinating the Group's companies and advises on matters affecting more than one division.

Other activities and vested interests

No members of the management have any relevant

activities or vested interests to declare.

Number of permitted activities pursuant to Article 12(1)(1) ERCO

The number of permitted activities for members of the management is laid down in Article 22 of the company's Articles of Incorporation. The relevant rules are cited on page 45 in the Board of Directors section.

Management contracts

Furthermore, there are no management contracts between the Group and companies or persons with management duties.

Compensation, shareholdings and loans

Remuneration report, page 54; Financial statements, page 63.

Shareholders' participation rights

Voting rights and proxy voting

Each share entitles the holder to one vote at the Shareholders' General Meeting. There is no restriction on voting rights. Shareholders may be represented at the Shareholders' General Meeting by their legal representative, another third party with written authorisation or the independent proxy. All of the shares held by a shareholder can only be represented by one person.

Instructions to the independent proxy

The Board of Directors ensures that shareholders can also transmit their proxies and instructions to the independent proxy by electronic means. The Board of Directors determines the requirements applying to proxies and instructions. The independent proxy is elected for one year by shareholders at the ordinary Shareholders' General Meeting.

Quorums required by the Articles of Incorporation

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 a tie, 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 Incorporation must be approved by three quarters of the votes cast, irrespective of the number of shareholders present or the number of votes.

Convocation of the Shareholders' General Meeting / Inclusion of items on the agenda

The Shareholders' General Meeting (GM) is the company's top body. It 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 inclusion of an item on the agenda. Shareholders representing shares totalling 3% of the share capital may request the inclusion of an item on the agenda. The written request including the shareholder's agenda items and proposals must reach the company at least 45 days prior to the Shareholders' General Meeting.

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.

MANAGEMENT

as at 31 December 2016

Dr Rochus Kobler (CH) CEO
Member of the management since 2010. Dr oec. HSG, Dipl. Ing. ETH / MSc. Born in 1969. Resident in Unterägeri (Switzerland).

1997 – 2002 Senior Engagement Manager at McKinsey in Zurich, Johannesburg and Chicago. 2002 – 2010 CEO and Member of the Board of Directors of the international production and trading group Gutta. He was COO from 1 September 2010 to May 2016, and in June 2016 became CEO with responsibility for the operational management of the Phoenix Mecano Group.

René Schäffeler (CH) CFO
Member of the management since 2000. Certified accountant / controller. Born in 1966. Resident in Stein am Rhein (Switzerland).

Commercial training and active for several years in the banking sector. At Phoenix Mecano since 1989. After serving as Controller (until 1991), Head of the Group Accounting Department (1992 – 96) and Deputy Director of Finances and Controlling (1997 – 2000), he has been CFO since 2000. In this post he is responsible for finances, group accounting, controlling, taxes and IT.

Share ownership by members of the Board of Directors and management and persons related to them

Name	Position	31.12.2016	31.12.2015
Number			
Benedikt A. Goldkamp	Chairman of the Board of Directors (former Delegate)	1 865	1 865
Ulrich Hocker	Independent Lead Director (former Chairman of the Board of Directors)	8 898	8 898
Dr Florian Ernst	Board member	10	10
Dr Martin Furrer	Board member	100	100
Beat Siegrist	Board member	400	400
Shares held by the Board of Directors		**11 273**	**11 273**
Rochus Kobler	Member of the management/CEO	200	200
René Schäffeler	Member of the management/CFO	125	125
Shares held by the management		**325**	**325**

Entries in the share register

Since Phoenix Mecano AG has only issued bearer shares, no share register is kept.

Changes of control and defence measures

Duty to make an offer

The limit for the obligation to make an offer pursuant to Article 32 of the Swiss Federal Act on Stock Exchanges and Securities Trading 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.

Clauses on changes of control

There are no change-of-control clauses. Nor are there any agreements about extending contracts in the event of a hostile takeover. This applies to serving members of the Board of Directors and management as well as to other executive staff.

Auditors

Duration of the mandate and term of office of the lead auditor

By a decision of the Shareholders' General Meeting of 20 May 2016, KPMG AG, Zurich, were appointed as statutory auditors for the accounting and financial statements of Phoenix Mecano AG and as Group auditors of the consolidated financial statements of the Phoenix Mecano Group for a period of one year. KPMG AG, Zurich, first assumed the mandate as statutory and Group auditors in 2006. The lead auditor, Mr Kurt Stocker, has been in office since the 2012 Shareholders' General Meeting. The lead auditor is replaced every seven years.

Auditing fees

In the reporting year, KPMG received fees totalling EUR 677 000 for auditing the financial statements and consolidated financial statements.

Additional fees

KPMG received additional fees of EUR 360 000 in the reporting year: EUR 349 000 for tax consultancy, EUR 6 000 for legal advice and EUR 5 000 for miscellaneous services including support for the Internal Auditing Department.

Audit supervision and control instruments

Phoenix Mecano has a dedicated full-time Internal Auditing Department and a Board of Directors' Audit Committee. The external auditors attended both Audit Committee meetings in the reporting 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. Specific observations relating to the audit are presented to the Board of Directors in the form of a comprehensive report.

The Audit Committee assesses the auditors' performance annually based on the documents, reports and presentations they produce and the relevance and objectivity of their observations. In so doing, the Committee also takes into account the opinion of the CFO. The amount of the auditors' fees is regularly reviewed and compared with the auditing fees of other industrial companies. It is negotiated by the CFO and approved by the Audit Committee. All services performed outside the scope of the statutory audit mandate are compatible with the audit duties.

Information policy

Phoenix Mecano informs its stakeholders in an open and comprehensive way to create trust and promote understanding of the company. Its high level of transparency enables all stakeholder groups to make a full and accurate assessment of business development and prospects and the sustainability of management and corporate policy.

Relevant information about the Group's business activities is provided in its annual reports, semi-annual reports and media releases as well as at media and analysts' conferences and the Shareholders' General Meeting.

Company representatives maintain regular contact with the capital market as well as media representatives, financial analysts and investors. This also includes roadshows in Switzerland and abroad and one-on-one meetings at the company's headquarters.

The calendar of events and publications and the contact details of the investor relations manager can be found on page 36. Detailed information is also available online at www.phoenix-mecano.com, from where the Group's annual reports, latest media information and Articles of Incorporation can be downloaded:
– Annual reports/Semi-annual reports: www.phoenix-mecano.com/annualreports.html
– Media information: www.phoenix-mecano.com/current-media-releases.html
– Articles of Incorporation: www.phoenix-mecano.com/articles-of-incorporation.html
– Shareholders' General Meeting (invitation, results of votes): www.phoenix-mecano.com/general-meeting.html

For ad hoc disclosures, the relevant pages are:
– Pull link: www.phoenix-mecano.com/current-media-releases.html
– Push link: www.phoenix-mecano.com/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.

Auditing fees / Additional fees

in 1 000 EUR	**2016**	2015
Total auditing fees	677	710
Tax consultancy	349	579
Legal advice (mainly support with due diligence)	6	67
Miscellaneous	5	3
Total additional fees	360	649
Total	**1 037**	**1359**

REMUNERATION REPORT

This remuneration report contains information about the principles, procedures for determining remuneration and components of remuneration of the Board of Directors and management of Phoenix Mecano AG. It is also based on the Articles of Incorporation, the transparency requirements set out in the Swiss Code of Obligations (CO), the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the principles of the Swiss Code of Best Practice for Corporate Governance drawn up by Economiesuisse. The disclosures required under Articles 13–16 of the Swiss Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) are contained in a separate section at the end of this remuneration report.

Remuneration principles and governance

Remuneration of the management and Board of Directors is based on the following principles:

- Transparency (simplicity, clarity)
- Business success (value creation, shareholder benefit)
- Adherence to market rates of executive pay (benchmarking of similar companies, qualifications and experience)

At the 2016 ordinary Shareholders' General Meeting, the Shareholders' General Meeting voted on Board of Directors and management remuneration. In addition, the following members of the Compensation Committee were re-elected: Beat Siegrist, Ulrich Hocker, Dr Martin Furrer. President of the committee is Beat Siegrist.

The Compensation Committee meets as often as required, but at least once a year. One meeting of the Compensation Committee took place in 2016. The tasks, powers, responsibilities and working methods of the Compensation Committee are described on page 46 of the corporate governance report. The Compensation Committee can call in external compensation specialists to offer neutral advice or provide studies or data as a basis for comparison in setting remuneration.

Procedures for determining remuneration

The composition and level of remuneration awarded to the Board of Directors and management are based on sector and labour market comparisons. The Compensation Committee also consults comparative figures and surveys of listed companies operating in the same sector, with similar sales, headcounts and geographical presence and with headquarters in Switzerland.

The variable remuneration of management members and the Executive Chairman of the Board of Directors is based on business criteria. In this way, Phoenix Mecano ensures that management bonuses are conditional upon the creation of added value for shareholders. The reference indicators for this are the Group's result of the period and equity for the past financial year. Special or one-off items are taken into account, as they also impact on shareholders. In the interests of transparency, leverage effects and complex derivative structures are excluded from the outset.

The non-executive members of the Board of Directors receive only a fixed remuneration in cash, so that they can exercise their supervisory and overall guidance function free from conflicts of interest with the management.

Structure of remuneration

The Board of Directors is remunerated in cash for all of its duties, including ordinary and any extraordinary meetings, committee activities and other extraordinary activities. Expenses are not reimbursed separately. Only in the case of cross-border travel are the actual costs reimbursed.

The management of Phoenix Mecano consists of two members: the CEO and CFO. Both hold responsible positions with an overall management role. Remuneration for all members therefore follows the same model, based on a simple but effective formula. Remuneration for the Executive Chairman of the Board of Directors is also based on this formula.

Each member of the management and the Executive Chairman of the Board of Directors receive a fixed remuneration in cash, taking into account their qualifications, experience and area of responsibility, at prevailing market conditions (see also under Procedures for determining remuneration).

In addition, the members of the management and the Executive Chairman of the Board of Directors receive a variable remuneration component (bonus). To determine this component, a minimum profit margin of 3% of equity, calculated in relation to the Phoenix Mecano Group's balance-sheet equity, is first set aside. This is not taken into account in determining the bonus. Bonuses can only be paid if the result of the period, as recorded in the Phoenix Mecano Group's consolidated financial statements, exceeds this minimum amount of 3% of equity (for shareholders). No bonus is paid in the event of losses. All management members and the Executive Chairman of the Board of Directors receive their bonus as a percentage of the result of the period less the aforementioned minimum rate of return. The bonus is limited to a maximum of twice the fixed salary.

The percentage received by individual management members and the Executive Chairman of the Board of Directors is set in advance, taking into account the member's areas of responsibility.

Benedikt Goldkamp, Delegate of the Board of Directors and CEO of Phoenix Mecano AG, took over as Chairman of the Board of Directors at the Shareholders' General Meeting on 20 May 2016. He works for the Group as Executive Chairman of the Board of Directors. Ulrich Hocker, formerly Chairman of the Board of Directors of Phoenix Mecano AG, now serves as an independent Lead Director, representing the new Chairman in the event of any conflicts of interest. At the same time, Dr Rochus Kobler, formerly COO and Chairman of the Executive Committee, took over the role of CEO. The 2016 compensation was divided up pro rata in accordance with these changes (Chart page 58).

No shares were allocated and no options were organised in the reporting year. There are no shareholding programmes for members of the Board of Directors or management under which shares or options could be issued.

Social security and fringe benefits

The Phoenix Mecano Group operates a pension plan in Switzerland with a BVG-Sammelstiftung (collective foundation providing basic insurance as well as supplementary insurance for senior managers). This is fully reinsured by an insurance company. Members of the management are affiliated to this pension plan. Pension payments are based on retirement savings, to which annual retirement credits and interest are added. When an employee with basic insurance retires, they can choose between a lifetime annuity or a lump-sum payment; the managerial insurance takes the form of a lump-sum payment. The annuity is calculated by multiplying the retirement savings by the current conversion rate. In addition to retirement benefits, pension benefits also include disability and partner's pensions.

The Phoenix Mecano Group has also taken out group accident insurance for death and disability as well as daily sickness benefits insurance for members of the management and the Executive Chairman of the Board of Directors.

Management members and the Executive Chairman of the Board of Directors receive lump-sum expenses in accordance with the expense regulations approved by the relevant tax authorities. If they wish, members of the management are given a company car for business and private use.

The compensation awarded to members of the Board of Directors is subject to the usual social security contributions. With the exception of the Chairman, members of the Board of Directors do not participate in the Phoenix Mecano pension plan.

Additional fees

In principle, no fees or other allowances for additional services to Phoenix Mecano AG or any of its Group companies are awarded to members of the Board of Directors and management or persons related to them. Exceptions must be approved by the Shareholders' General Meeting.

Contractual terms and conditions

The employment contracts of management members provide for a maximum notice period of 12 months.

Severance pay

There is no contractual provision for severance pay for members of the Board of Directors or management.

Rules laid down in the Articles of Incorporation

The Articles of Incorporation include the following rules concerning the vote on Board of Directors and management remuneration, the determination of performance-related pay and the allocation of equity securities, convertible rights and options, as well as concerning loans, credit facilities and post-employment benefits for members of the Board of Directors and management (extract from the Articles of Incorporation of Phoenix Mecano AG, version dated 20 May 2016):

Article 13

Each year the Shareholders' General Meeting shall, with binding effect, separately approve, based on a proposal by the Board of Directors, the maximum total amounts of the remuneration of the Board of Directors, the management (including any Delegate) and any advisory board, for the next financial year commencing after the ordinary Shareholders' General Meeting (the "approval period"). The maximum total amounts approved by the Shareholders' General Meeting may be paid by the company and/or by one or more Group companies.

If an approved maximum total amount for remuneration of the management is insufficient to compensate any members appointed after the resolution of the Shareholders' General Meeting up to the commencement of the next approval period, the company shall have at its disposal an additional amount per person of up to 50% of the previously approved maximum total remuneration of the management for the approval period in question.
The Shareholders' General Meeting shall not vote on the additional amount appropriated.

In addition to the approval pursuant to paragraph 1, the Shareholders' General Meeting may, each year, with binding effect, separately approve, based on a proposal by the Board of Directors, an increase in the approved maximum total amounts for remuneration of the Board of Directors, the management and any advisory board for the approval period ongoing at the time of the relevant Shareholders' General Meeting and/or for the preceding approval period. The Board of Directors shall be entitled to pay all kinds of authorised remuneration using the approved maximum total amounts and/or the additional amounts.

In addition, the Board of Directors may give the Shareholders' General Meeting the opportunity to hold an advisory vote on the remuneration report for the financial year preceding the Shareholders' Gen-eral Meeting in question.

If the Shareholders' General Meeting refuses to approve a maximum total amount for the members of the Board of Directors, the management or any advisory board, the Board of Directors may submit new proposals at the same Shareholders' General Meeting. If the Board of Directors does not submit new proposals or if the new proposals are also rejected, the Board of Directors may convene another Shareholders' General Meeting at any time, subject to legal requirements and the Articles of Incorporation.

Article 20

The company may pay executive members of the Board of Directors and the members of the management performance-related remuneration. The amount of this remuneration shall be based on the qualitative and quantitative targets and parameters set by the Board of Directors, in particular the overall success of the Group. The performance-related remuneration may be paid in cash or through the allocation of equity securities, conversion or option rights or other rights to equity securities. The Board of Directors shall specify detailed rules for the performance-related remuneration of members of the Board of Directors, the management and any advisory board. Non-executive members of the Board of Directors shall receive a fixed remuneration only.

The company may allocate equity securities, conversion or option rights or other rights to equity securities to members of the Board of Directors, the management and any advisory board as part of their remuneration. If equity securities, conversion or option rights or other rights to equity securities are allocated, the amount of the remuneration shall correspond to the value of the allocated securities and/or rights at the time of the allocation according to generally accepted valuation methods. The Board of Directors may stipulate a lock-up period for retaining the securities and/or rights and determine when and to what extent the beneficiaries acquire permanent entitlement and under what conditions any lock-up periods lapse and the beneficiaries immediately acquire permanent entitlement (e.g. in the event of a change of control, substantial restructuring or certain types of employment contract termination). The Board of Directors shall specify detailed rules.

Article 21

Loans and credit to members of the Board of Directors, the management and any advisory board may not as a rule exceed 100% of the annual remuneration of the individual in question.

Loans to corporate officers

Phoenix Mecano AG and its Group companies have not granted any securities, loans or credits to current or former members of the management and Board of Directors or persons related to them.

Remuneration for financial years 2016 and 2015 pursuant to ERCO *

The following remuneration was awarded for financial year 2016:

in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration 2016
Benedikt A. Goldkamp	Chairman of the Board of Directors (former Delegate)	396	107	81	584
Ulrich Hocker	Independent Lead Director (former Chairman of the Board of Directors)	256		16	272
Dr Florian Ernst	Board Member	64		5	69
Dr Martin Furrer	Board Member	64		5	69
Beat Siegrist	Board Member	64		5	69
Remuneration of the Board of Directors		844	107	112	1 063
Remuneration of the management		1 241	298	252	1 791
Remuneration of the Board of Directors and management		**2 085**	**405**	**364**	**2 854**
Highest individual management salary: Dr. Rochus Kobler	CEO	550	140	114	804

* see also note p. 55

The following remuneration was awarded for financial year 2015:

in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration 2015
Ulrich Hocker	Chairman of the Board of Directors	261		20	281
Benedikt A. Goldkamp	Delegate of the Board of Directors	64		5	69
Dr Florian Ernst	Board Member	64		5	69
Dr Martin Furrer	Board Member	64		5	69
Beat Siegrist	Board Member	64		5	69
Remuneration of the Board of Directors		517	0	40	557
Remuneration of the management		1 602	0	315	1 917
Remuneration of the Board of Directors and management		**2 119**	**0**	**356**	**2 475**
Highest individual management salary: Benedikt A. Goldkamp	CEO	726	0	142	868

The Phoenix Mecano Group's consolidated statement of income for 2016 includes no compensation for former members of the Group's bodies who left in the preceding period or before.

In financial year 2016, legal fees of CHF 21 000 were paid to law firm Baker & McKenzie Zurich, in which Dr Martin Furrer is a partner.

KPMG

Report of the Statutory Auditor

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

We have audited the accompanying remuneration report of Phoenix Mecano AG for the year ended December 31, 2016. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained on page 58 (table) Annual Report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor‘s Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended December 31, 2016 of Phoenix Mecano AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Thomas Lehner
Licensed Audit Expert

Zurich, March 22, 2017

Enclosure: Remuneration report

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

GROUP OPERATIONAL STRUCTURE

FINANCE AND SERVICE COMPANIES

SWITZERLAND

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

Phoenix Mecano Trading AG
CH-8260 Stein am Rhein
Managing director:
W. Schmid

BRAZIL

Phoenix Mecano Holding Ltda.
CEP 06460-110 Barueri - SP
Managing director:
D. Weber

GERMANY

IFINA Beteiligungsgesellschaft mbH
D-32457 Porta Westfalica
Managing directors:
B. A. Goldkamp, M. Sochor, M. Kleinle

HUNGARY

Phoenix Mecano Kecskemét Research and Development Kft.
H-6000 Kecskemét
Managing director:
Dr Z. Nagy

THE NETHERLANDS

PM International B.V.
NL-7005 AG Doetinchem
Managing directors:
G. H. B. Hartman, B. A. Goldkamp, R. Schäffeler

UNITED KINGDOM

Integrated Furniture Technologies Ltd.
GB-Aylesbury HP19 8RY
Managing directors:
M. Kleinle, Dr J. Gross

Phoenix Mecano Finance Ltd.
St. Helier, Jersey
GB-Channel Islands JE2 3NP
Managing director:
H. Durell

ENCLOSURES

Dr H. W. Rixen

GERMANY

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

Kundisch GmbH + Co. KG
D-78056 Villingen-Schwenningen
Managing director:
M. Brouwer

Rose Systemtechnik GmbH
D-32457 Porta Westfalica
Managing director:
Dr H. W. Rixen

SeKure Ident GmbH
D-82234 Wessling
Managing director:
M. Bergler

MECHANICAL COMPONENTS

M. Kleinle

GERMANY

DewertOkin GmbH
D-32278 Kirchlengern
Managing directors:
Dr J. Gross, M. Kersting

RK Rose+Krieger GmbH
D-32423 Minden
Managing director:
H. Hoffmann

ELCOM / EMS

Dr R. Kobler

GERMANY

ATON Lichttechnik GmbH
D-99848 Wutha-Farnroda
Managing director:
R. Bormet

Hartmann Codier GmbH
D-91083 Baiersdorf
Managing director:
P. Scherer

Hartmann Electronic GmbH
D-70499 Stuttgart (Weilimdorf)
Managing director:
Dr G. Zahnenbenz

Ismet GmbH
D-78056 VS-Schwenningen
Managing directors:
J. Reinecke, J. Bayer

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

Phoenix Mecano Power Quality GmbH + Co. KG
D-61279 Grävenwiesbach
Managing directors:
K.H. Goos, F. Kauert, O. Huppertz

Platthaus GmbH Elektrotechnische Fabrik
D-52477 Alsdorf
Managing director:
O. Huppertz

Wiener Power Electronics GmbH
D-51399 Burscheid
Managing directors:
A. Köster, Dr G. Zahnenbenz

PTR Messtechnik GmbH
D-59368 Werne
Managing director:
P. Scherer

GROUP HEADQUARTERS, SWITZERLAND – Phoenix Mecano AG,
Hofwisenstrasse 6, CH-8260 Stein am Rhein, www.phoenix-mecano.com

PRODUCTION AND SALES COMPANIES

AUSTRALIA
Phoenix Mecano Australia Pty Ltd.
Tullamarine, VIC 3043
Managing directors:
S. J. Gleeson, T. Thuess

AUSTRIA
AVS Phoenix Mecano GmbH
A-1230 Wien
Managing director:
R. Kleinrath

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

BRAZIL
Phoenix Mecano Comercial e Técnica Ltda.
06460-110 Barueri – SP
Managing director:
D. Weber

CZECH REPUBLIC
Ismet transformátory s.r.o.
CZ-67139 Běhařovice
Managing directors:
J. Reinecke, J. Bayer

DENMARK
Phoenix Mecano ApS
DK-5220 Odense SØ
Managing director:
P. Nilsson

FRANCE
Phoenix Mecano S.à.r.l.
F-94120 Fontenay-sous-Bois, Cedex
Managing director:
M. Lutin

GERMANY
RK System & Lineartechnik GmbH
D-88682 Salem-Neufrach
Managing director:
M. Pelz

RK Schmidt Systemtechnik GmbH
D-66606 St. Wendel
Managing director:
J. U. Schmidt

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

INDIA
Phoenix Mecano (India) Pvt. Ltd.
Pune 412115
Managing director:
S. Shukla

ITALY
Phoenix Mecano S.r.l.
I-20065 Inzago (Milano)
Managing director:
E. Giorgione

KOREA (SOUTH KOREA)
Phoenix Mecano Korea Co., Ltd.
Busan 614-867
Managing director:
T. J. Ou

MOROCCO
Phoenix Mecano Maroc S.à.r.l.
MA-93000 Tétouan
Managing director:
K. H. Goos

THE NETHERLANDS
PM Komponenten B.V.
NL-7005 AG Doetinchem
Managing director:
G. H. B. Hartman

PM Special Measuring Systems B.V.
NL-7532 SN Enschede
Managing director:
R. Lachminarainsingh

Wijdeven Inductive Solutions B.V.
NL-9561 AL Ter Apel
Managing director:
G. H. B. Hartman

PEOPLE'S REPUBLIC OF CHINA
Bond Tact Hardware (Dongguan) Co., Ltd.
Dongguan, Guangdong
Managing director:
E. Lam

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

Okin Refined Electric Technology Co., Ltd.
314024 Jiaxing
Managing directors:
Dr J. Gross, S. Li

I2 Mechanical and Electrical Co., Ltd.
314024 Jiaxing
Managing director:
J. Tang

Phoenix Mecano Components (Taicang) Co., Ltd.
215413 Taicang, Jiangsu Province
Managing director:
K. W. Phoon

Phoenix Mecano Hong Kong Ltd.
Hong Kong
Managing directors:
M. Kleinle, R. Schäffeler, P. Scherer

Shenzhen ELCOM Co., Ltd.
Shenzhen
Managing director:
P. Scherer

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

RUSSIA
Phoenix Mecano OOO
RUS-124489 Zelenograd, Moscow
Managing director:
M. Opeshansky

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

SPAIN
Sistemas Phoenix Mecano España S.A.
E-50011 Zaragoza
Managing director:
S. Hutchinson

SWEDEN
Phoenix Mecano AB
SE-360 44 Ingelstad
Managing director:
P. Nilsson

SWITZERLAND
Phoenix Mecano Komponenten AG
CH-8260 Stein am Rhein
Managing directors:
M. Jahn, W. Schmid

TUNISIA
Phoenix Mecano Digital Tunisie S.à.r.l.
TN-2084 Borj Cedria
Managing director:
R. Bormet

Phoenix Mecano ELCOM S.à.r.l.
TN-1111 Bouhejba-Zaghouan
Managing director:
C. Fitouri

Phoenix Mecano Hartu S.à.r.l.
TN-2013 Ben Arous
Managing director:
K. H. Goos

TURKEY
Phoenix Mecano Mazaka Endüstriyel Ürünler San ve Tic AŞ
TR-06374 Yenimahalle/Ankara
Managing director:
B. Cihangiroglu

UNITED ARAB EMIRATES
Rose Systemtechnik Middle East (FZE)
Sharjah – U.A.E.
Managing director:
H. Felsmann

UNITED KINGDOM
Phoenix Mecano Ltd.
GB-Aylesbury HP19 8RY
Managing director:
R. Bokämper

USA
Okin America Inc.
Shannon, MS 38868
Managing directors:
P. Brown, Dr J. Gross, M. Kleinle

Phoenix Mecano Inc.
Frederick, MD 21704
Managing director:
P. Brown

Orion Technologies, LLC
Orlando, FL 32826
Managing director:
N. Pandya

WIENER, Plein & Baus Corp.
Springfield, OH 45503
Managing director:
Dr A. Ruben

CONSOLIDATED FINANCIAL STATEMENTS

PHOENIX MECANO GROUP 2016

CONTENTS

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

in 1 000 EUR	Note No.	**2016**	2015
Assets			
NON-CURRENT ASSETS			
Goodwill	3	14 126	14 527
Other intangible assets	4	31 204	23 487
Investment properties	5	1 107	268
Tangible assets	5	127 594	120 509
Investments in associated companies	6	5 382	4 303
Other financial assets	7	31	1 924
Deferred tax assets	21	5 583	5 312
Total non-current assets		185 027	170 330
CURRENT ASSETS			
Inventories	8	125 037	122 838
Trade receivables	9	81 283	70 727
Derivative financial instruments	18	353	269
Income tax receivables		1 903	6 759
Other receivables	10	9 891	8 225
Current securities	11	3 957	4 144
Cash and cash equivalents	12	43 243	41 951
Deferred charges and prepaid expenses		1 667	1 477
Total current assets		267 334	256 390
Total assets		**452 361**	**426 720**

in 1 000 EUR	Note No.	**2016**	2015
Equity and liabilities			
EQUITY			
Share capital	13	594	594
Treasury shares	14	– 562	– 201
Retained earnings		260 709	250 299
Profits / losses from IAS 39		30	50
Translation differences		10 088	10 072
Equity attributable to shareholders of the parent company		270 859	260 814
Minority interest	15	1 898	1 812
Total equity		272 757	262 626
LIABILITIES			
Liabilities from financial leasing	16	66	98
Long-term financial liabilities	17	33 564	28 732
Long-term provisions	19	5 877	4 831
Long-term pension obligations	20	14 273	13 613
Deferred tax liabilities	21	6 903	4 228
Long-term liabilities		60 683	51 502
Trade payables	22	36 781	32 160
Short-term financial liabilities	23	44 036	41 720
Derivative financial instruments	18	168	461
Short-term provisions	19	11 584	12 260
Short-term pension obligations	20	225	205
Income tax liabilities		3 769	2 712
Other liabilities	24	19 588	19 894
Deferred income		2 770	3 180
Short-term liabilities		118 921	112 592
Total liabilities		179 604	164 094
Total equity and liabilities		**452 361**	**426 720**

CONSOLIDATED STATEMENT OF INCOME 2016

in 1 000 EUR	Note No.	**2016**	2015
Sales revenue	32	577 481	554 462
Changes in inventories		529	195
Own work capitalised		1 661	1 727
Other operating income	33	6 109	3 983
Cost of materials	34	–271 499	–258 933
Personnel expenses	35	–181 512	–176 506
Amortisation of intangible assets	36	–7 381	–8 344
Depreciation on tangible assets	37	–17 729	–17 801
Impairment and reversal of impairment losses on intangible and tangible assets	38	445	–11 211
Other operating expenses	39	–73 650	–72 581
Operating result		34 454	14 991
Result from associated companies	6	–806	–292
Financial income	40	4 195	4 580
Financial expenses	41	–5 669	–6 461
Financial result		–2 280	–2 173
Result before tax		32 174	12 818
Income tax	42	–9 168	–6 133
Result of the period		**23 006**	**6 685**
of which			
– Shareholders in the parent company		22 852	6 687
– Minority shareholders		154	–2
EARNINGS PER SHARE			
Earnings per share – undiluted (in EUR)	43	23.83	6.96
Earnings per share – diluted (in EUR)	43	23.83	6.96

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2016

in 1 000 EUR	Note No.	2016	2015
Result of the period		**23 006**	**6 685**
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Fluctuations in fair value of financial assets		–20	–48
Translation differences attributable to the parent company		16	3 308
Translation differences attributable to minority interest		–13	0
Total		–17	3 260
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of pension obligations	20	446	–991
Deferred tax	21	48	75
Total		494	–916
Other comprehensive income (after tax)		477	2 344
Comprehensive income		**23 483**	**9 029**
of which			
– Shareholders in the parent company		23 342	9 031
– Minority shareholders		141	–2

CONSOLIDATED STATEMENT OF CASH FLOW 2016

in 1 000 EUR	Note No.	**2016**	2015
Result of the period		23 006	6 685
Income tax	42	9 168	6 133
Result before tax		32 174	12 818
Amortisation of intangible assets	4	7 381	8 344
Depreciation on tangible assets	5	17 729	17 801
Losses/(gains) from the disposal of intangible and tangible assets	33, 39	–2 078	86
Impairment (Reversal of impairment losses) of intangible and tangible assets	3, 4, 5	–445	11 211
Losses and value adjustments on inventories	8	4 420	3 827
Result from associated companies	6	806	292
Other non-cash expenses/(income)		1 364	1 830
Increase/(decrease) in long-term provisions and pension obligations		1 518	974
Net interest expense/(income)	40, 41	698	912
Interest paid		–1 455	–1 188
Income tax paid		–5 150	–12 481
Operating cash flow before changes in working capital		**56 962**	**44 426**
(Increase)/decrease in inventories		–2 201	–5 557
(Increase)/decrease in trade receivables		–9 655	–5 351
(Increase)/decrease in other receivables, deferred charges and prepaid expenses		906	38
(Decrease)/increase in trade payables		4 426	1 385
(Decrease)/increase in short-term provisions and pension obligations		–1 011	3 174
(Decrease)/increase in other liabilities and deferred income		–768	837
Cash flow from operating activities		**48 659**	**38 952**

Table continued on page 69

in 1 000 EUR	Note No.	**2016**	2015
CAPITAL EXPENDITURE			
Intangible assets	4	–3 077	–3 223
Tangible assets	5	–20 792	–23 451
Financial assets		–2 380	–5 819
Current securities		–665	–219
Acquisition of Group companies	46	–16 809	–3 324
DISINVESTMENTS			
Intangible assets		5	11
Tangible assets	5, 33, 39	4 835	1 325
Financial assets		0	83
Current securities		732	636
Interest received		1 010	621
Dividends received	6	317	75
Cash used in investing activities		**–36 824**	**–33 285**
Dividends paid (including minority interest)		–13 463	–14 300
Change in minority interests		405	178
Purchase of treasury shares		–823	–201
Sale of treasury shares		529	450
Issue of financial liabilities		21 908	18 273
Repayment of financial liabilities		–18 740	–13 370
Cash flow from financing activities		**–10 184**	**–8 970**
Translation differences in cash and cash equivalents		–359	1 069
Change in cash and cash equivalents		**1 292**	**–2 234**
Cash and cash equivalents as at 1 January	12	41 951	44 185
Cash and cash equivalents as at 31 December	12	43 243	41 951
Change in cash and cash equivalents		**1 292**	**–2 234**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2015 AND 2016

in 1 000 EUR	Note No.	Share capital	Treasury shares	Retained earnings
Equity as at 31 December 2014		594	– 582	258 725
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Fluctuations in fair value of financial assets				
Translation differences				
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Revaluation of pension obligations				– 991
Deferred tax				75
Total other comprehensive income (after tax)		0	0	– 916
Result of the period				6 687
Total comprehensive income		0	0	5 771
Change in minority interest				– 124
Change in treasury shares	14		381	– 132
Dividends paid				– 13 941
Total equity transactions with owners		0	381	– 14 197
Equity as at 31 December 2015		**594**	**– 201**	**250 299**

Table continued on pages 72/73

Profits/(losses) financial assets from IAS 39	Translation differences	Equity attributable to shareholders of the parent company	Minority interest	**Total equity**
98	6764	265599	1871	267470
–48		–48		–48
	3308	3308		3308
		–991		–991
		75		75
–48	3308	2344	0	2344
		6687	–2	6685
–48	3308	9031	–2	9029
		–124	302	178
		249		249
		–13941	–359	–14300
0	0	–13816	–57	–13873
50	**10072**	**260814**	**1812**	**262626**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2015 AND 2016

in 1 000 EUR	Note No.	Share capital	Treasury shares	Retained earnings
Equity as at 31 December 2015		594	– 201	250 299
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS				
Fluctuations in fair value of financial assets				
Translation differences				
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Revaluation of pension obligations				446
Deferred tax				48
Total other comprehensive income (after tax)		0	0	494
Result of the period				22 852
Total comprehensive income		0	0	23 346
Change in minority interest				
Change in treasury shares	14		– 361	67
Dividends paid				– 13 003
Total equity transactions with owners		0	– 361	– 12 936
Equity as at 31 December 2016		**594**	**– 562**	**260 709**

Table continued from pages 70/71

Profits/(losses) financial assets from IAS 39	Translation differences	Equity attributable to shareholders of the parent company	Minority interest	**Total equity**
50	10 072	260 814	1 812	262 626
–20		–20		–20
	16	16	–13	3
		446		446
		48		48
–20	16	490	–13	477
		22 852	154	23 006
–20	16	23 342	141	23 483
		0	405	405
		–294		–294
		–13 003	–460	–13 463
0	0	–13 297	–55	–13 352
30	**10 088**	**270 859**	**1 898**	**272 757**

CONSOLIDATED SEGMENT INFORMATION 2016

By division	Enclosures		Mechanical Components	
in 1 000 EUR	**2016**	2015	**2016**	2015
Gross sales to third parties	170 540	169 580	286 894	274 365
Gross sales between divisions	260	137	71	107
Revenue reductions				
Sales revenue				
Reversal of impairment losses / (Impairment) of intangible and tangible assets		–55	–7	–13
Amortisation of intangible assets and depreciation on tangible assets	–6 382	–6 120	–8 867	–9 830
Operating result	18 760	16 994	25 075	22 217
Financial result				
Result before tax				
Income tax				
Result of the period				
Purchases of intangible and tangible assets	6 213	7 532	11 262	11 206
Segment assets	88 359	89 073	180 097	172 532
Cash and cash equivalents				
Other assets				
Total assets	88 359	89 073	180 097	172 532
Segment liabilities	24 106	24 453	43 939	39 799
Interest-bearing liabilities				
Other liabilities				
Total liabilities	24 106	24 453	43 939	39 799
Net assets	**64 253**	**64 620**	**136 158**	**132 733**

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

ELCOM/EMS		Total segments		Reconciliation*		Total Group	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
125 795	115 861	583 229	559 806	0	0	583 229	559 806
3 776	4 269	4 107	4 513	−4 107	−4 513	0	0
						−5 748	−5 344
						577 481	554 462
452	−11 143	445	−11 211	0	0	445	−11 211
−8 859	−9 424	−24 108	−25 374	−1 002	−771	−25 110	−26 145
−8 376	−21 665	35 459	17 546	−1 005	−2 555	34 454	14 991
						−2 280	−2 173
						32 174	12 818
						−9 168	−6 133
						23 006	**6 685**
5 555	6 869	23 030	25 607	839	1 067	23 869	26 674
115 290	93 658	383 746	355 263	3 870	4 129	387 616	359 392
				43 243	41 951	43 243	41 951
				21 502	25 377	21 502	25 377
115 290	93 658	383 746	355 263	68 615	71 457	452 361	426 720
17 488	14 505	85 533	78 757	5 558	7 353	91 091	86 110
				77 666	70 550	77 666	70 550
				10 847	7 434	10 847	7 434
17 488	14 505	85 533	78 757	94 071	85 337	179 604	164 094
97 802	**79 153**	**298 213**	**276 506**	**−25 456**	**−13 880**	**272 757**	**262 626**

CONSOLIDATED SEGMENT INFORMATION 2016

Sales revenue in 1 000 EUR	**2016**	2015
BY REGION		
Switzerland	22 581	22 664
Germany	197 003	195 578
UK	15 846	15 069
France	20 572	22 069
Italy	13 887	15 171
The Netherlands	18 990	16 079
Rest of Europe	85 694	78 244
North and South America	59 646	65 958
Middle and Far East	149 010	128 974
Gross sales	583 229	559 806
Revenue reductions	–5 748	–5 344
Sales revenue	**577 481**	**554 462**
BY PRODUCT GROUP		
Industrial enclosures	153 756	151 849
Input systems	16 784	17 731
Enclosures	170 540	169 580
Industrial assembly systems	45 170	40 702
Linear adjustment and positioning systems	241 724	233 663
Mechanical Components	286 894	274 365
Electro-mechanical Components	47 788	49 982
Power Quality	40 864	28 003
Electronic Packaging	37 143	37 876
ELCOM/EMS	125 795	115 861
Gross sales	583 229	559 806
Revenue reductions	–5 748	–5 344
Sales revenue	**577 481**	**554 462**

Long-term assets (tangible assets, intangible assets and investments in associated companies) in 1 000 EUR	**2016**	2015
BY REGION		
Switzerland	8 138	7 880
Germany	60 895	47 397
UK	3 079	4 200
France	379	368
Italy	152	1 278
The Netherlands	8 339	9 815
Rest of Europe	42 513	39 657
North and South America	5 397	5 652
Middle and Far East	50 521	46 847
Total	**179 413**	**163 094**

PRINCIPLES OF CONSOLIDATION AND VALUATION

Accounting principles

Phoenix Mecano AG with its subsidiaries (the Phoenix Mecano Group) operates worldwide as a manufacturer and seller of components for industrial customers in the electronics, electrical and mechanical engineering segments as well as of electric drives and control systems for adjustable ergonomic and healthcare furniture and hospital and healthcare beds. It is a 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 SIX Swiss Exchange since 1988. Its address is Hofwisenstrasse 6, CH-8260 Stein am Rhein.

The consolidated financial statements of Phoenix Mecano AG were drawn up in accordance with 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 consolidated financial statements are based upon audited annual or interim financial statements as at 31 December 2016, which in turn are based on the standard accounting, valuation and organisation criteria that are applied uniformly throughout the Group.

The consolidated financial statements were drawn up in accordance with the principle of historical acquisition and manufacturing cost. As an exception to this, financial assets held for sale, investments < 20%, receivables and liabilities from derivative financial instruments, liabilities hedged by fair value hedges and contingent purchase price payments from acquisitions (receivables and liabilities) are measured at fair value. In addition, assets held for sale (intangible assets, tangible assets) are measured at fair value less costs to sell, provided that this value is lower than the book value. The consolidated statement of income was drawn up using the total cost method.

Application of new accounting standards

The following amendments to IFRS/IAS standards were applied for the first time from 1 January 2016:
- Amendments to IFRS 11
- Amendments to IAS 16 and IAS 38
- Amendments to IAS 1
- Annual Improvements to IFRS 2012–2014

The application of the revised IFRS/IAS standards and interpretations had no impact on accounting, measurement and presentation or on the scope of the notes to the financial statements.

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 consolidated financial statements. Their impact on the Phoenix Mecano consolidated financial statements has not yet been systematically analysed; consequently, the expected effects listed at the base of the table are an initial estimate only.

NEW STANDARDS OR INTERPRETATIONS			Entry into force	Planned implementation by Phoenix Mecano
IFRS 15	Revenue from Contracts with Customers: IFRS 15 states that revenue is recognised at the time (or over the time) when control over goods or services is passed from entity to customer, at the amount to which the entity expects to be entitled.	2	1 Jan. 2018	Financial year 2018
IFRS 9	IFRS 9 - Financial Instruments replaces the current provisions of IAS 39 and contains revised guidance on the classification and measurement of financial assets and on hedge accounting. It also contains a new model for calculating the impairment of financial assets. The new standard reduces the number of measurement categories for financial assets. The new hedge accounting rules are intended to ensure that risk management activities are reflected more appropriately in the consolidated financial statements. To this end, IFRS 9 increases the scope of hedged items eligible for hedge accounting and eases the effectiveness tests. Impairment is now recognised on the basis of expected losses rather than incurred losses.	2	1 Jan. 2018	Financial year 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2	1 Jan. 2018	Financial year 2018
IFRS 16	IFRS 16 - Leases lays down accounting and disclosure requirements for lessees and lessors. For each lease, lessees are now required to recognise a right-of-use asset and a liability for their obligation to make lease payments, unless the lease term is 12 months or less or the underlying asset has a low value. Consequently, lease contracts that until now have been treated as operating leases will be recognised in the balance sheet, resulting in an increase in assets and liabilities.	2	1 Jan. 2019	Financial year 2019
REVISIONS AND AMENDMENTS OF STANDARDS AND INTERPRETATIONS				
Annual Improvements to IFRS 2014–2016 Cycle	Amendments to IFRS 12 Disclosure of Interests in Other Entities; Amendments to IAS 28 Investments in Associates and Joint Ventures	1	1 Jan. 2017; 1 Jan. 2018	Financial year 2017; Financial year 2018
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1	1 Jan. 2017	Financial year 2017
Amendments to IAS 7	Disclosure Initiative	1	1 Jan. 2017	Financial year 2017
Amendments to IFRS 2	Classification and Measurement of Sharebased Payment Transactions	1	1 Jan. 2018	Financial year 2018
Amendments to IAS 40	Transfers of Investment Property	2	1 Jan. 2018	Financial year 2018

1 No or negligible impact expected on Phoenix Mecano's consolidated financial statements.
2 Impact on Phoenix Mecano's consolidated financial statements is being examined in detail and cannot yet be determined with sufficient certainty.

Scope of consolidation

The consolidated financial statements cover all companies over which Phoenix Mecano AG exercises direct or indirect control. Control over a company exists if Phoenix Mecano AG is exposed or has rights to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. The consolidated 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 consolidated financial statements, with the exception of items that are eliminated during consolidation. Minority interests in equity are posted separately as a sub-item under equity. The minority share in the income is shown separately in the consolidated statement of income as a part of the result of the period. Newly acquired participating interests are included in the consolidated financial statements 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 consolidated financial statements in accordance with the equity method. Under the equity method, the fair value of the proportionate net assets at the acquisition date is calculated and recognised together with any goodwill under Investments in associated companies. In the subsequent reporting periods, this value is adjusted by the share of the Phoenix Mecano Group in the additional equity and result generated as well as by any dividends.

Capital consolidation

Capital consolidation at the acquisition date is based on the acquisition method. The purchase price for a company acquisition is determined based on the total of the fair value of the assets given, the liabilities incurred or assumed and the equity instruments issued by the Phoenix Mecano Group. Transaction costs associated with a company acquisition are recognised as income/expense. The goodwill arising from a company acquisition is recognised as an asset. It corresponds to the surplus of the total of the purchase price, the contribution of minority interests in the company being taken over and the market value of the previously held equity interest above the balance of assets, liabilities and contingent liabilities at fair value. For the measurement of minority interests, there is a choice with each transaction. They can be measured either at the market value or based on the minority share in the fair value of the net assets taken over. In the event of a negative difference, the remaining surplus is reported directly as income/expense following a further measurement of the fair value of the net assets taken over. Subsequent adjustments to the accounting of acquisitions are reported as an adjustment to goodwill if they are based on more accurate information about the fair value at the acquisition date and provided they occur within the measurement period, i.e. a period of 12 months.

If the Phoenix Mecano Group offers a seller a put option on the remaining minority interest at the time of acquisition, resulting in a de facto obligation to buy, this option is recognised as a residual purchase price liability and measured at fair value. Accordingly, no minority interest is reported in the consolidated financial statements. A contingent purchase price payment is measured at fair value at the acquisition date and recorded as a residual purchase price liability. Subsequent adjustments to such residual purchase price liabilities are recognised as income/expense.

Currency conversion

Owing to the great importance of the euro to the Group – a substantial proportion of Phoenix Mecano's sales are made in euro and most of its major subsidiaries are located in the euro area – the consolidated financial statements 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 separate item. The statement of cash flow is converted at the average exchange rate.

Intercompany profits

Intercompany profits on inventories and non-current 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 presented in accordance with internal reporting and follows the management approach.

The Phoenix Mecano Group is divided into three divisions (operating segments). An operating segment is a component of a company which engages in business activities from which it may earn revenues and incur expenses. Its operating results are reviewed regularly by the chief operating decision maker (CODM) in order to make decisions about resources to be allocated to the segment and assess its performance. Discrete financial information is available for the segment. The Group's three divisions are:

- Enclosures (enclosures made of aluminium, plastic and glass-fibre reinforced polyester, machine control boards and suspension systems for protecting electronics in an array of industrial applications, including explosion-proof enclosures as well as membrane keypads and touch systems)
- Mechanical Components (aluminium profiles, pipe connection systems, conveyor components, linear units, electric cylinders, lifting columns as well as linear drives and drive systems including fittings technology for industry and electrically adjustable furniture for the home and hospital care sector)
- ELCOM/EMS (switches, plug connectors, inductive components, transformers, instrument transformers, backplanes, power supplies, LED lights as well as circuit board equipment and the development of customised electronic applications right down to complete subsystems)

These form the basis for the segment reporting. In addition, central management and financial functions are included under "Reconciliation". Also recorded under Reconciliation are asset and liability items that are not allocated to the divisions (cash and cash equivalents, other assets and financial and other liabilities).

The gross sales of the individual divisions with third parties/associated companies and between the divisions are recognised in accordance with the management approach. Gross sales between individual divisions are invoiced on arms-length terms. They are reconciled to sales revenue (net sales) as recognised in the statement of income.

The result is allocated to the individual divisions to the level of the result before interest and tax. Segment assets include intangible assets, tangible assets, inventories, trade receivables, other receivables (excluding financial and interest receivables) and deferred charges and prepaid expenses of the respective business division. Segment liabilities include provisions, pension obligations, trade payables, other liabilities (excluding interest liabilities) and deferred income per business division. The remaining asset and liability items are recorded under Reconciliation. Measurement in the segment information is based on the same accounting principles as used in the IFRS consolidated financial statements, except for the presentation of sales.

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. Any resulting impairment losses are recognised in income. No reversal of impairment losses is performed.

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 and written off over the respective useful life, which must not exceed five years. Otherwise, research and development costs are debited directly to the statement of income.

Concessions, licences, similar rights and assets These other intangible assets are measured at acquisition cost less accumulated depreciation and, where appropriate, additional impairment losses. The depreciation rates are determined on a straight-line basis over the estimated useful life of the asset, which must not exceed 10 years, in accordance with standard Group practice. Financing costs on eligible assets are capitalised.

Phoenix Mecano possesses no other intangible assets with an indeterminate useful life.

Investment properties

Investment properties are held to earn rentals and for capital appreciation. They are measured at cost less depreciation and impairment. Investment properties are depreciated on a straight-line basis over 35 years (outside facilities and building installations over 10 to 15 years). In accordance with IAS 40, the fair value is shown in the notes for comparison. It is ascertained based on internal calculations of the income value or an estimate of the market value.

Tangible assets

Tangible assets are stated in the balance sheet at the acquisition or manufacturing cost, less accumulated depreciation and where appropriate less additional impairment losses. The straight-line method of depreciation is applied over the depreciation periods specified in the useful life categories used by the whole Group. Where components of larger assets have different useful lives, these are depreciated as separate items. Financing costs on eligible assets are capitalised.

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 (including usage rights)	unlimited useful life or duration of usage rights
Buildings	35 years
Outside facilities and building installations	10–15 years
Machinery and equipment	4–12 years

Leased assets
As a rule, lease contracts are only included in the balance sheet as financial lease contracts if the risks and rewards associated with ownership belong largely to the Group company when the contract is concluded. They are measured at the lower of the present value of the minimum lease payments and the fair value. The corresponding financial leasing commitments are posted as liabilities. The lease payments are divided up into interest and repayment sums in accordance with the annuity method. The leased assets are depreciated over the shorter of the estimated useful life and the lease term.

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

Impairment losses
Goodwill is checked annually for impairment. Other intangible and tangible assets are consistently checked for impairment if there are indications to suggest that this has taken place. The realisable value (the higher of the fair value less costs to sell and the value in use) of the asset or the cash-generating unit is estimated and a revenue adjustment to the previous book value is made, provided the latter exceeds the realisable value. The value in use corresponds to the present value of the expected future cash flows of the respective asset.

Previously recognised impairment losses are reversed (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.

The discount rate is determined based on the pre-tax weighted average cost of capital (WACC) of Phoenix Mecano. A differentiation is applied to individual Phoenix Mecano Group cash-generating units if their risk profile is significantly different.

Investments in associated companies
Investments shown under this item are valued in accordance with the criteria set out above under 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. Fluctuations in the market value of securities are recorded in the consolidated statement of comprehensive income and in equity under Other comprehensive income and only included in the statement of income in the event of sale or an impairment (treated as available-for-sale financial assets in accordance with IAS 39). If the fair value cannot be reliably determined, the valuation is made at acquisition costs. Any reductions in value (impairment) are taken into account through corresponding devaluations (affecting net income) of the amount still likely to be recovered. Such impairment is not reversed.

A key factor in deciding whether to derecognise a financial asset is the transfer of the associated risks and rewards (known as the “risks and rewards” approach).

Inventories

Inventories are reported at acquisition or production cost, which must not exceed the net realisable 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. Appropriate value adjustments are made for inventory-related risks 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. The value adjustment consists of individual value adjustments for specifically identified items, for which there is objective evidence to suggest that the outstanding amount will not be received in full, as well as flat-rate value adjustments for groups of receivables with a similar risk profile. The flat-rate value adjustments are based on age structure and historical receivables payment statistics. Where there is sufficient evidence to suggest that a receivable is definitely uncollectable, the receivable is derecognised directly. Subsequent incoming payments on amounts that have been derecognised are reported in income. Accounts payable and receivable between Group companies are offset against one another, provided that the companies are consolidated.

Current securities

Securities are measured at fair value, both on initial recognition and subsequently. This corresponds to the market price in effect on the balance sheet date. Fluctuations in the market value of securities are recorded in the consolidated statement of comprehensive income and in equity under Other comprehensive income and only included in the statement of income in the event of sale or an impairment (treated as available-for-sale financial assets in accordance with IAS 39). Impairment on equity instruments is not reversed in a way that affects net income. Accumulated interest on bonds is deferred.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, in bank and in postal accounts. It also includes fixed deposits with a term not exceeding three months from the date of acquisition.

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 depreciated.

Financial liabilities

Upon initial recognition, financial liabilities are recorded at fair value less transaction costs. In subsequent periods they are measured at amortised costs. 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. Residual purchase price liabilities from acquisitions are revalued at the balance sheet date and measured at fair value.

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

A financial liability is derecognised when it is cancelled or when it is discharged either judicially or by the creditor.

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 recognised if, on the balance sheet date, there exists a corresponding liability with respect to a restructuring measure.

Other long-term employee benefits Corresponding provisions are made for existing obligations 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 recognised as income/expense in the period in which they occur.

Employee participation plans There are no employee participation plans.

Pension obligations

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.

Defined benefit obligations are assessed annually for each plan by calculating the present value of the expected claims using the projected unit credit method and then subtracting the market value of the plan assets. The obligation is calculated annually by independent insurance experts.

Pension costs consist of the following three components:
– Service cost, which is recognised in the statement of income under Personnel expenses
– Net interest expense, which is recognised in the statement of income under Financial expenses
– Revaluation components, which are recognised in the statement of comprehensive income.

The service cost includes current service costs, past service costs and gains and losses from plan settlements. Gains and losses from plan curtailments are included in past service costs.

Net interest expense is the amount obtained by multiplying the discount rate by the net pension liability (or asset) at the start of the financial year, taking into account the changes arising in the financial year through contributions and pension payments. Capital flows and changes during the year are factored in proportionally.

Revaluation components include actuarial gains and losses due to changes in the present value of the pension obligations arising from changes in assumptions and experience adjustments, as well as the return minus the contributions contained in net interest expense and changes to unrecognised assets minus the effects contained in net interest expense. Revaluation components are recognised in Other comprehensive income in the statement of comprehensive income and are never subsequently reclassified to the statement of income.

The amount recognised in the consolidated balance sheet corresponds to the overfunding or underfunding of defined benefit pension plans (net pension liability or asset). However, the asset recognised from any overfunding is limited to the present value of the economic benefits arising from future reductions in contributions.

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

Trade payables and other liabilities

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

Equity

Equity is divided up into Phoenix Mecano AG's share capital (consisting of bearer shares), treasury shares, retained earnings, gains or losses on cash flow hedges under IAS 39, as well as financial assets, translation differences and minority interest.

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

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

Derivative financial instruments

All derivative financial instruments are measured at fair value in accordance with IAS 39 and are recognised separately in the Group balance sheet. For instruments traded in an active market, the fair value corresponds to the market value on the balance sheet date; for other instruments, it corresponds to the value determined on the basis of mathematical models. As part of its risk policy, the Group hedges interest and currency risks that are not treated as hedge accounting as defined by IAS 39. Changes in the market value of derivative financial instruments used in this way are recognised directly in the financial result as income/expense.

Revenue recognition

Sales are recognised upon service delivery and transfer of the significant risks and rewards to the customer. The timing will depend on the relevant terms and conditions of delivery.

Sales are recognised net of sales tax and value-added tax and after deduction of credit notes and discounts. Appropriate provisions are formed for anticipated warranty claims arising from the service provision.

Interest income is recognised on an accrual basis. 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 deferred 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. It is reflected in the statement of income, with the exception of income taxes on transactions reported directly in equity or under Other comprehensive income. In such cases, the corresponding income taxes are also recognised directly in equity or under Other comprehensive income in the statement of comprehensive income.

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 consolidated financial statements 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 and residual purchase price liabilities on acquisitions 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 and temporary differences are only capitalised if their realisation seems certain. For this to be the case, consistently positive results must have been achieved and be expected to continue in the foreseeable future. If there are taxable temporary differences and offsettable tax losses carried forward at the same company, the two amounts are 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 budgeted.

Statement of cash flow

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

Alternative performance indicators

The operating result corresponds to the earnings before taxes, financial result and share in the profit/loss of associated companies.

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 at 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 (including goodwill) and tangible assets These are tested for impairment annually. To ascertain whether impairment applies, the anticipated future cash flow generated by the use or the potential disposal of the assets in question is estimated. The latter is associated with a wide range of uncertainties, especially in the case of company property in unfavourable locations or product-specific manufacturing plants and tools as well as intangible assets such as know-how, customer bases and capitalised development services. Estimates are also necessary when determining the discount rate to be applied. 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 (as otherwise they are no longer suitable for soldering, for example). Some inventory items are customised. As a result, there are increased stock risks. On the basis of corresponding stock turnaround and storage period analyses, estimations and assessments on recoverability and devaluation requirements are carried out. For the book values of inventories, see note 8.

Provisions Guarantee provisions are calculated based on estimates of potential future guarantees and on past experience. There is a higher guarantee risk for linear drives used in the hospital and care sector. Individual Group companies are exposed to litigation. On the basis of currently 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 19.

Financial liabilities To determine the residual purchase price liabilities from acquisitions, estimates of the medium-term business development of the company concerned must be performed, with all the uncertainties that these entail.

Pension obligations Pension obligations from defined benefit plans (defined benefit obligations) 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 obligations posted on the balance sheet, see note 20.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

1 Currency exchange rates

	Balance sheet		Statements of income and cash flow	
	2016	2015	**2016**	2015
Euro für				
1 CHF	0.934	0.923	0.917	0.937
1 GBP	1.175	1.362	1.225	1.378
1 USD	0.956	0.919	0.904	0.901
100 HUF	0.323	0.316	0.321	0.323
1 RON	0.220	0.221	0.223	0.225
1 SEK	0.105	0.109	0.106	0.107
1 TND	0.414	0.453	0.423	0.461
1 SGD	0.659	0.649	0.655	0.656
1 CNY	0.138	0.142	0.136	0.143
1 BRL	0.292	0.232	0.261	0.275
1 INR	0.014	0.014	0.014	0.014
1 TRY	0.270	0.315	0.300	0.333
1 AUD	0.686	0.671	0.672	0.678

2 Scope of consolidation

In 2016 and 2015 the scope of consolidation changed as follows:

Date	Company	Change	Division
2016			
01.10.2016	Phoenix Mecano OOO	Foundation	Enclosures
01.07.2016	I-GEB spol. s.r.o.	Acquisition	ELCOM/EMS
01.07.2016	Ismet transformatory s.r.o.	Acquisition	ELCOM/EMS
01.07.2016	Ismet GmbH	Acquisition	ELCOM/EMS
01.07.2016	Ismet Holding GmbH	Acquisition	ELCOM/EMS
31.03.2016	Robco Design Ltd.	Liquidation	Mechanical Components
01.01.2016	PTR Messtechnik Verwaltungs-GmbH	Merger with PTR Messtechnik GmbH (former PTR Messtechnik GmbH + Co. KG)	ELCOM/EMS
2015			
05.12.2015	Hartu S.à.r.l. in Liquidation	Liquidation	ELCOM/EMS
01.08.2015	Wijdeven Power Holding B.V.	Acquisition	ELCOM/EMS
01.08.2015	Wijdeven Inductive Solutions B.V.	Acquisition	ELCOM/EMS
30.06.2015	OKIN Hungary Gépgyártó Kft	Merger with Phoenix Mecano Kecskemét KFT	Mechanical Components
25.03.2015	Sekure Ident GmbH	Foundation	Enclosures
03.02.2015	Phoenix Mecano America Latina S.A.	Foundation	Mechanical Components
01.01.2015	Redur Messwandler GmbH	Merger with Phoenix Mecano Power Quality GmbH & Co. KG	ELCOM/EMS

The following companies were fully consolidated as at 31 December 2016:

Scope of consolidation

Company	Head office
Phoenix Mecano AG	Stein am Rhein, Switzerland
Phoenix Mecano Management AG	Kloten, Switzerland
Phoenix Mecano Technologies AG	Stein am Rhein, Switzerland
Phoenix Mecano Trading AG	Stein am Rhein, Switzerland
Phoenix Mecano Komponenten AG	Stein am Rhein, Switzerland
Rose Systemtechnik GmbH	Porta Westfalica, Germany
Bopla Gehäuse Systeme GmbH	Bünde, Germany
Kundisch GmbH + Co. KG	Villingen-Schwenningen, Germany
Sekure Ident GmbH	Wessling, Germany
Hartmann Codier GmbH	Baiersdorf, Germany
PTR Messtechnik GmbH (ehemals PTR Messtechnik GmbH + Co. KG)	Werne, Germany
Phoenix Mecano Power Quality GmbH + Co. KG	Grävenwiesbach, Germany
Platthaus GmbH Elektrotechnische Fabrik	Alsdorf, Germany
Ismet GmbH	Villingen-Schwenningen, Germany
RK Rose + Krieger GmbH	Minden, Germany
RK System- & Lineartechnik GmbH	Salem-Neufrach, Germany
RK Schmidt Systemtechnik GmbH	St. Wendel, Germany
DewertOkin GmbH	Kirchlengern, Germany
Hartmann Electronic GmbH	Stuttgart, Germany
Wiener Power Electronics GmbH (former Plein & Baus GmbH)	Burscheid, Germany
Phoenix Mecano Digital Elektronik GmbH	Wutha-Farnroda, Germany
ATON Lichttechnik GmbH	Wutha-Farnroda, Germany
IFINA Beteiligungsgesellschaft mbH	Porta Westfalica, Germany
Ismet Holding GmbH	Villingen-Schwenningen, Germany
Götz Udo Hartmann GmbH	Grävenwiesbach, Germany
Kundisch Beteiligungs-GmbH	Villingen-Schwenningen, Germany
Phoenix Mecano S.à.r.l.	Fontenay-sous-Bois, Cedex, France
Phoenix Mecano Ltd.	Aylesbury, UK
Integrated Furniture Technologies Ltd.	Aylesbury, UK
Phoenix Mecano Finance Ltd.	St. Helier, Channel Islands, GB
Phoenix Mecano AB	Ingelstad, Sweden
Phoenix Mecano ApS	Odense, Denmark
Phoenix Mecano S.r.l.	Inzago, Milano, Italy
OMP Officina Meccanica di Precisione S.r.l. in Liquidation	Milano, Italy
Sistemas Phoenix Mecano Espana S.A.	Zaragoza, Spain
PM Komponenten B.V.	Doetinchem, The Netherlands

Activity	Currency	Registered capital in 1 000	**2016** Stake in %	2015 Stake in %
Finance	CHF	961	n/a	n/a
Finance	CHF	50	100	100
Finance	CHF	250	100	100
Purchasing	CHF	100	100	100
Production/Sales	CHF	2 000	100	100
Production/Sales	EUR	1 053	100	100
Production/Sales	EUR	750	100	100
Production/Sales	EUR	300	100	100
Sales	EUR	75	100	100
Production/Sales	EUR	300	100	100
Production/Sales	EUR	100	100	100
Production/Sales	EUR	300	100	100
Production/Sales	EUR	900	100	100
Sales/Production	EUR	512	100	n/a
Production/Sales	EUR	496	100	100
Production/Sales	EUR	250	100	100
Production/Sales	EUR	500	100	100
Production/Sales	EUR	1 000	100	100
Production/Sales	EUR	222	100	100
Production/Sales	EUR	51	100	100
Production/Sales	EUR	350	100	100
Production/Sales	EUR	100	100	100
Finance	EUR	4 000	100	100
Finance	EUR	120	100	n/a
Finance	EUR	26	100	100
Finance	EUR	26	100	100
Sales	EUR	620	100	100
Sales	GBP	300	100	100
Development	GBP	1	85	85
Finance	USD	1 969	100	100
Sales	SEK	100	100	100
Sales	DKK	125	100	100
Sales	EUR	300	100	100
–	EUR	5 000	100	100
Sales	EUR	60	90	90
Sales	EUR	20	100	100

Scope of consolidation

Company	Head office
PM Special Measuring Systems B.V.	Enschede, The Netherlands
Wijdeven Inductive Solutions B.V.	Ter Apel, The Netherlands
Wijdeven Power Holding B.V.	Ter Apel, The Netherlands
PM International B.V.	Doetinchem, The Netherlands
PM Komponenten N.V.	Deinze, Belgium
Phoenix Mecano Kecskemét KFT	Kecskemét, Hungary
Phoenix Mecano Kecskemét Research and Development KFT	Kecskemét, Hungary
Phoenix Mecano Plastic S.r.l.	Sibiu, Romania
Ismet transformatory s.r.o.	Beharovice, Czech Republic
I-GEB spol. s.r.o.	Beharovice, Czech Republic
Phoenix Mecano OOO	Moscow, Russia
Phoenix Mecano Inc.	Frederick, USA
WIENER, Plein & Baus Corp.	Springfield, USA
OKIN America Inc.	Shannon, USA
Phoenix Mecano Comercial e Tecnica Ltda.	Barueri, Brazil
Phoenix Mecano Holding Ltda.	Barueri, Brazil
Phoenix Mecano America Latina S.A.	Montevideo, Uruguay
Phoenix Mecano S. E. Asia Pte Ltd.	Singapore
Phoenix Mecano Korea Co. Ltd.	Busan, South Korea
Phoenix Mecano (India) Pvt. Ltd.	Pune, India
Mecano Components (Shanghai) Co., Ltd.	Shanghai, China
Shenzhen Elcom Co., Ltd.	Shenzhen, China
OKIN Refined Electric Technology Co., Ltd.	Jiaxing, China
I2 Mechanical and Electrical Co. Ltd.	Jiaxing, China
Phoenix Mecano Components (Taicang) Co., Ltd.	Taicang, China
Phoenix Mecano Hong Kong Ltd.	Hong Kong, China
Bond Tact Industrial Limited	Hong Kong, China
Bond Tact Hardware (Dongguan) Company Limited	Dongguan, China
Phoenix Mecano Mazaka A.S.	Ankara, Turkey
Rose Systemtechnik Middle East (FZE)	Sharjah, U.A.E.
Phoenix Mecano Australia Pty. Ltd.	Tullamarine Victoria, Australia
Phoenix Mecano Hartu S.à.r.l.	Ben Arous, Tunisia
Phoenix Mecano ELCOM S.à.r.l.	Bouhejba, Tunisia
Phoenix Mecano Digital Tunisie S.à.r.l.	Borj-Cedria, Tunisia
Phoenix Mecano Maroc S.à.r.l.	Tétouan, Morocco

Activity	Currency	Registered capital in 1 000	**2016** Stake in %	2015 Stake in %
Production/Sales	EUR	18	100	100
Production/Sales	EUR	16	100	100
Finance	EUR	18	100	100
Finance	EUR	4 500	100	100
Sales	EUR	100	100	100
Production/Sales	EUR	6 595	100	100
Development	EUR	502	100	100
Production	EUR	750	100	100
Production	CZK	6 823	100	n/a
Production	CZK	13 303	100	n/a
Sales	RUB	21 300	100	n/a
Production/Sales	USD	10 000	100	100
Sales	USD	100	100	100
Production/Sales	USD	10	100	100
Sales	BRL	7 601	100	100
Finance	BRL	1 062	100	100
Sales	UYU	200 000	100	100
Sales	SGD	1 000	75	75
Sales	KRW	370 000	75	75
Production/Sales	INR	299 452	100	100
Production/Sales	USD	3 925	100	100
Production/Sales	CNY	8 000	100	100
Production/Sales	CNY	100 000	100	100
Production/Sales	USD	5 000	55	55
Production/Sales	USD	10 000	100	100
Finance/Sales	EUR	5 000	100	100
Sales	HKD	500	100	100
Production/Sales	CNY	40 045	100	100
Sales	TRY	430	91	91
Sales	AED	150	100	100
Sales	AUD	204	70	70
Production	TND	2 500	100	100
Production	TND	500	100	100
Production	TND	100	100	100
Production	EUR	2 359	100	100

3 Goodwill

in 1 000 EUR	**2016**	2015
Acquisition costs 1 January	21 712	20 809
Translation differences	−401	903
Acquisition costs 31 December	21 311	21 712
Accumulated impairment losses 1 January	7 185	0
Impairment losses	0	7 185
Accumulated impairment losses 31 December	7 185	7 185
Net values 1 January	**14 527**	**20 809**
Net values 31 December	**14 126**	**14 527**

The book values for goodwill of EUR 14.1 million (previous year EUR 14.5 million) relate to the following cash-generating units: the Bopla product area in the Enclosures division, EUR 0.3 million (previous year EUR 0.3 million), and Okin Refined Electric Technology Co. Ltd. in China, in the Mechanical Components division, EUR 13.8 million (previous year EUR 14.2 million).

The change in goodwill in 2016 is due to currency effects relating to the goodwill of Okin Refined Electric Technology Co. Ltd. All goodwill was tested for impairment based on five-year plans for the relevant cash-generating units (CGUs). To determine the present value (value in use), a pre-tax discount rate (WACC) of 8.5% (previous year 7.5%) was used to measure the goodwill of the Bopla product area, and of 9.2% (previous year 8.4%) to measure the goodwill from the acquisition of Okin Refined in China. Growth of 0.5% for Bopla and 2% for Okin Refined was assumed after the projection period. Impairment was also tested using sensitivity analyses.

Impairment tests on Bopla and Okin Refined The impairment tests on the goodwill of Bopla and Okin Refined resulted in values in use that exceeded the book values of the corresponding goodwill by several times.

In the previous year, the following impairments were performed following impairment tests:

Platthaus GmbH Elektrotechnische Fabrik Due to the weakness of the market in customised transformers, filters and input chokes for the renewable energy sector, there were indications of impairment affecting the assets of Platthaus GmbH in Germany. The impairment test identified an impairment of the fair value of this ELCOM/EMS division CGU, determined on the basis of a five-year plan and an EBITDA multiple. The resulting impairment loss broke down as follows:

in 1 000 EUR	2015
Goodwill	1 842
Intangible assets	452
Tangible assets	166
Total	**2 460**

It therefore covered the entire goodwill of Platthaus GmbH. The remainder of the impairment loss was allocated pro rata to the customer base, know-how and tangible assets in Germany, taking into account the estimated disposal values of individual assets.

Impairment test on PM Special Measuring Systems B.V. Due to project cancellations and postponements and sluggish investment in research laboratories and the construction of high-voltage direct current (HVDC) transmission equipment, resulting in reduced and heavily fluctuating demand for high-precision measuring systems for electrical current, there were indications of impairment affecting the assets of PM Special Measuring Systems B.V. in the Netherlands. The calculation of the value in use was based on a five-year business plan. The value in use calculated for this ELCOM/EMS division CGU was EUR 7.4 million. The impairment test identified an impairment of this value in use, breaking down as follows:

in 1 000 EUR	2015
Goodwill	5 343
Intangible assets	889
Total	**6 232**

It therefore covered all of the goodwill. The remainder of the impairment loss was allocated pro rata to the customer base and know-how in the Netherlands.

4 Other intangible assets

in 1 000 EUR	Note No.	Development costs	Concessions, licences, similar rights and assets	Development projects in progress	Total
Acquisition costs 31 December 2014		10 064	62 503	1 583	74 150
Additions of companies included in consolidation	46		1 715		1 715
Translation differences		14	1 459	12	1 485
Addition		315	2 074	834	3 223
Disposals		–691	–5 096		–5 787
Reclassification		1 230		–1 230	0
Acquisition 31 December 2015		10 932	62 655	1 199	74 786
Accumulated amortisation 31 December 2014		9 136	36 803	0	45 939
Translation differences			843		843
Amortisation	36	481	7 863		8 344
Impairment losses	38		1 960		1 960
Reversal of impairment losses	38				0
Disposals		–692	–5 095		–5 787
Reclassification		32	–32		0
Accumulated amortisation 31 December 2015		8 957	42 342	0	51 299
Net values 1 January 2015		**928**	**25 700**	**1 583**	**28 211**
Net values 31 December 2015		**1 975**	**20 313**	**1 199**	**23 487**
Acquisition costs 31 December 2015		10 932	62 655	1 199	74 786
Additions of companies included in consolidation	46		11 961		11 961
Translation differences		4	–1 393	7	–1 382
Additions		388	2 023	666	3 077
Disposals		–91	–1 187		–1 278
Reclassification		795	286	–1 081	0
Acquisition costs 31 December 2016		**12 028**	**74 345**	**791**	**87 164**
Accumulated amortisation 31 December 2015		8 957	42 342	0	51 299
Translation differences			–790		–790
Amortisation	36	701	6 680		7 381
Impairment losses	38				0
Reversal of impairment losses	38		–657		–657
Disposals		–91	–1 182		–1 273
Reclassification					0
Accumulated amortisation 31 December 2016		9 567	46 393	0	55 960
Net values 31 December 2016		**2 461**	**27 952**	**791**	**31 204**

Concessions, licences, similar rights and assets includes primarily the customer base, patents and other industrial property rights as well as unprotected inventions (know-how) gained from acquisitions, in addition to software licences and distribution rights and patents and other intangible rights and assets paid for.

Other intangible assets worth EUR 0.07 million (previous year EUR 0.01 million) were subject to reservation of title as at the balance sheet date.

A reversal of impairment losses was performed on the customer base and unprotected inventions (know-how) at PM Special Measuring Systems B.V. in 2016 within the framework of the impairment tests on CGUs at the balance sheet date. This was because the cumulative present value of planned cash flows for this CGU increased owing to an improvement in gross margin, while the operating non-current assets decreased as a result of amortisation. In the previous year, various write-downs were performed on customer bases, unprotected inventions (know-how) and capitalised development projects, since these business activities had not developed as originally planned. The bulk of the impairment losses in 2015 related to Platthaus GmbH and PM Special Measuring Systems B.V. The five-year plans for the relevant CGU were used as a basis for calculating the necessary write-downs. A pre-tax discount rate (WACC) of 8.5% (previous year 7.5%) was applied to determine the present value (value in use). The impairment tests also assumed growth of between 0.5 and 2% (previous year between 0.5 and 2%) after the projection period.

The breakdown by division of impairment losses and reversal of impairment losses is clear from the segment information provided. In the statement of income, impairment losses on intangible assets in the previous year of EUR 2.0 million and the EUR 0.7 million reversal of impairment losses in 2016 are included under Impairment/reversal of impairment losses on intangible and tangible assets (see note 38).

5 Tangible assets

in 1 000 EUR	Note No.	Investment properties	Land and buildings	Machinery and equipment	Construction in progress	Total
Acquisition costs 31 December 2014		1 775	119 419	213 521	2 633	337 348
Additions of companies included in consolidation	46		100	190		290
Translation differences		–135	2 623	2 642	3	5 133
Addition			3 336	13 027	7 088	23 451
Disposals		–1 245	–186	–10 616	–9	–12 056
Reclassification			270	2 319	–2 589	0
Acquisition costs 31 December 2015		395	125 562	221 083	7 126	354 166
Accumulated depreciation 31 December 2014		835	57 356	163 047	0	221 238
Translation differences		–43	1 138	1 823		2 918
Depreciation	37	19	3 442	14 340		17 801
Impairment losses	38		1 463	603		2 066
Disposals		–684	–179	–9 771		–10 634
Reclassification			–6	6		0
Accumulated depreciation 31 December 2015		127	63 214	170 048	0	233 389
Net values 1 January 2015		**940**	**62 063**	**50 474**	**2 633**	**116 110**
Net values 31 December 2015		**268**	**62 348**	**51 035**	**7 126**	**120 777**
Acquisition costs 31 December 2015		395	125 562	221 083	7 126	354 166
Additions of companies included in consolidation	46		6 765	1 105		7 870
Translation differences		102	146	46	20	314
Additions			3 060	11 354	6 378	20 792
Disposals			–7 768	–8 536	–156	–16 460
Reclassification		940	651	2 638	–4 229	0
Acquisition costs 31 December 2016		1 437	128 416	227 690	9 139	366 682
Accumulated depreciation 31 December 2015		127	63 214	170 048	0	233 389
Translation differences		35	198	121		354
Depreciation	37	30	3 653	14 046		17 729
Impairment losses	38			212		212
Disposals			–5 582	–8 121		–13 703
Reclassification		138	–138			0
Accumulated depreciation 31 December 2016		330	61 345	176 306	0	237 981
Net values 31 December 2016		**1 107**	**67 071**	**51 384**	**9 139**	**128 701**

Land and buildings is divided into developed and undeveloped land with a book value of EUR 13.0 million (previous year EUR 12.9 million) and factory and administration buildings with a balance sheet value of EUR 54.1 million (previous year EUR 49.4 million).

The balance sheet value of capitalised leased financial assets (machinery) was EUR 0.1 million, compared with EUR 0.1 million the previous year. These are the result of acquisitions.

The fire insurance value of the tangible assets amounted to EUR 342.4 million on the balance sheet date, compared with EUR 327.2 million the previous year.

Land and buildings with a book value of EUR 14.0 million (previous year EUR 10.7 million) were mortgaged to cover debts. The amount of the corresponding credit taken up totalled EUR 6.6 million (previous year EUR 5.8 million). These changes are primarily acquisition-related.

Tangible assets with a balance sheet value of EUR 0.01 million (previous year EUR 0.05 million) were subject to reservation of title on the balance sheet date.

Write-downs of machinery were performed in the reporting year within the framework of the impairment tests on CGUs and assets at the balance sheet date. For this machinery, the fair value was used as a basis for the valuation.

The breakdown by division of impairment losses and reversals of impairment losses is clear from the segment information provided. In the statement of income, impairment losses on tangible assets in the reporting year of EUR 0.2 million are included under Impairment of intangible and tangible assets (see note 38).

Write-downs of buildings in China and Tunisia, machinery and other equipment totalling EUR 2.1 million were performed in the previous year within the framework of the impairment tests on CGUs and assets at the balance sheet date. The five-year plans for the corresponding CGUs were used as a basis for determining the necessary write-downs. For a building in China, the fair value was used as a basis for the valuation.

The fair value of the investment property in Brazil is EUR 1.2 million (previous year EUR 0.9 million). The increase is the result of translation differences. A property in India has been leased since 2016, resulting in a corresponding reclassification to investment property. The fair value is EUR 0.8 million. The investment properties are classified in Level 3 of the fair value hierarchy. The fair value was calculated using an income value method. The rental income of the investment properties is EUR 0.2 million and their direct operating expenses are EUR 0.02 million.

6 Investments in associated companies

in 1 000 EUR	Investment in %	**2016**	2015
UPDATE OF INVESTMENT IN ASSOCIATED COMPANIES			
AVS Phoenix Mecano GmbH, Vienna (A)	50		
Orion Technologies LLC Florida (USA)	34		
Electroshield C Babynino (RU)	20		
Jiaxing Yinuo Electronic Technology Co. Ltd. Jiaxing (CN)	40		
Tefelen Preissinger GmbH	50		
As at 1 January		4 303	1 282
Purchases		1 500	4 209
Result		–806	–292
Dividends paid		–317	–75
Translation differences		702	–821
As at 31 December		**5 382**	**4 303**

Phoenix Mecano products are sold in Austria through the joint venture AVS-Phoenix Mecano GmbH (A). Purchases of goods from Group companies totalled EUR 3.0 million (previous year EUR 2.7 million). The result of the period and the comprehensive income totalled EUR 0.3 million (previous year EUR 0.2 million).

On 31 March 2014, the Phoenix Mecano Group acquired a 20% stake in Orion Technologies LLC, Florida, USA; it increased this investment by a further 13.92% on 30 September 2015 as part of a capital increase. The associated purchase price was variable, in so far as the Phoenix Mecano Group will receive reimbursement in the form of additional shares in 2017 if the 2016 result falls below a minimum level. The Phoenix Mecano Group has therefore recorded part of the payment, totalling EUR 1.6 million, as an unchanged contingent receivable (see notes 7 and 48). The balance of EUR 0.6 million is shown under this item as an investment in associated companies. There is also a call option to acquire further shares, which can be exercised between 2017 and 2020. Orion Technologies LLC develops and manufactures industrial computer systems for customised applications. The company purchased goods from Group companies totalling EUR 0.2 million (previous year EUR 0.06 million). At the balance sheet date there was a loan from Group companies to Orion totalling EUR 0.9 million (previous year EUR 0.0 million). The result of the period and the comprehensive income totalled EUR –1.6 million (previous year EUR –0.9 million).

On 4 June 2015, the Phoenix Mecano Group acquired a 40% stake in Jiaxing Yinuo Electronic Technology Co. Ltd., Jiaxing, China. The purchase price was EUR 0.6 million. There is a call option to acquire a further 20%, which can be exercised until 2019 subject to certain conditions. The company develops and manufactures electrical components such as handsets and control units for drive technology. Purchases of goods from Group companies totalled EUR 0.03 million (previous year EUR 0.2 million). Sales of goods to Group companies totalled EUR 0.3 million in 2016. The result of the period and the comprehensive income totalled EUR –0.2 million (previous year EUR –0.3 million).

On 11 June 2015, the Phoenix Mecano Group acquired a 20% stake in Electroshield C, Babynino, Russia, for a sum of EUR 3.0 million. There is a call option to acquire the remaining shares, which can be exercised in 2018. If this call option is not exercised, the vendors have the right, upon expiry of the option period, to buy back the Phoenix Mecano Group's 20% stake, or the Phoenix Mecano Group has the right to transfer the stake back to the vendors. The company develops, manufactures and sells instrument transformers, current transformers and high-voltage transformers.

In the previous year, Electroshield C made a 100% payment of EUR 1.0 million to a Phoenix Mecano Group company for a production facility which that company acquired for Electroshield C from a third-party supplier. The facility was delivered in early 2016. As in the previous year, the company neither purchased goods from nor sold goods to Group companies. The result of the period and the comprehensive income totalled EUR 0.2 million (previous year EUR 0.1 million).

On 4 August 2016, the Phoenix Mecano Group acquired a 50% stake in Tefelen GmbH (D), which was subsequently renamed Tefelen Preissinger GmbH. The purchase price was EUR 1.5 million. The company develops, manufactures and sells busbars. It neither purchased goods from nor sold goods to Group companies. The result of the period and the comprehensive income totalled EUR –0.7 million.

The aforementioned options are not recognised as having a fair value at 31 December 2016 or 31 December 2015.

7 Other financial assets

in 1 000 EUR	Note No.	**2016**	2015
Contingent variable purchase price payment on acquisitions	6	1 625	1 562
Loans to associated companies	6	883	0
Other loans		262	262
Value adjustment on other financial assets		–216	0
Investments (under 20%)		228	228
Value adjustment on investments		–216	–104
Non-current securities		0	266
Current portion of long-term financial assets	10	–2 535	–290
Balance sheet value		**31**	**1 924**
BY CURRENCY			
EUR		31	250
USD		0	1 562
Other currencies		0	112
Balance sheet value		**31**	**1 924**
BY MATURITY			
in 2 years		6	1 787
in 3 years		6	6
in 4 years		7	7
none		12	124
Balance sheet value		**31**	**1 924**
INTEREST RATES (LOANS)			
EUR		3.2%	3.1%
USD		6.0%	–
UPDATE OF VALUE ADJUSTMENT ON OTHER FINANCIAL ASSETS			
As at 1 January		104	238
Allocation of value adjustment	41	328	104
Release of value adjustment (disposal)		0	–238
As at 31 December		**432**	**104**

The loans are fixed rate.

The non-current securities relating to pension obligations in the previous year were secured with liens in favour of the employee concerned. In 2016 they were reclassified and are shown net with the pension liabilities (see note 20).

Due to indications of an impairment on an investment (under 20%), an impairment test was performed, which resulted in a further write-down of EUR 0.1 million in the reporting year (previous year EUR 0.1 million).

8 Inventories

in 1 000 EUR	**2016**	2015
Raw and ancillary materials	81 561	78 571
Work in progress	6 528	6 004
Finished goods and merchandise for resale	53 201	52 048
Value adjustments	– 16 253	– 13 785
Balance sheet value	**125 037**	**122 838**

The value adjustments were determined based on marketability and range of the stocks. Changes in value adjustments and losses on inventories totalling EUR 4.4 million (previous year EUR 3.8 million) are included in the statement of income under Other operating expenses (see note 39).

Other than the usual reservations of title applied in typical business operations, no stocks had liens on them as at 31 December 2016 and 2015.

9 Trade receivables

in 1 000 EUR	**2016**	2015
Trade receivables	84 023	73 571
Receivables due from associated companies	141	176
Value adjustments	– 2 881	– 3 020
Balance sheet value	**81 283**	**70 727**
BY CURRENCY OF TRADE RECEIVABLES		
CHF	1 158	1 125
EUR	34 335	31 020
USD	8 884	8 547
HUF	81	63
CNY	27 419	21 387
Other currencies	9 406	8 585
Balance sheet value	**81 283**	**70 727**
REGIONAL BREAKDOWN OF TRADE RECEIVABLES		
Switzerland	1 872	1 657
Germany	10 638	9 172
UK	1 967	2 131
France	3 963	3 913
Italy	3 590	2 772
The Netherlands	2 550	3 234
Rest of Europe	11 498	9 651
North and South America	8 578	7 401
Middle and Far East	36 627	30 796
Balance sheet value	**81 283**	**70 727**
UPDATE OF VALUE ADJUSTMENT ON TRADE RECEIVABLES		
Individual value adjustments		
As at 1 January	1 095	1 520
Change	– 111	– 425
As at 31 December	984	1 095
Flat-rate value adjustments		
As at 1 January	1 925	1 392
Change	– 28	533
As at 31 December	1 897	1 925
Total	**2 881**	**3 020**

in 1 000 EUR	2016 Gross	2016 Value adjustments	2015 Gross	2015 Value adjustments
AGING ANALYSIS OF TRADE RECEIVABLES NOT SUBJECT TO INDIVIDUAL VALUE ADJUSTMENTS				
Gross values	84 164		73 747	
Gross value of receivables subject to individual value adjustments	– 1 032		– 1 214	
Total	**83 132**		**72 533**	
of which:				
Not due	67 327		57 800	
Overdue for 1 – 30 days	10 489		8 802	
Overdue for 31 – 60 days	2 480		2 691	
Overdue for 61 – 90 days	656	164	979	139
Overdue for 91 – 180 days	708	299	709	315
Overdue for more than 180 days	1 472	1 434	1 552	1 471
Total	**83 132**	**1 897**	**72 533**	**1 925**

The average payment term was 52 days (previous year 51 days).

The individual value-adjusted receivables relate mainly to debtors who are involved in bankruptcy proceedings or have been directed to a collection agency. The flat-rate value adjustments for overdue receivables were determined on the basis of experience. There are no cluster risks.

Receivables not due and to which individual value adjustments have not been applied are mainly receivables from long-standing customers. The Phoenix Mecano Group considers the value adjustments formed as appropriate based on past experience.

10 Other receivables

in 1 000 EUR	Note No.	2016	2015
Tax receivables from VAT and other taxes		4 288	4 305
Current portion of long-term financial assets	7	2 535	290
Financial receivables		63	228
Advanced payments for inventories		1 586	2 027
Other		1 419	1 375
Balance sheet value		**9 891**	**8 225**

11 Current securities

in 1 000 EUR	**2016**	2015
AVAILABLE-FOR-SALE SECURITIES		
Bonds and bond funds	3 957	4 144
Balance sheet value	**3 957**	**4 144**
BY CURRENCY		
EUR	3 941	4 127
Other currencies	16	17
Balance sheet value	**3 957**	**4 144**
BY MATURITY		
in 1 year	2 237	740
in 2 years	1 059	2 111
in 3 years	0	1 086
in 4 years	441	0
in 5 years	220	207
Balance sheet value	**3 957**	**4 144**
EFFECTIVE INTEREST RATE FOR BONDS		
EUR	1.4%	1.3%
Other currencies	8.1%	8.6%

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

12 Cash and cash equivalents

in 1 000 EUR	**2016**	2015
MEANS OF PAYMENT		
Cash at bank and in postal accounts	26 494	24 575
Cash on hand	514	316
Total	**27 008**	**24 891**
OTHER CASH AND CASH EQUIVALENTS		
Fixed-term deposits (up to 3 months)	16 235	17 060
Balance sheet value	**43 243**	**41 951**
BY CURRENCY		
CHF	1 036	1 201
EUR	20 804	20 934
USD	12 193	10 577
HUF	326	291
CNY	3 616	4 835
Other currencies	5 268	4 113
Balance sheet value	**43 243**	**41 951**
INTEREST RATES		
CHF	0.0%	0.0%
EUR	0.0%	0.3%
USD	0.1%	0.1%
HUF	0.0%	0.2%
CNY	0.5%	0.5%

13 Share capital and reserves

The share capital is fully paid up and divided into 960,500 bearer shares (previous year 960,500) 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. Each share entitles the holder to attend the Shareholders' General Meeting and cast one vote. The reserve for translation differences contains the accumulated translation differences resulting from translation of the financial statements of Group companies.

The significant shareholders of Phoenix Mecano AG are:

Name in %	Head office	**2016**	2015
Planalto AG	Luxembourg, Luxembourg	34.6*	34.6*
Tweedy, Browne Global Value Fund (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	New York, USA	5.5*	5.5*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9*	4.9
Credit Suisse Funds AG	Zurich, Switzerland	3.3	–

* Stake not reported in the year indicated.

This information is based on notifications by the aforementioned shareholders.

14 Treasury shares

	Number of shares		Acquisition costs	
Number/in 1 000 EUR	**2016**	2015	**2016**	2015
As at 1 January	485	1 260	201	582
Share purchases	2 104	485	823	201
Share sales	–1 169	–1 260	–462	–582
As at 31 December	**1 420**	**485**	**562**	**201**

Detailed information on the purchases and sales effected in 2016 can be found in the notes to the financial statements of Phoenix Mecano AG on page 153 (see note 2.9).

15 Minority interest

The minority interests are: in %	2016	2015
I2 Mechanical and Electrical Co. Ltd.	45	45
Phoenix Mecano Australia Pty. Ltd.	30	30
Phoenix Mecano S.E. Asia Pte. Ltd.	25	25
Phoenix Mecano Korea Co. Ltd.	25	25
Integrated Furniture Technologies Ltd.	15	15
Sistemas Phoenix Mecano Espana S.A.	10	10
Phoenix Mecano Mazaka A.S.	9	9
Robco Designs Ltd.	*	15

* This company was liquidated on 31 March 2016 (see note 2).

A capital increase at I2 Mechanical and Electrical Co. Ltd. took place on 15 June 2016. The minority shareholder›s interest was EUR 0.4 million, in line with its shareholding.

The remaining 10% of the shares in RK System- und Lineartechnik GmbH were acquired on 14 December 2015. The purchase price was EUR 0.02 million.

These transactions are recognised in the statement of changes in equity.

All of the Phoenix Mecano Group’s minority interests are non-significant.

16 Liabilities from financial leasing

in 1 000 EUR	Note No.	2016	2015
MINIMUM LEASING COMMITMENT			
Minimum leasing commitments due within 1 year		36	36
Minimum leasing commitments due within 1 – 5 years		76	111
Total		112	147
less future interest charge		– 14	– 17
Present value of leasing commitments		98	130
less current portion	23	– 32	– 32
Balance sheet value (long-term portion)		**66**	**98**

The average interest rate for liabilities from financial leasing remained unchanged at 4.1%. These are the result of acquisitions.

17 Long-term financial liabilities

in 1 000 EUR	Note No.	**2016**	2015
Liabilities to financial institutions		39 196	34 453
Residual purchase price liabilities from acquisitions		4 312	3 864
Other financial liabilities		42	0
Current portion of long-term financial liabilities	23	–9 986	–9 585
Balance sheet value		**33 564**	**28 732**
BY CURRENCY			
CHF		13 777	13 614
EUR		13 601	9 430
USD		2 390	2 298
CNY		3 754	3 390
Other currencies		42	0
Balance sheet value		**33 564**	**28 732**
BY MATURITY			
in 2 years		14 099	7 545
in 3 years		8 246	11 366
in 4 years		4 147	4 390
in 5 years		4 996	2 069
after 5 years		2 076	3 362
Balance sheet value		**33 564**	**28 732**
INTEREST RATES			
CHF		1.1%	1.1%
EUR		1.2%	1.4%
USD		2.5%	2.5%
CNY		3.5%	3.5%

For Okin Refined Electric Technology Co., Ltd., acquired in 2010, there is a purchase commitment for the remaining shares held by a third party resulting from call and put options totalling EUR 4.3 million (previous year EUR 3.9 million) (see note 25).

The liabilities to financial institutions are all in principle fixed rate.

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

There are no covenants.

18 Derivative financial instruments

	Contract values		Receivables due from derivative financial instruments		Liabilities from derivative financial instruments	
in 1 000 EUR	**2016**	2015	**2016**	2015	**2016**	2015
FORWARD EXCHANGE CONTRACTS BY CURRENCY						
CHF	3 736	4 615		19	27	
USD		3 668		5		
HUF	10 500	20 500	328	222		146
RON	5 060	4 650	25	23		70
Other currencies		36				
Total	19 296	33 469	353	269	27	216
FORWARD EXCHANGE CONTRACTS BY MATURITY						
in 1 year			353	269	27	216
Total			353	269	27	216
INTEREST RATE CHANGE CONTRACTS BY CURRENCY						
EUR	4 000	4 000			69	76
CHF	5 604	6 923			72	169
Total	9 604	10 923	0	0	141	245
INTEREST RATE CHANGE CONTRACTS BY MATURITY						
in 1 year					141	245
Total			0	0	141	245
NET BALANCE SHEET VALUE BY MATURITY						
Total short-term			353	269	168	461
Net balance sheet value			**353**	**269**	**168**	**461**

The forward exchange purchases of HUF and RON for EUR were used for partial hedging of the planned operating expenses in local currency in Hungary and Romania. The forward exchange purchase of CHF for EUR in the reporting year was used to hedge the dividend payment. All forward exchange contracts in the consolidated financial statements at 31 December 2016 and 31 December 2015 were held for trading purposes.

The interest rate change contracts relate to payer swaps in EUR and CHF. They were held for trading purposes in the consolidated financial statements at 31 December 2016 and 31 December 2015.

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

19 Provisions

in 1 000 EUR	Provisions for long-term employee benefits	Guarantee provisions	Restructuring provisions	Other provisions	**Total 2016**	Total 2015
Provisions as at 1 January	3 858	2 903	2 573	7 757	17 091	15 011
Change in scope of consolidation		99		340	439	76
Translation differences	3	1		63	67	64
Usage	–567	–739	–1 841	–5 803	–8 950	–7 834
Releases	–215	–779	–412	–1 056	–2 462	–1 814
Allocation	1 182	1 179	1 052	7 863	11 276	11 588
Provisions as at 31 December	**4 261**	**2 664**	**1 372**	**9 164**	**17 461**	**17 091**
Due within 1 year	518	2 555	696	7 815	11 584	12 260
Due after 1 year	3 743	109	676	1 349	5 877	4 831

The provisions for long-term employee benefits relate to 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 IAS 19.

The restructuring costs mainly comprise costs for the adjustment of production capacity in North Africa as well as the costs of closing down the Alsdorf site in Germany with the aim of streamlining transformer and choke production processes and making optimal use of capacity at production facilities in southern Germany and the Czech Republic.

Other provisions include provisions for short-term payments to employees (e.g. indemnities not related to restructuring, and salary bonuses) totalling EUR 5.8 million (previous year EUR 5.6 million), a provision of EUR 0.7 million to cover the remaining term of a lease following the closure of the Alsdorf site, as well as provisions for litigation risks, impending losses and other conceivable risks from contractual or constructive obligations.

20 Pension obligations

The Phoenix Mecano Group operates a number of pension plans for employees in Switzerland and elsewhere, which meet the relevant criteria for inclusion. These include both defined benefit and defined contribution plans, which cover the Group employees in question against death, disability and retirement risks.

Defined contribution pension plans In some countries, the Phoenix Mecano Group operates pension plans which qualify as defined contribution pension plans under the terms of IAS 19. Some of these plans also include employee contributions. These contributions are normally deducted from the monthly salary and transferred to the pension plan. Apart from paying the contributions and transferring the employee and employer contributions, there are not currently any further obligations on the part of the employer.

Defined benefit pension plans The main plans relate to Switzerland and Germany.

Swiss pension plan The Group operates a pension plan for employees in Switzerland with a BVG-Sammelstiftung (collective foundation providing basic insurance as well as supplementary insurance for senior managers). This is fully reinsured by an insurance company.

The senior management body of this collective foundation is the Foundation Board, which comprises an equal number of employee and employer representatives from the member companies. The Foundation Board is required by law and the pension plan regulations to act solely in the interests of the foundation and its beneficiaries (active insured persons and pension recipients). The employer cannot therefore determine the benefits and financing unilaterally. Decisions are taken jointly by the employee and employer representatives. The Foundation Board is responsible for changes to the pension plan regulations and in particular for determining the financing of pension benefits. The foundation is regulated by the Foundation Supervisory Authority of the Canton of Zurich.

Pension payments are based on retirement savings, to which annual retirement credits and interest are added (negative interest is not possible). When an employee with basic insurance retires, they can choose between a lifetime annuity or a lump-sum payment; the managerial insurance takes the form of a lump-sum payment. The annuity is calculated by multiplying the retirement savings by the current conversion rate. In addition to retirement benefits, pension benefits also include disability and partner's pensions. These are calculated as a percentage of the insured annual salary or old-age pension. The insured can also make additional payments to improve their pension up to the maximum set by the regulations or withdraw money early to buy a residential property for their own use. If the employee leaves the company, the retirement savings are transferred to the pension fund of their new employer or to a vested benefits foundation. Benefits are financed through savings and risk contributions paid by the employer and employee. The savings contributions are determined by the Administrative Board consisting of employer and employee representatives. The risk contributions may be adjusted periodically by the insurance company. The employer makes at least 50% of the necessary contributions.

In setting benefits, the minimum requirements of the Swiss Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (OPA) and its implementing provisions must be observed. The OPA stipulates the minimum wage to be insured and the minimum retirement credits. The minimum interest rate to be applied to these minimum retirement savings is determined by the Swiss Federal Council at least every two years. In 2016 it was 1.25% (2015: 1.75%).

The terms and conditions of the pension plan and the statutory provisions of the OPA give rise to actuarial risks such as investment risk, interest rate risk, disability risk and longevity risk, which are reinsured by a life insurance company. As long as affiliation to the foundation continues, there is no possibility of underfunding. However, the collective foundation could terminate the affiliation contract, in which case the Phoenix Mecano Group would have to join another occupational pension fund.

The pension assets are not invested by the collective foundation itself but by the insurance company. The pension plan assets therefore consist solely of a receivable due from the insurance company.

German pension plan There are personal defined benefit pension plans for individual pensioners, departed and still active employees (mainly executives). No new commitments are being entered into (except in the case of pension plans taken over through acquisitions). In principle, entitlement to pension benefits arises on the grounds of old age, disability or death. Payments take the form of lifetime annuities or in some cases lump-sum payments, depending on the relevant pension regulations. Survivors are entitled to a percentage of the annuity at the time of the beneficiary's death. In principle, as regards the amount of the annuity payment, pension plans are fixed or dependent on the statutory contribution assessment ceiling at the time the insured event occurs. In one case, benefits are dependent on the development of salaries for civil servants. Individual plans have separate plan assets. The pension benefits are financed by the employer. In the event that an employee leaves the company before a pension benefit becomes payable, they retain their entitlements to pension payments in accordance with legal requirements. Of the 13 persons entitled to pension benefits, 11 had vested benefits as at the balance sheet date.

The terms and conditions of the pension plans and the statutory provisions expose the employer to actuarial risks. The main risks are longevity risk, interest rate risk and the risk of inflation compensation for individual pensions as well as risks associated with the development of civil servant salaries or the contribution assessment ceiling for statutory pension insurance in Germany.

Financial position of defined benefit pension plans as at 31 December 2016 and 2015 in 1 000 EUR	**Switzer-land**	**Germany**	**31.12.2016 Total**	Switzer-land	Germany	31.12.2015 Total
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS						
As at 1 January	27 077	5 421	32 498	21 767	6 193	27 960
Change in scope of consolidation		2 318	2 318			0
Service costs	1 234	54	1 288	1 138	55	1 193
Employee contributions	748		748	750		750
Interest expense	160	112	272	305	117	422
Capital	2 016		2 016	958		958
Pension payments	– 2 293	– 203	– 2 496	– 2 144	– 236	– 2 380
Actuarial (gains) / losses	– 562	492	– 70	2 125	– 708	1 417
Plan amendments	118		118	– 141		– 141
Translation differences	359		359	2 319		2 319
As at 31 December	28 857	8 194	37 051	27 077	5 421	32 498
FAIR VALUE OF PLAN ASSETS						
As at 1 January	18 680	0	18 680	15 892		15 892
Change in scope of consolidation		1519	1 519			0
Reclassification		266	266			0
Interest income	112		112	224		224
Employer contributions	872		872	851		851
Employee contributions	748		748	750		750
Capital	2 016		2 016	958		958
Pension payments	– 2 293		– 2 293	–2144		–2144
Income from plan assets excluding interest income	396	– 20	376	426		426
Translation differences	257		257	1723		1723
As at 31 December	20 788	1 765	22 553	18 680		18 680
NET BALANCE SHEET VALUE OF PENSION OBLIGATIONS (SWITZERLAND AND GERMANY)						
Present value of defined benefit obligations			– 37 051			– 32 498
Fair value of plan assets			22 553			18 680
Balance sheet value			– 14 498			**– 13 818**

Table continued on page 115

Financial position of defined benefit pension plans as at 31 December 2016 and 2015 in 1 000 EUR	**31.12.2016 Total**	31.12.2015 Total
THE NET PENSION OBLIGATION HAS DEVELOPED AS FOLLOWS (SWITZERLAND AND GERMANY)		
As at 1 January	– 13 818	– 12 068
Change in scope of consolidation including reclassification	–533	0
Total expenses recognised in the statement of income	– 1 566	– 1 250
Total expenses recognised in other comprehensive income	446	– 991
Pension payments	203	236
Employer contributions	872	851
Translation differences	– 102	– 596
As at 31 December	**– 14 498**	**– 13 818**
Weighted average duration of pension obligations (in years)	16,7	16,8
PENSION EXPENSE (SWITZERLAND AND GERMANY)		
Service costs	1 288	1 193
Net interest expenses	160	198
Plan amendments	118	– 141
Pension expense for defined benefit plans	1 566	1 250
Pension expense for defined contribution plans	728	719
Pension expense	2 294	1 969
THE EXPENSES RECOGNISED IN OTHER COMPREHENSIVE INCOME BROKE DOWN AS FOLLOWS (SWITZERLAND AND GERMANY)		
(Gains) / losses from changed financial assumptions	925	1 973
Experience (gains) / losses	– 995	– 556
Income from plan assets excluding amounts contained in interest income	– 376	– 426
(Income) / expenses in other comprehensive income	**– 446**	**991**

Actuarial assumptions in %	**31.12.2016 Total**	31.12.2015 Total
Discount rate Switzerland	0.50	0.60
Discount rate Germany	1.50	2.10
Interest rate payable on retirement savings in Switzerland	1.40	1.40
Expected rate of salary increase Switzerland	1.50	1.50
Expected rate of salary increase Germany	2.50	2.50
Expected rate of pension increase Germany	1.50	1.50
Life expectancy Switzerland	OPA 2015 generation table	OPA 2010 generation table

The expected outflow of funds for employer contributions from defined benefit plans in 2017 is EUR 0.9 million.

Sensitivities A change in the key assumptions of +0.25% or –0.25% would have the following impact on the present value of the defined benefit obligations:

Sensitivities as at 31 December 2016 in %	**31.12.2016** +0,25% Effect on DBO	**31.12.2016** –0,25% Effect on DBO
Discount rate Switzerland	–3.9	4.5
Discount rate Germany	–4.0	4.2
Interest rate payable on retirement savings in Switzerland	3.9	–4.5
Future salary increases Switzerland	0.2	–0.2
Future pension increase Germany	3.3	–3.1
Increase in life expectancy Switzerland (+ / – 1 year)	1.5	–1.5

Sensitivities as at 31 December 2015 in %	**31.12.2015** +0,25% Effect on DBO	**31.12.2015** –0,25% Effect on DBO
Discount rate Switzerland	–4.1	4.6
Discount rate Germany	–3.4	3.6
Interest rate payable on retirement savings in Switzerland	4.1	–4.6
Future salary increases Switzerland	0.2	–0.2
Future pension increase Germany	3.1	–1.8
Increase in life expectancy Switzerland (+ / – 1 year)	1.7	–1.6

The above sensitivity calculations are based on one assumption changing while the other assumptions remain the same. In practice, however, there are certain correlations between the individual assumptions. The method used to calculate the sensitivities is the same as that used to calculate the pension obligations recognised on the balance sheet date.

21 Deferred Tax

in 1 000 EUR	**2016**	2015
DEFERRED TAX ASSETS		
– Non-current assets	1 155	753
– Inventories	2 267	2 126
– Receivables	361	332
– Provisions	3 439	2 857
– Other	867	680
Deferred tax assets	8 089	6 748
Deferred tax on losses carried forward	1 056	1 286
Total deferred tax assets	9 145	8 034
Netting with deferred tax liabilities	–3 562	–2 722
Balance sheet value	5 583	5 312
DEFERRED TAX LIABILITIES		
– Non-current assets	–9 837	–6 147
– Inventories	–284	–583
– Receivables	–84	–57
– Provisions	–53	–81
– Other	–207	–82
Total deferred tax liabilities	–10 465	–6 950
Netting with deferred tax assets	3 562	2 722
Balance sheet value	–6 903	–4 228
Net position deferred tax	**–1 320**	**1 084**
TREND OF DEFERRED TAX		
As at 1 January	1 084	–2 279
Changes of tax rate recognised in the statement of income	10	–184
Translation differences	96	101
Change in scope of consolidation	–4 238	–359
Reduction/(increase) in value adjustments on actuarial gains and losses from IAS 19, not affecting income	48	75
Change in temporary differences recognised in the statement of income	1 680	3 730
As at 31 December	**–1 320**	**1 084**

Table continued on page 118

in 1 000 EUR	2016	2015
EXPIRY OF NON-CAPITALISED TAX LOSSES CARRIED FORWARD		
Up to 1 year	370	0
1–2 years	835	370
2–3 years	1 963	843
3–4 years	1 453	1 681
4–5 years	1 538	597
Over 5 years	54 321	50 777
Total	**60 480**	**54 268**
VALUATION DIFFERENCES ON WHICH NO DEFERRED TAXES WERE CAPITALISED		
Non-current assets	1 798	932
Inventories	2 292	1 350
Receivables	120	57
Provisions	833	448
Other	210	128
Total	**5 253**	**2 915**

Due to uncertainties regarding the usability of tax losses carried forward totalling EUR 60.5 million (previous year EUR 54.3 million), no deferred tax assets were recorded on this amount. Of the tax losses carried forward which expire after five years, EUR 24.2 million (previous year EUR 17.3 million) expire within 20 years. The remaining losses can be carried forward for an indefinite period.

No deferred tax liabilities were recorded on temporary differences on investments in fully consolidated companies totalling EUR 83.0 million (previous year EUR 61.7 million).

22 Trade payables

in 1 000 EUR	2016	2015
Trade payables	36 781	32 160
Balance sheet value	**36 781**	**32 160**
BY CURRENCY		
CHF	985	1 108
EUR	9 692	8 505
USD	4 849	4 326
HUF	252	316
CNY	17 555	14 870
Other currencies	3 448	3 035
Balance sheet value	**36 781**	**32 160**

23 Short-term financial liabilities

in 1 000 EUR	Note No.	2016	2015
Liabilities to financial institutions		33 928	31 971
Other		90	132
Current portion of:			
– Liabilities from financial leasing	16	32	32
– Long-term financial liabilities	17	9 986	9 585
Balance sheet value		**44 036**	**41 720**
BY CURRENCY			
CHF		12 938	12 554
EUR		20 050	17 853
USD		9 756	10 022
CNY		1 249	865
Other currencies		43	426
Balance sheet value		**44 036**	**41 720**
BY MATURITY			
in < 3 months		33 381	32 649
in 3–6 months		6 340	5 716
in 6–12 months		4 315	3 355
Balance sheet value		**44 036**	**41 720**
INTEREST RATES			
CHF		1.0%	1.2%
EUR		0.9%	1.0%
USD		2.2%	1.9%
CNY		4.6%	4.9%
Other currencies		10.0%	11.5%

24 Other liabilities

in 1 000 EUR	2016	2015
Social security liabilities	1 677	1 733
Liabilities to employees	7 530	6 689
Liabilities arising from VAT and other taxes	5 227	4 864
Advance payments on orders	3 487	4 654
Other	1 667	1 954
Balance sheet value	**19 588**	**19 894**

25 Categories of financial instruments

As at 31 December 2016 and 31 December 2015, the book values of financial assets and liabilities (including long-term fixed-interest financial liabilities), as shown below, correspond approximately to the IFRS fair value. The fair value of long-term financial liabilities is EUR 0.7 million (previous year EUR 0.7 million) higher than the book value. It corresponds to the present value of the estimated future cash flows based on the terms and maturities of each individual contract, discounted at a market interest rate as at the measurement date (this corresponds to Level 2 of the hierarchy classification explained below).

in 1 000 EUR	Note No.	**2016**	2015
Other financial assets (excluding investments)	7	19	238
Trade receivables	9	81 283	70 727
Other receivables (excluding VAT and other taxes and advance payments for inventories)	10	2 392	1 893
Cash and cash equivalents (excluding cash on hand)	12	42 729	41 635
Loans and receivables		**126 423**	**114 493**
Current securities	11	3 957	4 144
Available-for-sale financial assets		**3 957**	**4 144**
Contingent variable purchase price payment on acquisitions	7, 10	1 625	1 562
Derivative financial instruments (not used for hedging)	18	353	269
Financial assets at fair value through profit or loss		**1 978**	**1 831**
Liabilities from financial leasing	16	–66	–98
Financial liabilities (excluding residual purchase price liabilities)	17, 23	–73 288	–66 588
Trade payables	22	–36 781	–32 160
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	24	–1 667	–1 954
Liabilities at amortised cost		**–111 802**	**–100 800**
Derivative financial instruments (not used for hedging)	18	–168	–461
Residual purchase price liabilities from acquisitions	17	–4 312	–3 864
Financial liabilities at fair value through profit or loss		**–4 480**	**–4 325**

The following table classifies the financial assets and liabilities measured at market value according to the three levels of the fair value hierarchy:

in 1 000 EUR	Note No.	**2016**	2015	Hierarchy
FINANCIAL ASSETS MEASURED AT MARKET VALUE				
Current securities	11	3 957	4 144	Level 1
Derivative financial instruments	18	353	269	Level 2
Contingent variable purchase price payment on acquisitions	7	1 625	1 562	Level 3
Total		**5 935**	**5 975**	
FINANCIAL LIABILITIES MEASURED AT MARKET VALUE				
Derivative financial instruments	18	–168	–461	Level 2
Residual purchase price liabilities from acquisitions	17	–4 312	–3 864	Level 3
Total		**–4 480**	**–4 325**	

The levels of the fair value hierarchy and their application with respect to the relevant assets and liabilities are described as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Directly or indirectly observable information other than quoted market prices
Level 3: Information re assets and liabilities which is not based on observable market data.

Level 2 financial instruments consist solely of interest rate swaps and forward exchange transactions. The fair value corresponds to the present value of the estimated future cash flows based on the terms and maturities of each individual contract, discounted at a market interest rate as at the measurement date.

The following table provides an update on Level 3 financial liabilities:

in 1 000 EUR	Note No.	**2016**	2015
As at 1 January		**3 864**	**3 823**
Change in scope of consolidation	46	595	0
Currency differences		–99	260
Usage		–486	–415
Releases (Other financial income)	40	–595	–16
Allocation (Other financial expense)	41	880	0
Interest expense	41	153	212
Balance as at 31 December		**4 312**	**3 864**

The fair value of the residual purchase price liabilities is dependent on results (i.e. earnings) benchmarks, which are based partly on target figures. The residual purchase price liabilities may alter owing to a change in exchange rates (see note 27), a change in the interest rate, the addition of accrued interest or a change in the parameters for determining the residual purchase price. If the relevant future results were 10% greater, the residual purchase price liabilities would increase by EUR 0.3 million (previous year EUR 0.2 million), assuming all other variables remained constant.

The addition of EUR 0.6 million under change in scope of consolidation relates to the contingent purchase price payment for the acquisition of the Ismet Group in 2016 (see note 46).

The usage of EUR 0.5 million (previous year EUR 0.4 million) relates to payments as part of the existing residual purchase price liability (call and put agreement on existing minority interest) from the 2010 acquisition of Okin Refined Electric Technology Co., Ltd.

A review of the fair value of the contingent purchase price payment for the 2016 acquisition of the Ismet Group, which is dependent on the 2016 and 2017 operating result, found that owing to the lower-than-planned operating result for 2016 no purchase price payment was expected as at 31 December 2016. Accordingly, the fair value of EUR 0.6 million was released via other financial income (see note 40).

The allocation of EUR 0.9 million to the residual purchase price liability is attributable to the positive, better-than-expected business performance of Okin Refined Electric Technology Co. Ltd., which had a corresponding impact on the residual purchase price (see note 41).

The following table provides an update on Level 3 financial assets:

in 1 000 EUR	Note No.	**2016**	2015
As at 1 January		**1 562**	**0**
Addition	6,7	0	1 500
Currency differences		63	62
As at 31 December		**1 625**	**1 562**

More details are given in note 6.

26 Risk management

The Board of Directors of Phoenix Mecano AG has ultimate responsibility for risk management. To this end it set up the Internal Auditing Department, which is responsible for developing and monitoring compliance with risk management principles. The Internal Auditing Department reports regularly to the Audit Committee of the Phoenix Mecano AG Board of Directors.

The risk management principles that have been established are geared towards identifying and analysing the risks to which the Group is exposed, developing checks and balances and monitoring risks. The risk management principles and the processes associated with them are regularly reviewed to take account of changes in market conditions and the Group's activities.

27 Financial risk management

General The Phoenix Mecano Group is exposed to various financial risks through its business activities, namely credit risk, market risk (i.e. currency and interest rate risks) and liquidity risk. Currency and interest rate risks are managed centrally at Group level. Derivative financial instruments, of which only limited use is made – almost exclusively for hedging purposes – are also controlled centrally. In view of this centralised currency management, exchange rate differences are shown in the financial result.

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

The Phoenix Mecano Group invests in securities. The investment instruments it uses are bonds, bond funds, shares and equity funds. These investments are diversified and internal limits are applied to individual investment categories. The investments are conducted principally in EUR.

The following sections give an overview of specific financial risks, their magnitude, the aims, principles and processes involved in measuring, monitoring and hedging them, and the Group's capital management.

Credit risk Credit risk is the risk of incurring financial loss when a counterparty to a financial instrument fails to meet its contractual obligations. Credit risks are most likely to be associated with long-term loans, trade receivables and investments in debt securities (e.g. bonds) and cash or cash equivalents. The Group minimises the credit risk associated with cash and cash equivalents by only doing business with reputable financial institutions and by dealing with a range of such institutions rather than just one. Investments in debt securities must be investment grade (this usually means a rating of at least BBB). They are suitably diversified in order to minimise risk.

To reduce the risk associated with trade receivables, customers are subject to internal credit limits. Because the customer structure varies from one business area to the next, there are no general credit limits applying throughout the Phoenix Mecano Group. Creditworthiness is reviewed regularly according to internal guidelines. Credit limits are set based on financial situation, previous experience and other factors. The Group's extensive customer base, which covers a variety of regions and sectors, means that the credit risk on receivables is limited. There are no cluster risks (i.e. no single receivable accounts for more than 10% of the total).

The maximum credit risk on financial instruments corresponds to the book values of the individual financial assets. There are no guarantees or similar obligations that could cause the risk to exceed book values. The maximum credit risk on the balance sheet date was as follows:

in 1000 EUR	Note No.	**2016**	2015
Other financial assets (excluding investments)	7	19	1800
Derivative financial instruments	18	353	269
Trade receivables	9	81283	70727
Other receivables (excluding VAT and other taxes and advance payments for inventories)	10	4017	1893
Current securities	11	3957	4144
Cash and cash equivalents (excluding cash on hand)	12	42729	41635
Total		**132358**	**120468**

Liquidity risk Liquidity risk is the risk that the Phoenix Mecano Group will be unable to meet its financial obligations when these become due.

The Phoenix Mecano Group monitors its liquidity risk by means of careful liquidity management. In so doing, its guiding principle is to make available a cash reserve exceeding daily and monthly operational funding requirements. Given the dynamic business environment in which it operates, the Group's aim is to preserve the necessary flexibility of financing by ensuring that it has sufficient unused credit lines with financial institutions and retains its ability to procure funds on the capital market. The credit lines are divided up among several financial institutions. As at 31 December 2016, unused credit lines with major banks totalled EUR 77.8 million (previous year EUR 67.6 million).

Maturity analysis as at 31 December 2016 and 2015

Maturity analysis as at 31 December 2016 in 1 000 EUR	Book value	Outflow of funds	in < 3 months	in 3–6 months	in 6–12 months	in 1–5 years	in > 5 years
NON-DERIVATIVE FINANCIAL INSTRUMENTS							
Trade payables	36 781	–36 781	–36 779	–2			
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	1 667	–1 667	–1 667				
Financial liabilities (excluding financial leasing)	77 568	–79 219	–33 533	–6 499	–4 503	–32 524	–2 160
Liabilities from financial leasing (long- and short-term)	98	–112	–9	–9	–18	–76	
Total	**116 114**	**–117 779**	**–71 988**	**–6 510**	**–4 521**	**–32 600**	**–2 160**
DERIVATIVE FINANCIAL INSTRUMENTS							
Interest rate swap classified as trading	141	–141	–141				
Forward exchange transaction classified as trading	–326						
– Outflow of funds		–19 296	–19 296				
– Inflow of funds		19 622	19 622				
Total	**115 929**	**–117 594**	**–71 803**	**–6 510**	**–4 521**	**–32 600**	**–2 160**

Maturity analysis as at 31 December 2015	Book value	Outflow of funds	in < 3 months	in 3 – 6 months	in 6 – 12 months	in 1 – 5 years	in > 5 years
in 1 000 EUR							
NON-DERIVATIVE FINANCIAL INSTRUMENTS							
Trade payables	32 160	– 32 160	– 32 058	– 99	– 3		
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	1 954	– 1 954	– 1 954				
Financial liabilities (excluding financial leasing)	70 420	– 72 050	– 32 794	– 5 875	– 3 537	– 26 392	– 3 452
Liabilities from financial leasing (long- and short-term)	130	– 147	– 9	– 9	– 18	– 111	
Total	**104 664**	**– 106 311**	**– 66 815**	**– 5 983**	**– 3 558**	**– 26 503**	**– 3 452**
DERIVATIVE FINANCIAL INSTRUMENTS							
Interest rate swap classified as trading	245	– 245	– 245				
Forward exchange transaction classified as trading	– 53						
– Outflow of funds		– 33 469	– 33 469				
– Inflow of funds		33 522	33 522				
Total	**104 856**	**– 106 503**	**– 67 007**	**– 5 983**	**– 3 558**	**– 26 503**	**– 3 452**

Contingent liabilities (see note 29) represent a potential outflow of funds.

Market risk Market risk is the risk that changes in market prices such as exchange rates, interest rates and share prices will have an effect on the earnings and fair value of the financial instruments held by Phoenix Mecano. The aim of market risk management is to monitor and control such risks, thereby ensuring that they do not exceed a certain level.

Currency risk Although it generates 48% of its sales in the euro area (previous year 49%) and a significant portion of its expenditure is in EUR, the Phoenix Mecano Group operates internationally and is therefore exposed to a foreign currency risk. Aside from EUR, transactions are conducted principally in CHF, USD, HUF and CNY. Foreign currency risks arise from expected future transactions and from assets and liabilities recorded in the balance sheet, where these are not in the functional currency of the respective Group company. To hedge such risks from expected future transactions, the Phoenix Mecano Group enters into forward exchange contracts with reputable counterparties as and when necessary, or uses foreign currency options. This hedging relates mainly to planned expenditure in local currency at production locations in Hungary and Romania and occasionally in USD, CHF, GBP, CNY, INR and AUD, with hedges declining as a proportion of the planned currency exposure the further ahead the transaction is due to take place. The extent of the items to be hedged is reviewed regularly. Such hedges cover a maximum period of three years. The Group realises both income and expenditure in USD and aims to minimise the resulting currency exposure primarily by means of operational measures (alignment of income and expenditure flows).

Financing from financial institutions is mainly in EUR, CHF and USD and is recorded by Group companies in the relevant functional currency. An exception to this are USD financing arrangements relating to Phoenix Mecano AG and Phoenix Mecano Hong Kong Ltd and a short-term EUR financing arrangement relating to Phoenix Mecano AG. There are also residual purchase price liabilities from an acquisition in CNY of a subsidiary that draws up its balance sheet in EUR.

The following tables set out currency risks associated with financial instruments, where the currency differs from the functional currency of the Group company holding the instruments. The tables only include risks from positions in the consolidated financial statements (i.e. excluding positions between Group companies):

Currency risk as at 31 December 2016 in 1 000 EUR	EUR	CHF	USD	HUF	CNY
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Trade receivables	2 647		2 697	81	
Cash and cash equivalents	718	59	11 652	326	4
Trade payables	–350	–17	–2 170	–252	–5
Financial liabilities	–1 000		–4 300		–2 812
Net risk	**2 015**	**42**	**7 879**	**155**	**–2 813**

Currency risk as at 31 December 2015 in 1 000 EUR	EUR	CHF	USD	HUF	CNY
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Trade receivables	2 355		2 886	63	
Cash and cash equivalents	803	15	9 588	291	2
Trade payables	–234	–15	–1 985	–316	
Financial liabilities			–5 055		–2 280
Net risk	**2 924**	**0**	**5 435**	**38**	**–2 278**

In relation to the above-mentioned currency risks and taking into account the forward exchange contracts open on the balance sheet date (see note 18), the following sensitivity analysis for the main currency pairs shows how the result of the period would be affected if the exchange rates were to alter by 10%. All other variables, in particular interest rates, are assumed to remain unchanged.

Sensitivity analysis as at 31 December 2016 in 1 000 EUR	CHF/EUR	CHF/USD	EUR/USD	EUR/HUF	EUR/CNY	USD/CNY	EUR/RON
Change in result of the period (+/–)	296	333	336	1 066	291	764	471

Sensitivity analysis as at 31 December 2015 in 1 000 EUR	CHF/EUR	CHF/USD	EUR/USD	EUR/HUF	EUR/CNY	USD/CNY	EUR/RON
Change in result of the period (+/–)	517	228	623	2 054	229	512	440

The reduction in impact for the CHF/EUR and EUR/USD currency pairs is owing to a decrease in CHF/EUR forward exchange contracts open on the balance sheet date compared with the previous year, and the absence of any open forward exchange contracts for the EUR/USD currency pair. The reduction in the EUR/HUF currency pair is attributable to the reduced volume of forward exchange contracts at the balance sheet date. The increased impact on the result of the period for the USD/CNY currency pair is owing to increased cash and cash equivalents in USD at companies with CNY as their functional currency.

The above sensitivity analysis is a consolidated view as at the balance sheet date. Significantly greater effects on the statement of income may arise from price movements relating to ongoing foreign currency transactions during the financial year. Currency risks also arise from intercompany receivables and liabilities, which are not taken into account in the above sensitivity assessment.

Interest rate risk Interest rate risk is divided up into an interest cash flow risk, i.e. the risk that future interest payments will change due to fluctuations in the market interest rate, and an interest-related risk of a change in the market value, i.e. the risk that the market value of a financial instrument will change due to fluctuations in the market interest rate. The Group's interest-bearing financial assets and liabilities are primarily cash and cash equivalents and current securities, as well as liabilities to financial institutions. The Group uses interest rate options and swaps to hedge and/or structure external debts.

Sensitivity analyses as at 31 December 2016 and 2015 The Phoenix Mecano Group is exposed to an interest cash flow risk with respect to variable-rate liquid funds and variable-rate liabilities to financial institutions. If the interest rates on variable-rate liabilities excluding fixed-term deposits had been 50 basis points higher or lower, the result of the period for 2016 would have been EUR 0.1 million (previous year EUR 0.1 million) lower or higher, assuming all other variables had remained constant.

The impact on equity of a 50-basis-point change in interest rates, given the bonds classified as financial assets held for sale at 31 December 2016 or 31 December 2015, would have been less than EUR 0.1 million, assuming all other variables had remained constant.

28 Capital management

The aims of capital management are to safeguard the Phoenix Mecano Group as a going concern, thereby ensuring continued income for shareholders and providing other stakeholders with the benefits to which they are entitled. In addition, the Group seeks to preserve scope for future growth and acquisitions by means of conservative financing.

To this end, the Group aims to maintain a long-term equity ratio of at least 40%. The dividend policy of the Phoenix Mecano Group specifies a payout ratio of 40–50% of sustainable net profit. Capital increases should be avoided as far as possible in order to prevent profit dilution. Where appropriate, the Group uses share buy-backs as a means of adjusting its capital structure and reducing capital costs.

The Phoenix Mecano Group monitors its capital management based on its gearing, i.e. the ratio of net indebtedness to equity. Net indebtedness consists of total interest-bearing liabilities (including residual purchase price liabilities from acquisitions) less current securities and cash and cash equivalents.

Net indebtedness as at 31 December 2016 and 31 December 2015 was as follows:

in 1 000 EUR	Note No.	**2016**	2015
Liabilities from financial leasing	16	66	98
Long-term financial liabilities	17	33 564	28 732
Short-term financial liabilities	23	44 036	41 720
Interest-bearing liabilities		77 666	70 550
less current securities	11	3 957	4 144
less cash and cash equivalents	12	43 243	41 951
Net indebtedness		**30 466**	**24 455**
Equity		272 757	262 626
Gearing		11,2%	9,3%

29 Contingent liabilities

in 1 000 EUR	**2016**	2015
Sureties and guarantees	1 275	1088
Commitments from bills of exchange	0	43
Total	**1 275**	**1 131**

30 Commitments to purchase tangible assets

The purchase commitment as at 31 December 2016 was EUR 5.8 million for tangible assets (previous year EUR 5.6 million) and EUR 1.2 million for intangible assets (previous year EUR 0.0 million).

31 Operating leases, rent and leasehold rent

in 1 000 EUR	**2016**	2015
Minimum commitments due within 1 year	3 909	3 949
Minimum commitments due within 1 – 5 years	6 378	6 197
Minimum commitments due after 5 years	5 979	5 105
Minimum operating leasing, rent and leasehold rent commitments	**16 266**	**15 251**
Minimum claims due within 1 year	213	146
Minimum claims due within 1 – 5 years	647	0
Minimum claims from rent / leasehold rent	**860**	**146**

The operating leasing, rent and leasehold rent commitments consist almost exclusively of commitments for leased premises and floor space (long-term lease). The claims consist mainly of the leased investment property in India.

32 Sales revenue

in 1 000 EUR	**2016**	2015
Gross sales	583 229	559 806
Revenue reductions	– 5 748	– 5 344
Sales revenue (Net Sales)	**577 481**	**554 462**

Gross sales rose by 4.2% compared with the previous year (previous year 10.7%). Differences in foreign exchange rates and changes to the scope of consolidation affected gross sales by –1.6% and +1.7% respectively (previous year +5.2% and +1.0% respectively).

33 Other operating income

in 1000 EUR	**2016**	2015
Reimbursement from insurance	190	155
Gains on the disposal of intangible and tangible assets	2182	213
Goverment subsidies	803	803
Other	2934	2812
Total	**6109**	**3983**

The increase in gains on the disposal of intangible and tangible assets is largely attributable to the accounting profit from the sale of a property in Italy totalling EUR 1.8 million.

34 Cost of materials

in 1000 EUR	**2016**	2015
Cost of raw and ancillary materials, merchandise for resale and external services	263664	250275
Incidental acquisition costs	7835	8658
Total	**271499**	**258933**

Value adjustments and losses on inventories are posted under Other operating expenses (see note 39).

35 Personnel expenses

in 1000 EUR	**2016**	2015
Wages and salaries	144571	141221
Social costs	28685	27380
Supplementary staff costs	8256	7905
Total	**181512**	**176506**

36 Amortisation of intangible assets

in 1000 EUR	**2016**	2015
Concessions, licences, similar rights and assets	6680	7863
Development services	701	481
Total	**7381**	**8344**

37 Depreciation on tangible assets

in 1 000 EUR	2016	2015
Investment properties	30	19
Land and buildings	3 653	3 442
Machinery and equipment	14 046	14 340
Total	**17 729**	**17 801**

38 Impairment of intangible and tangible assets

in 1 000 EUR	Note No.	2016	2015
Reversal of impairment losses on intangible and tangible assets	4/5	–657	0
Impairment losses on goodwill	3	0	7 185
Impairment losses on other intangible assets	4	0	1 960
Impairment losses on tangible assets	5	212	2 066
Total		**–445**	**11 211**

39 Other operating expenses

in 1 000 EUR	Note No.	2016	2015
External development costs		1 235	1 100
Establishment expenses		23 246	22 802
Rent, leasehold rent, leases		5 445	5 006
Administration expenses		8 195	9 222
Advertising expenses		4 368	4 613
Sales expenses		18 605	17 963
Losses from the disposal of intangible and tangible assets		104	299
Losses and value adjustments on inventories	8	4 420	3 827
Capital and other taxes		1 630	1 492
Other		6 402	6 257
Total		**73 650**	**72 581**

Total research and development costs, including internal costs, amounted to EUR 12.3 million (previous year EUR 10.4 million).

40 Financial income

in 1 000 EUR	Note No.	**2016**	2015
Interest income from third parties		900	489
Gain from financial instruments at fair value through profit or loss (trading derivative)	18	388	551
Exchange rate gains		2 272	3 469
Other financial income		635	71
Total		**4 195**	**4 580**

Other financial income in 2016 includes the adjustment (recognised in the statement of income) of residual purchase price liabilities from acquisitions totalling EUR 0.6 million (see note 25).

41 Financial expenses

in 1 000 EUR	Note No.	**2016**	2015
Interest expense		1 445	1 189
Interest expense for accrued interest on residual purchase price liability	25	153	212
Loss from financial instruments at fair value through profit or loss (trading derivative)	18	11	192
Exchange rate losses		2 340	4 425
Other financial expense		1 720	443
Total		**5 669**	**6 461**

Other financial expense in 2016 mainly includes the adjustment (recognised in the statement of income) of residual purchase price liabilities from acquisitions totalling EUR 0.9 million (see note 25) and the value adjustment on investments and loans totalling EUR 0.3 million (see note 7).

Exchange rate losses include losses of EUR 0.5 million due to the weakening of the British pound in the wake of the Brexit vote. In the previous year, they include the impact of the scrapping of the minimum exchange rate of 1.20 Swiss francs per euro on euro reserves and receivables of Group companies that draw up their accounts in CHF. The exchange rate losses of Swiss companies totalled EUR 1.7 million in 2015.

42 Income tax

in 1 000 EUR	**2016**	2015
Current income tax	10 858	9 679
Deferred tax	–1 690	–3 546
Income tax	9 168	6 133
RECONCILIATION FROM THEORETICAL TO EFFECTIVE INCOME TAX		
Result before tax	32 174	12 818
Theoretical income tax	7 526	2 804
Weighted income tax rate	23.4	21.9
Changes of tax rate deferred tax	–10	184
Tax-free income	–696	–912
Non-deductible expenses	1 542	3 660
Tax effect on losses in the reporting year	1 692	2 466
Tax effect of losses carried forward from previous years	–388	–1 171
Income tax relating to other periods	–812	–1 036
Other	314	138
Effective income tax	**9 168**	**6 133**
Effective income tax rate	28.5%	47.8%

The theoretical income taxes are derived from the weighted current local tax rates in the countries where the Phoenix Mecano Group does business.

The reduction in non-deductible expenses in 2016 is mainly owing to the impairment of goodwill in 2015 (see note 3), which was not tax-deductible. This is also the main reason for the lower effective income tax rate of 28.5%, compared with 47.8% the previous year.

Other includes, among things, the expense resulting from non-creditable withholding taxes on planned and actual dividend payments.

43 Earnings per share

in 1 000 EUR	2016	2015
Result of the period attributable to shareholders of the parent company	22 852	6 687

Number	2016	2015
NUMBER OF SHARES		
Shares issued on 1 January	960 500	960 500
Treasury shares (annual average)	–1 701	–295
Shares outstanding	**958 799**	**960 205**
Basis for diluted earnings per share	958 799	960 205
Basis for undiluted earnings per share	958 799	960 205

44 Operating cash flow

in 1 000 EUR	Note No.	2016	2015
Operating result		34 454	14 991
Amortisation of intangible assets	36	7 381	8 344
Depreciation on tangible assets	37	17 729	17 801
Impairment/(reversal of impairment losses) on intangible and tangible assets	38	–445	11 211
Operating cash flow		**59 119**	**52 347**

45 Free cash flow

in 1 000 EUR	Note No.	2016	2015
Cash flow from operating activities		48 659	38 952
Purchases of intangible assets	4	–3 077	–3 223
Purchases of tangible assets	5	–20 792	–23 451
Disinvestments in intangible assets		5	11
Disinvestments in tangible assets		4 835	1 325
Free cash flow (before financial investments)		**29 630**	**13 614**

46 Acquisitions of Group companies

The acquired assets and assumed liabilities break down as follows:

in 1 000 EUR	**2016**	2015
Other intangible assets	11 961	1 715
Tangible assets	7 870	290
Inventories	4 255	1 345
Trade receivables	1 425	1 439
Other current assets	463	58
Cash and cash equivalents	782	0
Deferred tax	–4 238	–359
Other liabilities	–4 332	–1 164
Identifiable net assets	18 186	3 324
Goodwill from acquisitions	0	0
Purchase price	**–18 186**	**–3 324**
Residual purchase price liability	595	0
Cash and cash equivalents acquired	782	0
Change in funds	**–16 809**	**–3 324**

On 1 July 2016 the Phoenix Mecano Group acquired all shares in Ismet GmbH, Villingen-Schwenningen (D), and its subsidiary in the Czech Republic. The Ismet Group is well positioned in the European transformer and choke market and has a broad customer base in the DACH region (Germany, Austria and Switzerland). The company generated consolidated sales of approximately EUR 14 million in 2015 and employed 140 people at two sites in German and the Czech Republic. Its products and systems, most of which are customised, are used for voltage transformation and to stabilise power networks. Industrial applications cover a wide power range in the fields of mechanical and plant engineering, transport (railway technology and marine equipment), building technology and renewable energy sources. As expected, the acquired receivables of EUR 1.4 million were paid in full at the time of acquisition. The EUR 18.2 million acquisition costs for the investment comprise the fixed purchase price of EUR 17.6 million paid in cash on 1 July and the expected contingent purchase price payment of EUR 0.6 million, which is dependent on the 2016 and 2017 operating result and is due in 2018.

The amounts listed in the half-yearly financial statements under Events after the balance sheet date, including the expected contingent purchase price payment of EUR 1.8 million, were not yet final at the time of publication of the half-yearly financial statements owing to the complexity of the transaction and the short period of time between the conclusion of the transaction and publication of the half-yearly accounts. When the calculations were finalised, a number of assumptions had to be adjusted (including a lower gross margin and a slightly higher cost base). These effects were adjusted in the final accounts, with corresponding impacts on the contingent purchase price payment and the value of identifiable net assets.

The acquired companies generated sales revenue with third parties of EUR 5.7 million in 2016 (post-acquisition). Their contribution to the Phoenix Mecano Group's result of the period was EUR –1.5 million. Had the companies been consolidated since 1 January 2016, sales revenue in 2016 would have totalled EUR 590.0 million and consolidated result of the period EUR 23.0 million.

In the previous year, on 1 August 2015, the Phoenix Mecano Group acquired all of the shares in Wijdeven Inductive Solutions BV and its parent company Wijdeven Power Holding BV, both based in the Netherlands. Wijdeven Inductive Solutions BV develops and manufactures customised inductive systems such as 50Hz and high-frequency transformers, coils and power supplies. The acquired company generated sales revenue with third parties of EUR 3.5 million in 2015 (post-acquisition). Its contribution to the Phoenix Mecano Group's result of the period was EUR –0.4 million. Had the company been consolidated since 1 January 2015, sales revenue would have totalled EUR 563.8 million and consolidated result of the period EUR 6.4 million.

47 Transactions with related parties

in 1 000 EUR	**2016**	2015
Benedikt A. Goldkamp, Chairman of the Board of Directors (former Delegate)	462	60
Ulrich Hocker, Independant Lead Director (former Chairman of the Board of Directors)	235	244
Other members of the Board of Directors	176	180
Remuneration of the Board of Directors	873	484
Remuneration of the management	1 411	1 500
Remuneration of the Board of Directors and management	2 284	1 984
Social security contributions	158	167
Pension obligations	176	166
Total remuneration of the Board of Directors and management	**2 618**	**2 317**

Benedikt Goldkamp, Delegate of the Board of Directors and CEO of Phoenix Mecano AG, took over as Chairman of the Board of Directors at the Shareholders' General Meeting on 20 May 2016. He works for the Group as Executive Chairman of the Board of Directors. Ulrich Hocker, formerly Chairman of the Board of Directors of Phoenix Mecano AG, now serves as an independent Lead Director, representing the new Chairman in the event of any conflicts of interest. At the same time, Dr Rochus Kobler, formerly COO and Chairman of the Executive Committee, took over the role of CEO. The 2016 compensation was divided up pro rata in accordance with these changes.

Detailed information on transactions with related parties is provided in the notes to the financial statements of Phoenix Mecano AG on page 155 (see note 3.4).

No compensation was paid in the reporting year or the previous year to former corporate officers who left the company in previous years.

No significant transactions with other related parties outside the scope of consolidation took place in 2016 or 2015.

Transactions with associated companies are presented in notes 6, 9 and 22.

48 Events after the balance sheet date

As Orion Technologies LLC failed to generate earnings above a specific minimum threshold in 2016, the Phoenix Mecano Group receives additional shares in the company from a capital increase without making any additional payment. As a result, the company will be included in the Phoenix Mecano Group's scope of consolidation and will no longer be recognised as an investment in association companies (see notes 6 and 7). The planned transfer of shares requires regulatory approval in the US. This had not yet been granted at the time of approval of the consolidated financial statements.

On 6 March 2017, the Phoenix Mecano Group took out a five-year promissory note loan (Schuldscheindarlehen) for EUR 35 million at a fixed interest rate and USD 13.5 million at a variable interest rate, in order to refinance existing financial liabilities and provide funds for capital expenditure and the Group's acquisition activities.

No other events occurred between 31 December 2016 and 22 March 2017 that would alter the book values of assets and liabilities or should be disclosed under this heading.

49 Approval of the consolidated financial statements

At its meeting on 22 March 2017, the Board of Directors of Phoenix Mecano AG released the 2016 consolidated financial statements for publication. They will be submitted to the Shareholders' General Meeting on 19 May 2017 with a recommendation for their approval.

50 Dividend

The Board of Directors recommends to the Shareholders' General Meeting of 19 May 2017 that a dividend of CHF 15.00 per share (CHF is the statutory currency of Phoenix Mecano AG) be paid out (see Proposal for the appropriation of retained earnings on page 158). The total outflow of funds is expected to be CHF 14.4 million. The dividend paid out in 2016 was CHF 15.00 per share (previous year CHF 15.00). The outflow of funds in 2016 was CHF 14.4 million (previous year CHF 14.4 million).

KPMG

Statutory Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Phoenix Mecano AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 64 to 137) give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Accounting for the acquisition of Ismet

Valuation of goodwill and other intangible assets

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for the acquisition of Ismet

Key Audit Matter

During the reporting year, Phoenix Mecano acquired Ismet GmbH for a total consideration of TEUR 18 186.

As part of the acquisition accounting, International Financial Reporting Standards require the recognition and measurement of the identifiable assets acquired and liabilities assumed at their fair values.

There is an inherent uncertainty in assessing the fair values of the assets acquired and liabilities assumed. In particular, the valuation of intangible assets such as customer base and know-how required estimates to be made by management. In determining the fair values of these intangible assets, management used a valuation model that incorporates, amongst others, assumptions in respect of future revenues and margins, useful lives, customer attrition and royalty rates and discount rates.

Our response

We among others read the purchase agreement to understand the key terms and conditions of the transaction and their implications on the accounting. We agreed the consideration transferred to the agreement.

Regarding the valuation of intangible assets, we involved our own valuation specialists. They supported us in gaining sufficient assurance over the adequacy of valuation methodologies and the assumptions used. In addition, we discussed and challenged the underlying business forecasts with management and tested the calculations for their accuracy.

We further reconciled the amounts as per the purchase price allocation to the opening balance sheet. We also considered the adequacy of the disclosures for the transaction in the consolidated financial statements.

For further information on the accounting for the acquisition of Ismet refer to the following:

– Notes: Principles of consolidation and valuation, page 78
– Note 46 to the consolidated financial statements, page 135

KPMG

Valuation of goodwill and other intangible assets

Key Audit Matter

As at December 31, 2016, Phoenix Mecano balance sheet included goodwill and other intangible assets amounting to (in TEUR):

– Goodwill	14 126
– Other intangible assets	31 204

Other intangible assets mainly contain concessions, licences, similar rights and assets such as know-how, customer base and patents amounting to TEUR 27 952.

The impairment assessment for goodwill, and in case of indication of impairment for concessions, licences and similar rights and assets has been performed by management based on five-year plans for the relating cash generating units (CGUs).

The impairment tests performed for these positions are significantly affected by management judgment with regard to the estimated future cash flows, the discount rate (WACC) used and the long-term growth rates applied.

Our response

Our audit procedures included, amongst others, evaluating the methodical and mathematical accuracy of the model used for the impairment tests, the appropriateness of the assumptions, and the methodology used by management to prepare its cash flow forecasts.

We performed, amongst others, the following audit procedures:

- gaining an understanding and assessing the reasonableness of business plans by comparing them to prior years' assumptions;
- comparing business plan data against the latest forecasts prepared by management and business plans approved by the Board of Directors;
- recalculating the value in use calculations;
- challenging the robustness of the key assumptions used to determine the value in use, including identification of the CGUs, cash flow forecasts, long-term growth rates and the discount rates based on our understanding of the commercial prospects of the related CGUs and by comparing them with publicly available data. We made use of our valuation specialists to support our procedures related to the discount rates used;
- conducting sensitivity analyses, taking into account the historical forecasting accuracy;

We also considered the appropriateness of disclosures in the financial statements.

For further information on goodwill and other intangible assets refer to the following:

- Notes Principles of consolidation and valuation, page 78
- Note 3 to the consolidated financial statements, page 94
- Note 4 to the consolidated financial statements, page 96

KPMG

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Kurt Stocker	Thomas Lehner
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, March 22, 2017

Five-year overview

in 1 000 EUR	**2016**	2015	2014	2013	2012
CONSOLIDATED BALANCE SHEET					
Total assets	452 361	426 720	414 007	395 558	389 961
Non-current assets	185 027	170 330	171 348	143 408	143 802
– in % of total assets	40.9	39.9	41.4	36.3	36.9
– Tangible assets	128 701	120 777	116 110	108 310	104 593
Current assets	267 334	256 390	242 659	252 150	246 159
– in % of total assets	59.1	60.1	58.6	63.7	63.1
– Inventories	125 037	122 838	117 844	109 908	110 271
– Cash and cash equivalents	43 243	41 951	44 185	60 409	62 824
Equity	272 757	262 626	267 470	254 237	250 694
– in % of total assets	60.3	61.5	64.6	64.3	64.3
Liabilities	179 604	164 094	146 537	141 321	139 267
– in % of total assets	39.7	38.5	35.4	35.7	35.7
Net indebtedness / (Net liquidity)	30 466	24 455	12 488	– 1 548	715
– in % of equity	11.2	9.3	4.7	–	0.3
CONSOLIDATED STATEMENT OF INCOME					
Gross sales	583 229	559 806	505 621	500 550	500 461
Sales revenue (net sales)	577 481	554 462	500 349	495 352	495 581
Total operating performance	585 780	560 367	504 419	500 114	501 429
Personnel expenses	181 512	176 506	161 128	151 332	145 491
Amortisation of intangible assets	7 381	8 344	7 109	5 296	6 063
Depreciation on tangible assets	17 729	17 801	16 326	15 680	15 557
Operating result	34 454	14 991	29 483	35 042	27 914
Financial result	– 2 280	– 2 173	– 452	– 3 264	– 1 252
Result before tax	32 174	12 818	29 031	31 778	26 662
Income tax	9 168	6 133	9 043	9 386	8 589
Result of the period	23 006	6 685	19 988	22 392	18 073
– in % of gross sales	3.9	1.2	4.0	4.5	3.6
– in % of equity	8.4	2.5	7.5	8.8	7.2
CONSOLIDATED STATEMENT OF CASH FLOW					
Cash flow from operating activities	48 659	38 952	38 808	42 349	62 148
Cash used in investing activities	– 36 824	– 33 285	– 38 814	– 19 369	– 28 109
– Purchases of tangible and intangible assets	23 869	26 674	24 039	20 347	25 436
Cash flow from financing activities	– 10 184	– 8 970	– 17 636	– 24 584	– 14 550
Free cash flow	29 630	13 614	15 437	23 038	37 515

FINANCIAL STATEMENTS

PHOENIX MECANO AG 2016

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BALANCE SHEET AS AT 31 DECEMBER 2016

in CHF	Note No.	**2016**	2015
Assets			
CURRENT ASSETS			
Cash and cash equivalents		357 465	695 506
Other short-term receivables			
– due from investments	2.1	1 979 249	3 817 304
– due from third parties		1 663	10
Deferred charges and prepaid expenses		1 518	0
Total current assets		2 339 895	4 512 820
NON-CURRENT ASSETS			
Financial assets			
– Loans to investments	2.2	8 175 023	9 174 300
Investments			
– Investments	2.3	181 933 908	178 417 261
– Value adjustment on investments		– 3 500 000	– 3 500 000
Total non-current assets		186 608 931	184 091 561
Total assets		**188 948 826**	**188 604 381**

BALANCE SHEET AS AT 31 DECEMBER 2016

in CHF	Note No.	**2016**	2015
Equity and liabilities			
SHORT-TERM LIABILITIES			
Other short-term liabilities			
– Bank liabilities	2.4	18 505 000	17 082 500
– to investments	2.5	436 338	853
– to third parties		2 000	30 954
– to shareholders		1 417	1 329
Short-term provisions	2.6	776 950	1 157 650
Deferred income		358 493	362 206
Total short-term liabilities		20 080 198	18 635 492
LONG-TERM LIABILITIES			
Long-term interest-bearing liabilities	2.4	10 250 000	10 250 000
Total long-term liabilities		10 250 000	10 250 000
Total liabilities		30 330 198	28 885 492
EQUITY			
Share capital	2.7	960 500	960 500
Statutory retained earnings			
– General statutory retained earnings		2 500 000	2 500 000
Voluntary retained earnings			
– Special reserves		90 559 724	90 559 724
– Retained earnings	2.8		
Amount brought forward		51 540 100	51 235 467
Net profit for the year		13 665 690	14 677 633
Treasury shares	2.9	– 607 386	– 214 435
Total equity		158 618 628	159 718 889
Total equity and liabilities		**188 948 826**	**188 604 381**

STATEMENT OF INCOME 2016

in CHF	Note No.	2016	2015
Dividend income	2.10	16 459 538	17 385 952
Other financial income	2.11	1 159 956	1 028 006
Other operating income		2 246	2 155
Total income		17 621 740	18 416 113
Financial expenses	2.12	– 583 208	– 1 046 158
Administration expenses		– 1 047 623	– 1 254 546
Other operating expenses	2.13	– 2 188 702	– 363 280
Losses on investments	2.14	0	– 987 187
Direct taxes		– 136 517	– 87 309
Total expenses		– 3 956 050	– 3 738 480
Net profit for the year		**13 665 690**	**14 677 633**

NOTES TO THE FINANCIAL STATEMENTS 2016

1 Details of the principles applied in the financial statements

These financial statements have been drawn up in accordance with the provisions of Swiss financial reporting law (Title 32 of the Swiss Code of Obligations).

2 Information, breakdowns and explanations relating to items on the balance sheet and in the statement of income

2.1 Other short-term receivables from investments

This item comprises short-term financial receivables (including balances on clearing accounts) in CHF, EUR and USD from subsidiaries in Switzerland and abroad.

2.2 Loans to investments

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

2.3 Investments and the share of the capital and votes held

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

Company	Head office	Activity
Phoenix Mecano Management AG	Kloten, Switzerland	Finance
Phoenix Mecano Technologies AG	Stein am Rhein, Switzerland	Finance
Phoenix Mecano Trading AG	Stein am Rhein, Switzerland	Purchasing
Phoenix Mecano Komponenten AG	Stein am Rhein, Switzerland	Production / Sales
Phoenix Mecano Finance Ltd.	St. Helier, Channel Islands, GB	Finance
PM International B.V.	Doetinchem, The Netherlands	Finance
AVS Phoenix Mecano GmbH	Wien, Austria	Sales
Phoenix Mecano Inc.	Frederick, USA	Production / Sales
WIENER, Plein & Baus Corp.	Springfield, USA	Sales
Phoenix Mecano S. E. Asia Pte Ltd.	Singapore	Sales
Phoenix Mecano (India) Pvt. Ltd.	Pune, India	Production / Sales
Mecano Components (Shanghai) Co., Ltd.	Shanghai, China	Production / Sales
Shenzhen Elcom Co., Ltd.	Shenzhen, China	Production / Sales
Phoenix Mecano Hong Kong Ltd.	Hong Kong, China	Finance / Sales
Phoenix Mecano Mazaka A.S.	Ankara, Turkey	Sales
Phoenix Mecano Comercial e Técnica Ltda.	Barueri, Brazil	Sales
Phoenix Mecano Holding Ltda.	Barueri, Brazil	Finance
PM America Latina S.A.	Montevideo, Uruguay	Sales
Integrated Furniture Technologies Ltd.	Cheltenham, UK	Development
Phoenix Mecano Components (Taicang) Co. Ltd.	Taicang City, China	Production / Sales
Phoenix Mecano Maroc S.à.r.l.	Tétouan, Morocco	Production
Electroshield-C	Babynino, Russia	Production
Phoenix Mecano 000	Moscow, Russia	Sales
Phoenix Mecano Elcom S.à.r.l.	Zaghouane, Tunisia	Production
Phoenix Mecano Hartu S.à.r.l.	Ben Arous, Tunisia	Production
Phoenix Mecano Digital Tunisie S.à.r.l.	Bori-Cedria, Tunisia	Production

		2016	2015
Currency	Registered capital in 1 000	Investment in %	Investment in %
CHF	50	100	100
CHF	250	100	100
CHF	100	100	100
CHF	2 000	100	100
USD	1 969	100	100
EUR	4 500	100	100
EUR	40	1	1
USD	10 000	100	100
USD	100	100	100
SGD	1 000	75	75
INR	299 452	100	100
USD	3 925	100	100
CNY	8 000	100	100
EUR	5 000	100	100
TRY	430	2	2
BRL	7 601	100	100
BRL	1 062	1	1
UYU	200	100	100
GBP	1	85	85
USD	10 000	100	100
MAD	25 000	100	100
RUB	777	20	20
RUB	21 300	100	n/a
TND	500	25	25
TND	7 800	20	20
TND	100	20	20

The CHF 3.5 million change in the balance sheet value compared with the previous year is due to various capital increases.

An overview of all directly and indirectly held investments is given on the pages 90–93.

2.4 Bank loans / Bank liabilities

Loans from financial institutions exist in the following currencies and with the following maturities:

in 1 000 CHF	**2016**	2015
BY CURRENCY		
CHF	24 100	23 850
EUR	1 071	0
USD	3 584	3 483
Balance sheet value	**28 755**	**27 333**
BY MATURITY		
in 1 year	18 505	17 083
in 2 years	6 500	3 750
in 3 years	1 250	6 500
in 4 years	0	0
in 5 years	2 500	0
Balance sheet value	**28 755**	**27 333**

2.5 Financial liabilities to investments

This item comprises short-term financial liabilities (including liabilities on clearing accounts) in CHF and EUR to subsidiaries in Switzerland and abroad.

2.6 Short-term provisions

This item comprises provisions to cover exchange rate risks totalling CHF 0.5 million (previous year CHF 0.9 million), a provision of CHF 0.05 million for a legal dispute in Brazil (previous year CHF 0.05 million) and a provision for derivative financial instrument risks totalling CHF 0.2 million (previous year CHF 0.3 million), used for structuring of external debts.

2.7 Share capital

The share capital is divided into 960 500 bearer shares with a par value of CHF 1.00 each.

2.8 Retained earnings

Financial year 2016 closed with a net profit for the year of CHF 13 665 690. The retained earnings brought forward from the previous year totalled CHF 51 540 100. The ordinary Shareholders' General Meeting of 19 May 2017 therefore has at its disposal retained earnings totalling CHF 65 205 790. For the Board of Directors' proposal regarding the appropriation of retained earnings, see page 158.

2.9 Treasury shares

The following is an overview of the purchases and sales of treasury shares made during the reporting year at the respective market value:

	Share purchases Number	Average price in CHF	Share sales Number	Average price in CHF
March	2 034	425.20		
April			19	459.00
May			200	477.56
July	20	484.14	80	494.01
August			400	494.83
September			310	494.37
October			160	516.52
November	50	479.06		
Total year	**2 104**	**427.04**	**1 169**	**494.08**

No purchases or sales were made in the other months.

At the balance sheet date, the company owned a total of 1,420 treasury shares (previous year 485), which are booked according to the strict lower-of-cost-or-market principle. These shares represent 0.15% of the overall share portfolio.

2.10 Dividend income

Dividend income comprises dividends paid by subsidiaries in Switzerland and abroad.

2.11 Other financial income

Other financial income includes earnings from interest and commissions, exchange rate gains on treasury shares, a partial release of the provision for derivative financial instruments and net exchange rate gains totalling CHF 0.16 million (exchange rate gains of CHF 1.08 million minus exchange rate losses of CHF 0.92 million; previous year exchange rate losses of CHF 0.3 million).

2.12 Financial expense

This item comprises interest and securities expenses as well as net exchange rate losses in the previous year totalling CHF 0.3 million.

2.13 Other operating expenses

As in the previous year, other operating expenses include a waiver of receivables due from a subsidiary.

2.14 Loss on investments

The loss on investments in the previous year arose from the liquidation of Hartu S.à.r.l. in Tunisia in the amount of CHF 1.0 million.

2.15 Net release of hidden reserves

In the reporting year, the statement of income contains a net release of hidden reserves totalling CHF 0.6 million. In the previous year, CHF 2.8 million of hidden reserves were released.

3 Other information required by law

3.1 Full-time positions

Phoenix Mecano AG has no employees.

3.2 Contingent liabilities

in 1 000 CHF	2016	2015
Guarantees and letters of comfort	**150 816**	**140 941**

Contingent liabilities are given for subsidiaries, predominantly in favour of financial institutions. The actual book value of Group company liabilities was CHF 44.9 million (previous year CHF 39.9 million).

In addition, Phoenix Mecano AG has entered into a joint guarantee with its Swiss subsidiaries for the purposes of registration for Group VAT taxation.

3.3 Significant shareholders

As at the balance sheet date, significant shareholders held the following stakes in the share capital of Phoenix Mecano AG:

Name in %	Head office	2016	2015
Planalto AG	Luxembourg, Luxembourg	34.6*	34,6*
Tweedy, Browne Global Value Fund (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	New York, USA	5.5*	5,5*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9*	4,9
Credit Suisse Funds AG	Zurich, Switzerland	3.3	–

* Stake not reported in the year indicated.

This information is based on notifications by the aforementioned shareholders.

3.4 Compensation and shareholdings
Compensation paid to members of the Board of Directors and management:

The following compensation was paid by the Phoenix Mecano Group to serving corporate officers in 2016:

in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration **2016**
Benedikt A. Goldkamp	Chairman of the Board of Directors (former Delegate)	396	107	81	584
Ulrich Hocker	Independent Lead Director (former Chairman of the Board of Directors)	256		16	272
Dr Florian Ernst	Board Member	64		5	69
Dr Martin Furrer	Board Member	64		5	69
Beat Siegrist	Board Member	64		5	69
Remuneration of the Board of Directors		844	107	112	1 063
Remuneration of the management		1 241	298	252	1 791
Remuneration of the Board of Directors and management		**2 085**	**405**	**364**	**2 854**
Highest individual management salary: Dr. Rochus Kobler	CEO	550	140	114	804

The following compensation was paid by the Phoenix Mecano Group to serving corporate officers in 2015:

in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration 2015
Ulrich Hocker	Chairman of the Board of Directors	261		20	281
Benedikt A. Goldkamp	Delegate of the Board of Directors	64		5	69
Dr Florian Ernst	Board Member	64		5	69
Dr Martin Furrer	Board Member	64		5	69
Beat Siegrist	Board Member	64		5	69
Remuneration of the Board of Directors		517	0	40	557
Remuneration of the management		1 602	0	315	1 917
Remuneration of the Board of Directors and management		**2 119**	**0**	**356**	**2 475**
Highest individual management salary: Benedikt A. Goldkamp	CEO	726	0	142	868

Benedikt Goldkamp, Delegate of the Board of Directors and CEO of Phoenix Mecano AG, took over as Chairman of the Board of Directors at the Shareholders' General Meeting on 20 May 2016. He works for the Group as Executive Chairman of the Board of Directors. Ulrich Hocker, formerly Chairman of the Board of Directors of Phoenix Mecano AG, now serves as an independent Lead Director, representing the new Chairman in the event of any conflicts of interest. At the same time, Dr Rochus Kobler, formerly COO and Chairman of the Executive Committee, took over the role of CEO. The 2016 compensation was divided up pro rata in accordance with these changes.

The variable remuneration is based on individual employment contracts and annual bonus agreements. The amount depends on the attainment of return-on-capital targets. It includes the variable compensation for the financial year accounted for under (accrued) expenses in the relevant financial statements. For the most part, payments are made subsequent to the balance sheet preparation. The variable remuneration actually paid may vary from the amounts set aside.

Social security and pension comprises employer contributions to social security and staff pension funds as well as allocations to pension provisions.

No compensation was paid in the reporting year or the previous year to former corporate officers who left the company in previous years.

The members of the Board of Directors and of the management received no other compensation or fees for additional services to the Phoenix Mecano Group.

No loans/credit or securities were granted to members of the Board of Directors or the management or persons related to them.

3.5 Auditors' fees

The amount agreed for auditing the 2016 annual accounts was CHF 9654 for the individual financial statements and CHF 115375 for the consolidated financial statements plus cash expenses of CHF 5300.

3.6 Share ownership by members of the Board of Directors and management and persons related to them

Name	Position	**31.12.2016**	31.12.2015
Benedikt A. Goldkamp	Chairman	1865	1865
Ulrich Hocker	Independent Lead Director	8898	8898
Dr Florian Ernst	Board Member	10	10
Dr Martin Furrer	Board Member	100	100
Beat Siegrist	Board Member	400	400
Shares held by the Board of Directors		**11273**	**11273**
Rochus Kobler	Member/CEO	200	200
René Schäffeler	Member/CFO	125	125
Shares held by the management		**325**	**325**

In addition, Planalto AG, Luxembourg, which is owned by the Goldkamp family, holds a 34.6% stake (previous year 34.6%).

Related persons and companies are considered to be family members as well as any individuals or companies capable of being significantly influenced.

Aside from the compensation paid to the Board of Directors and the management and the standard contributions to pension funds, no significant transactions with related persons or companies took place.

3.7 Events after the balance sheet date

No other events occurred between 31 December 2016 and 22 March 2017 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 959c of the Swiss Code of Obligations.

PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

in CHF	
Net income for the year 2016	13 665 690
Retained earnings brought forward 2015	51 540 100
Retained earnings	**65 205 790**

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

in CHF	
Dividend of CHF 15.00 per share*	14 407 500
Carried forward to new account	50 798 290
Total	**65 205 790**

* Total dividends are calculated based on the 960 500 bearer shares. Dividends will not be paid on treasury shares held by the company at the time of the payout.

Statutory Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Phoenix Mecano AG, which comprise the balance sheet as at December 31, 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 146 to 157) for the year ended December 31, 2016, comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Kurt Stocker Licensed Audit Expert Auditor in Charge	Thomas Lehner Licensed Audit Expert

Zurich, March 22, 2017

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3

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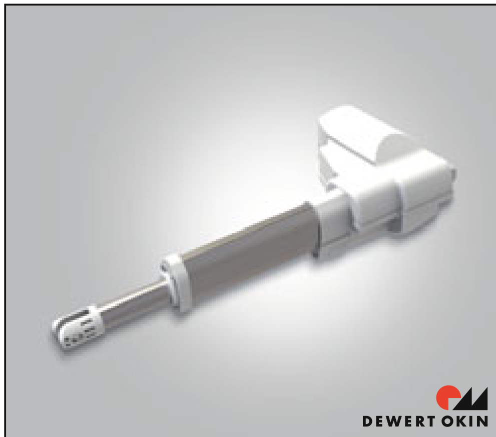

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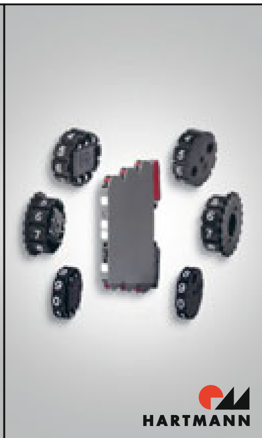
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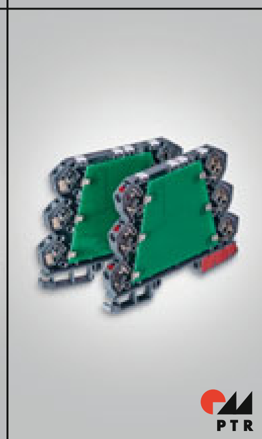
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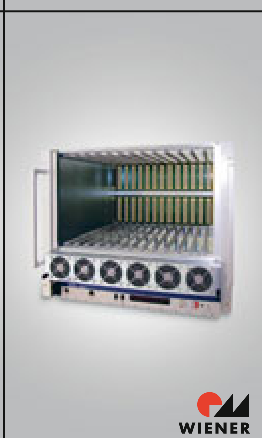
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This annual report is also
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The German version is binding.