Annual Report
2017

PHOENIX MECANO

Value creation

Key figures of the Phoenix Mecano Group

KEY FINANCIAL FIGURES	Units	2017	2016	2015	2014	2013
Gross sales	EUR million	627.6	583.2	559.8	505.6	500.6
– Change	%	7.6	4.2	10.7	1.0	0.0
Operating cash flow (EBITDA)	EUR million	59.7	59.1	52.3	53.1	56.2
– Change	%	1.0	12.9	– 1.4	– 5.5	3.1
– in % of sales	%	9.5	10.1	9.4	10.5	11.2
Operating result	EUR million	30.7	34.5	15.0	29.5	35.0
– Change	%	– 10.9	129.8	– 49.2	– 15.9	25.5
– in % of sales	%	4.9	5.9	2.7	5.8	7.0
– in % of net operating asset	%	10.4	11.6	5.4	10.6	14.2
Result of the period	EUR million	21.9	23.0	6.7	20.0	22.4
– Change	%	– 4.7	244.1	– 66.6	– 10.7	23.9
– in % of sales	%	3.5	3.9	1.2	4.0	4.5
– in % of equity	%	8.1	8.4	2.5	7.5	8.8
Total assets/capital	EUR million	471.8	452.4	426.7	414.0	395.6
Equity	EUR million	269.7	272.8	262.6	267.5	254.2
– in % of total assets	%	57.2	60.3	61.5	64.6	64.3
Net indebtedness/(Net liquidity)	EUR million	38.1	30.5	24.5	12.5	– 1.5
– in % of equity	%	14.1	11.2	9.3	4.7	–
Cash flow from operating activities	EUR million	37.1	48.7	39.0	38.8	42.3
Free cash flow	EUR million	11.4	29.6	13.6	15.4	23.0
Purchases of tangible and intangible assets	EUR million	26.0	23.9	26.7	24.0	20.3
SHARE INDICATORS						
Share capital[1] (bearer shares with a par value of CHF 1.00)	CHF	960 500	960 500	960 500	960 500	978 000
Shares entitled to dividend[2]	Number	959 500	959 080	960 015	959 240	957 936
Operating result per share[4]	EUR	32.0	35.9	15.6	30.7	36.6
Result of the period per share[4]	EUR	22.9	24.0	7.0	20.8	23.4
Equity per share[4]	EUR	281.1	284.4	273.6	278.8	265.4
Free cash flow per share[4]	EUR	11.9	30.9	14.2	16.1	24.0
Dividend	CHF	16.00[3]	15.00	15.00	15.00	15.00
Share price						
– High	CHF	614	528	560	589	565
– Low	CHF	475	406	407	399	436
– Year-end price	CHF	614	469	467	460	545

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 1 000 treasury shares, which are not entitled to dividend.

3 Proposal to the Shareholders' General Meeting of 18 May 2018.

4 Based on shares entitled as at 31 December.

Phoenix Mecano Group – 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.

Operating cash flow (EBITDA)

59.7 EUR MILLION

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.

KEY FIGURES in EUR Million	2017	2016
Gross sales	183.8	170.5
Purchases of tangible and intangible assets	7.1	6.2
Operating result	24.3	18.8
Margin in %	13.2	11.0
Employees	1 989	1 906

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 ergonomic workstation design.

KEY FIGURES in EUR Million	2017	2016
Gross sales	310.4	286.9
Purchases of tangible and intangible assets	11.0	11.3
Operating result	26.1	25.1
Margin in %	8.4	8.7
Employees	2 238	2 017

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); 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).

KEY FIGURES in EUR Million	2017	2016
Gross sales	133.4	125.8
Purchases of tangible and intangible assets	7.2	5.6
Operating result	–16.4	–8.4
Margin in %	–12.3	–6.7
Employees	2 490	2 290

We create value

Value creation is at the very heart of our strategy and business model. Our intellectual, financial, material and social resources enable us to successfully implement our long-term growth strategy. Sustainable creation of value for the company and its stakeholders must take account of social and environmental factors as well as financial aspects. This annual report shows how the Group's varied resources contribute tangibly to generating value.

Contents

Mission statement

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.

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.

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 2017

Increase in dividend

The Board of Directors proposes to the Shareholders' General Meeting that the dividend be increased from CHF 15 to CHF 16. Phoenix Mecano's dividend policy is geared towards creating long-term added value for shareholders.

Hartmann Electronic industrial computer helping to thwart poachers in South Africa

The industrial computer supplied by Hartmann Electronic in spring 2017 controls a radar system used to protect rhinos under threat from poachers in the Kruger National Park.

Kundisch – The very highest quality

At its production plant in Hungary, Kundisch manufactures membrane keyboards and touch systems in cleanroom conditions, for applications including medical technology, mechanical engineering, white goods, communication technology, measurement and control technology, appliances and plant engineering. It continuously upgrades its state-of-the-art machinery with additional equipment, some of it fully automated. This guarantees the very highest quality and allows Kundisch to set a new benchmark in the printing industry. Kundisch input systems combine reliable construction with optimal functionality, even in harsh industrial environments involving chemical, mechanical and other stresses.

Letter to shareholders

Dear shareholders

The Phoenix Mecano Group performed well in all divisions and geographical regions in 2017. Overall, market conditions were positive, although there were some complex challenges to be overcome. Volatile exchange rates, digitalisation and automation trends, global competition for talent, combined with significant rises in labour costs and moves to restrict global free trade, placed high demands on our adaptability, despite the sound economic climate. Thanks to lean structures, short decision-making processes and a strong focus on innovation, we were nevertheless able to consolidate our market position and expand it in key future markets. Our management model, which assigns a high degree of decision-making authority to the individual divisions, product areas and local market organisations, proved its worth once again. Through clear rules on governance, capital allocation and our requirements on long-term, sustainable return, we as a group set effective safeguards for managing market initiatives. The result is high single-digit growth rates, a broad-based improvement in profitability and well-filled project pipelines for years to come.

Growth is focused on the markets for safe, ergonomic human-machine interfaces, innovative electrical adjustment units and controls for the healthcare and comfort furniture sector, as well as a wide range of electrotechnical components to power and monitor electrical systems and power grids.

In order to adapt to different regional requirements, we rely on adding a lot of value locally. We have therefore expanded our local development and production expertise in all major market regions. At the same time, this approach safeguards us against protectionist tendencies in the form of technology transfer and customs barriers in individual markets.

Divisions facing different challenges

Thanks to a range of initiatives, the Enclosures division was able to significantly improve its sales and profitability. Attractive future opportunities for this division lie in sector-specific custom enclosures with a high degree of protection and in the integration of electronic operating units such as membrane keypads and touchscreens into industrial enclosures.

In the Mechanical Components division, we passed an important milestone with the opening of our integrated, state-of-the-art production and administration building in Jiaxing, China. As of mid-2017, this 36 000 m^2 facility has been producing electric motors, electronic power supplies and handsets, as well as a wide range of plastic and metal components, and assembling them into smart adjustment systems for the healthcare and comfort furniture industry. The trend towards networked, automated production facilities in Europe enabled us to achieve attractive growth in this market region, mainly in industrial adjustment units and ergonomic workstation systems.

In the ELCOM/EMS division, we completed a number of intensive turnaround projects spanning several years. The measures implemented included plant closures and site mergers, streamlining and renewal of product ranges, and product transfers to low-cost locations. At the same time, we further expanded our market position in attractive niche markets such as current measurement in high-voltage direct current (HVDC) equipment and contacts for testing complex cable systems and electronic assemblies.

Proposal to increase dividend

In view of the very solid equity ratio of 57%, strong cash flow and improved business outlook, the Board of Directors will propose to the Shareholders' General Meeting an increased dividend of CHF 16 per share, up from CHF 15 last year.

Thank you to our employees

In these times of economic buoyancy and globalisation, the Phoenix Mecano team has achieved a great deal. It has successfully implemented vital restructurings, integrated acquired companies, nurtured internal start-ups, worked to digitalise business processes and delivered a raft of new products.

Benedikt A. Goldkamp
Executive Chairman of the Board of Directors

Dr Rochus Kobler
CEO

Negotiating such a complex array of tasks is hugely challenging – rather like changing the wheel of a car while travelling at full speed along the motorway. It requires dedicated staff who identify fully with their roles and the objectives of the Group.

Being able to work within such a group is not something we take for granted. The Board of Directors and management are aware of the extraordinary achievements of the special people, at all levels of seniority and expertise, who make up Phoenix Mecano. On behalf of ourselves and our shareholders, we would like to say a very big thank you to them all.

Outlook

The traffic lights of global industrial activity are still on green. This may be partly due to aggressive monetary and interest rate policies by central banks, but we have no doubt that a series of technological megatrends are under way from which we can benefit. All-pervasive digitalisation, Industry 4.0, the Internet of Things (IoT), robotics and automation technology, as well as globalisation and the resulting steady overall growth in global trade, offer huge additional potential to expand global economic performance and individual prosperity. Nevertheless, we must not close our eyes to the very real warning signs that now flash across our screens almost daily. Geopolitical tensions, an increasing trend towards protectionism and even the possible re-emergence of the trade wars we thought had been consigned to the dustbin of history will keep us in suspense in 2018.

Our strategy for mitigating such risks has been tried and tested over many years. A strong balance sheet, a global approach to production, product development and sales, a clear focus on innovation and unmanipulated markets (i.e. markets not dependent on government subsidies), as well as a lean, adaptable and modular organisational structure, offer the best possible guarantee that our growth story will continue successfully for many years to come.

Benedikt A. Goldkamp
Executive Chairman of the Board of Directors

Dr Rochus Kobler
CEO

Strategy and business model

Strategy

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.

Input

Intellectual resources

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

Financial resources

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

Material resources

State-of-the-art manufacturing facilities, global production and sales locations. Global sourcing: Optimisation of global material procurement activities in India, South-East Asia and Eastern Europe, recycling and waste management.

Social resources

Key stakeholders (suppliers, customers, investors). Responsible employees: Flat management structures and hierarchies, made-to-measure production line jobs.

Business model
Development and manufacture of industrial components and system solutions

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

Output

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

Intellectual resources

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

Financial resources

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.

Material resources

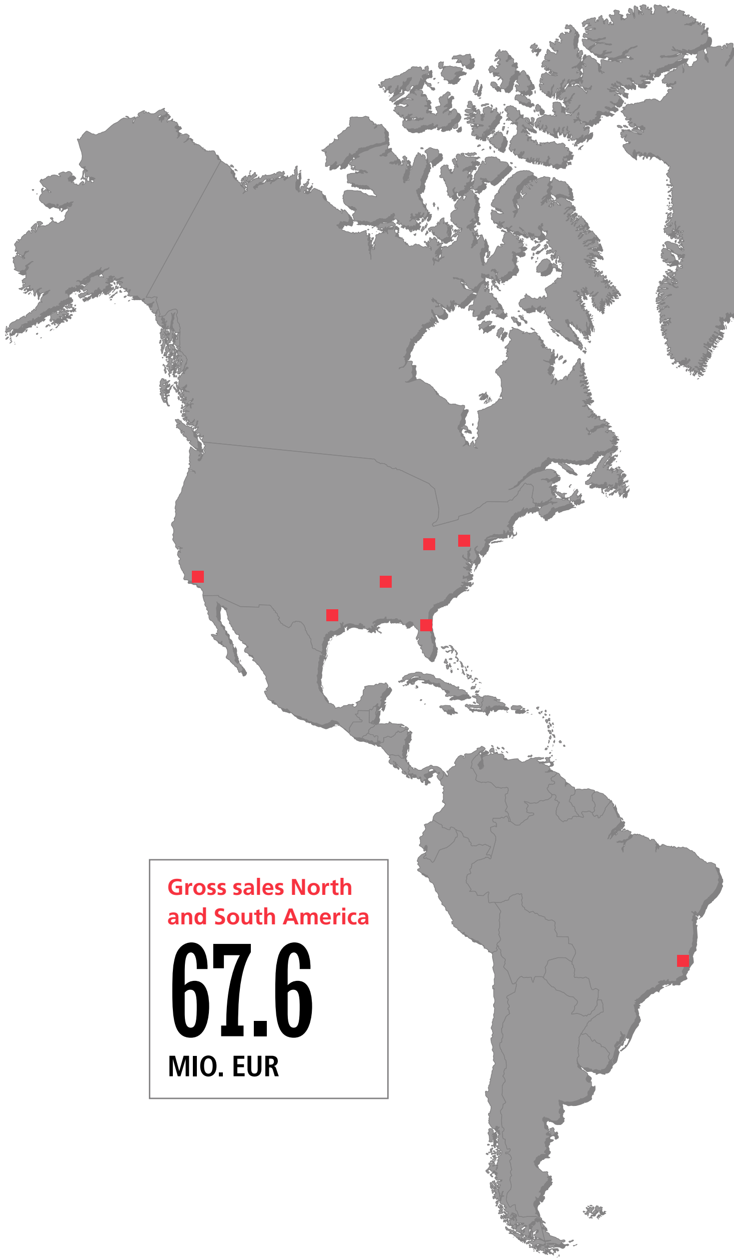
Sustainable productivity improvements and cost reductions through relocation of production facilities and logistics. Energy-efficient solutions in product developments.

Social resources

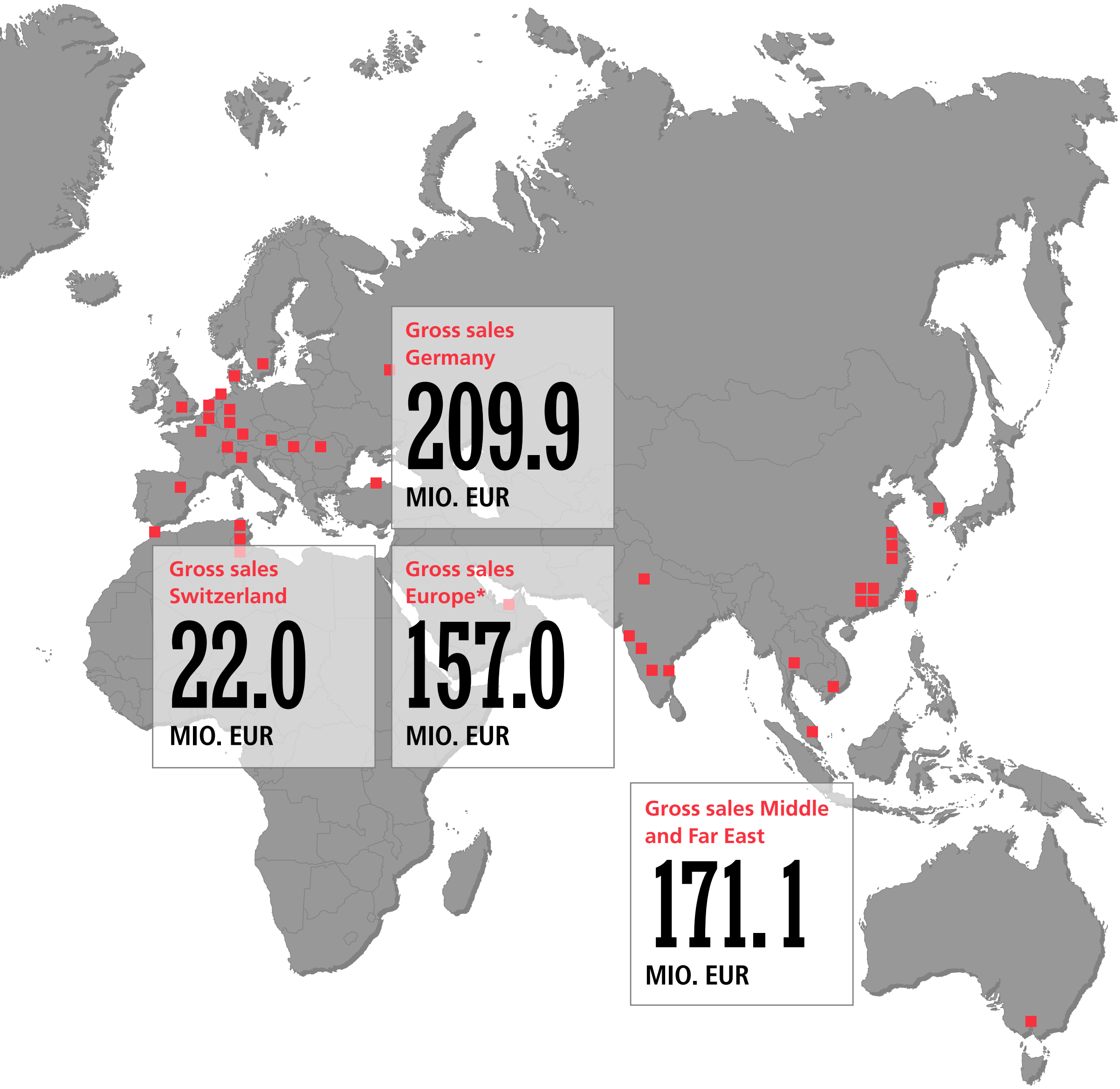
Excellent customer service, local expertise, global network, reliable long-term partnership for system solutions. Creation of cross-division and interregional expertise in developing new processes and technologies, high level of employee loyalty.

Global presence

We are present at over 60 locations worldwide. This together with our international workforce allows us to guarantee our customers efficient production, market-oriented solutions and resource-effective logistics.



■ Production and sales companies
* Without Germany and Switzerland


Gross sales Germany
209.9
MIO. EUR
Gross sales Switzerland
22.0
MIO. EUR
Gross sales Europe*
157.0
MIO. EUR
Gross sales Middle and Far East
171.1
MIO. EUR

Management report

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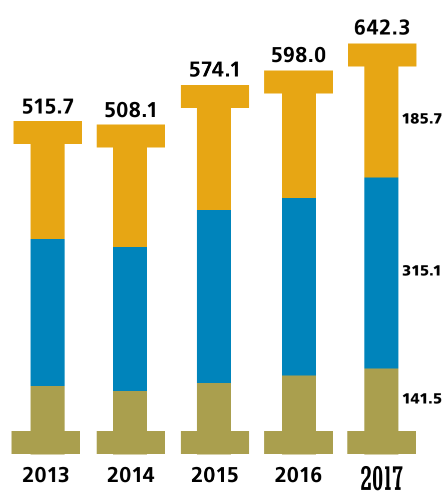
Business performance Group

The Group's business performance in 2017 was characterised by a growth trend in incoming orders and sales in key markets, the highest operating results in five years in the Enclosures and Mechanical Components divisions, and the systematic implementation of measures to boost performance in the ELCOM / EMS division. The latter generated one-off charges of EUR 9.0 million.

Divisions of the Phoenix Mecano Group

- **Enclosures**
- **Mechanical Components**
- **ELCOM / EMS**

Incoming orders Group and Divisions
in EUR million



Business activity

Megatrends are changing our world. These changes may be slow, but they are profound and long term. They are also having a fundamental impact on the development of economic sectors and business processes.

The convergence of megatrends and disruptive technologies is generating new customer needs. For Phoenix Mecano, this opens up opportunities to develop innovative components and modern system solutions for attractive future industries and new markets.

Digitalisation and robotics, the energy transition and demographic changes are just some of the megatrends that will affect our Group in the years ahead. Future-oriented industries such as automation, medical and energy technology provide Phoenix Mecano with attractive impetus for growth in all three divisions. Specific practical examples include customised system solutions for enclosure technology, delivering robust yet ergonomic input systems at human-machine interfaces; the further development of electromechanical linear drives into electronically controlled drive systems for comfort and healthcare furniture with digital interfaces; and a wide range of electrotechnical components addressing the growing challenges of decentralised digital electricity grids that integrate an increasing share of renewable energy.

Aside from these growth opportunities, there are many other reasons why Phoenix Mecano can look to the future with optimism: its global and flexible production and sales organisations, significant positions in attractive niche markets, an innovative product and technology portfolio and, above all, its international team of long-serving and dedicated employees.

Targeted growth investments financed from the Group's operating cash flow support its profitable further development. In the past year, we expanded our production capacity and development expertise in Asia and invested in state-of-the-art cleanroom technology in Europe, as well as pushing ahead systematically with our rolling programme of machinery renewal and the continuous improvement of our business processes. Market initiatives were successfully supported by freeing up resources to develop and launch new products. The implementation of a comprehensive package of performance enhancement measures in the ELCOM/EMS division has laid the foundations for a sustainable improvement in the division's earnings.

Alongside this, we also pursued acquisition-related growth initiatives. By becoming the majority shareholder in Orion Technologies LLC, which develops and manufactures modules for custom high-performance computers, we have expanded our offering in industrial computer systems. Our acquisition of the remaining shares in Jiaxing Yinuo Electronic Technology Co., Ltd. has enabled us to systematically pursue a strategy of vertical integration in drive technology.

In the current year, we will continue to generate sustainable added value for Phoenix Mecano through operational performance optimisation, organic growth and targeted acquisition activities.

Orders, sales and profitability

Encouraging order situation

Consolidated incoming orders for the Phoenix Mecano Group rose by 7.4% in 2017, from EUR 598.0 million to EUR 642.3 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 102.3%, compared with 102.5% the previous year. It was well above 100% in all three divisions.

Broad sales growth

The Phoenix Mecano Group's consolidated gross sales rose by 7.6% in 2017, from EUR 583.2 million to EUR 627.6 million. Sales growth in local currencies was 8.9%. Changes in the scope of consolidation contributed 1.4% to the increase in sales.

Sales in Europe grew by 3.8% overall (2.4% in organic terms), driven by growth of 6.5% in the core market of Germany. In the other European markets, sales increases in Scandinavia, Austria and Eastern Europe offset losses in Switzerland, the UK (mainly currency-related in both markets), France, Italy and the Netherlands. Asian markets saw an increase of 14.9%, driven by sales growth in drives for electrically adjustable comfort and healthcare furniture in China, Taiwan and Japan, as well as increased sales of enhanced-protection products for use in potentially explosive environments in Singapore and Malaysia. In North and South America, sales were up by 13.3%, again largely due to dynamic demand in the drive technology sector.

The Enclosures division increased its sales by 7.7%. There was high demand for system solutions, which combine modern industrial enclosures with electronic input modules. Sales of enclosures in the Far East recorded double-digit growth, with the energy technology business performing particularly well.

The strongest growth of 8.2% was posted by the Group's largest division, Mechanical Components. In the industrial segment, there was high demand in all market regions for profile systems and linear units. In the comfort and healthcare furniture sector, double-digit sales growth in electric drive systems was achieved in Asia and America.

The ELCOM/EMS division posted an acquisition-related sales increase of 6.1%. Organically, sales were up by 0.8%. Implementation of the package of performance enhancement measures slowed growth slightly. On the other hand, market successes in electromechanical components and with instrument transformer products for high-voltage applications confirm that the division is moving in the right strategic direction.

Disproportionate rise in operating result before one-off items

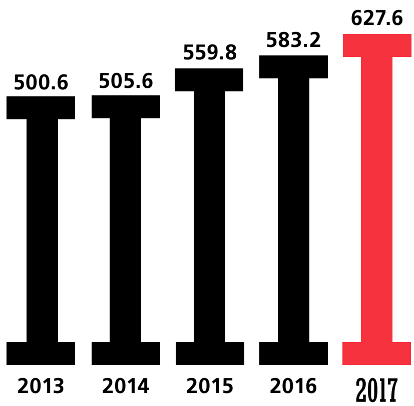
The operating result, adjusted for one-off items, rose by 13.1% from EUR 35.2 million to EUR 39.7 million. In the ELCOM/EMS division, the performance enhancement measures outlined in the media release of 15 August 2017 were implemented. These include site closures, staffing measures and portfolio streamlining and resulted in one-off expenses of EUR 9 million in 2017 (compared with net one-off expenses of EUR 0.7 million the previous year). Including these one-off items, the operating result was EUR 30.7 million (previous year EUR 34.5 million). The operating margin (before one-off items) increased from 6.0% to 6.3%.

The Enclosures division saw a significant rise in operating result, up by 29.7% to EUR 24.3 million, with a corresponding 5.0 percentage point improvement in profitability. The Mechanical Components division also posted a higher operating profit, up by 4.2% to EUR 26.1 million, while its profitability rose by 1.1 percentage points. Owing to the high one-off expenses, the ELCOM/EMS division recorded an increased operating loss of EUR 16.4 million (previous year EUR 8.4 million). On the other hand, the division's operating cash flow before one-off items increased from EUR 2.4 million to EUR 3.0 million.

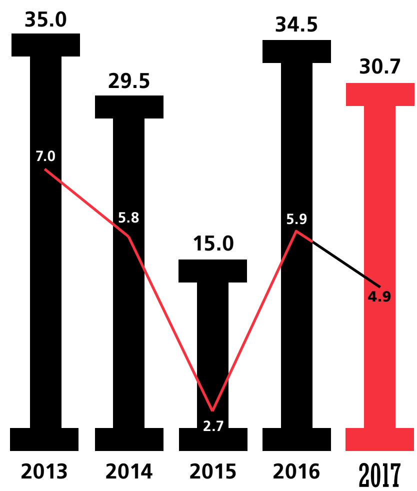
As a result of higher material prices and shifts in product mix, the Phoenix Mecano Group's material use rate rose slightly as a percentage of gross sales (47.2% compared to 46.6% the previous year).

Personnel expenses were up by 6.8%, slightly less than sales, despite one-off costs from restructuring measures. Average staff numbers over the year increased from 6 252 to 6 759, mainly in Asia.

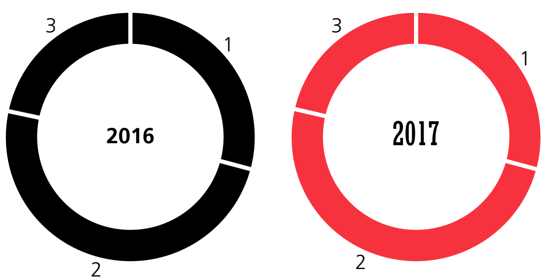
Gross sales 2013–2017
in EUR million



Operating result and margin 2013–2017
in EUR million
— in %



Gross sales by division 2016 and 2017
in %



1 Enclosures: 29.2 | **29.3**
2 Mechanical Components: 49.2 | **49.5**
3 ELCOM/EMS: 21.6 | **21.2**

Profitability by division*
in %

	Change to prior year in %	2017	2016
Enclosures	17.1	34.2	29.2
Mechanical Components	5.8	19.5	18.4
ELCOM/EMS	– 88.5	– 16.1	– 8.6
Group	**– 13.1**	**10.1**	**11.6**

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

Amortisation of intangible assets and depreciation on tangible assets increased by 11.5% due to the acquisitions made in 2016 and 2017 and the high level of investment activity.

Other operating expenses rose by 8.5%, slightly more than sales, owing to higher establishment expenses and selling expenses.

Only slight year-on-year drop in result despite one-off items

The loss in financial result of EUR –0.5 million was significantly lower than the previous year (EUR –2.3 million). The adjustment (recognised in the statement of income) of a purchase price liability from an acquisition and earnings from the revaluation of investments linked to step acquisitions generated a one-off income of EUR 1.5 million.

The income tax rate in 2017 was 27.5%, slightly lower than the previous year (28.5%), due in part to the tax rate reduction in the US.

Despite considerable one-off charges, the result of the period fell only slightly by 4.7%, from EUR 23.0 million to EUR 21.9 million, and the net margin from 3.9% to 3.5%.

Asset and capital structure

Growth investments

Purchases of tangible assets totalled EUR 21.6 million (previous year EUR 20.8 million). Purchases of intangible assets stood at EUR 4.4 million (previous year EUR 3.1 million). They include major investments in manufacturing technology in India and China, as well as the completion of a new drive technology development and production centre in China. These investments have created capacity for future growth.

Comfortable equity position

The equity ratio at the balance sheet date of 31 December 2017 remained comfortable at 57.2% but was down on the previous year's value of 60.3%, mainly owing to the expansion of the balance sheet and negative currency effects on equity (caused by the weakening of several important Group currencies in relation to EUR).

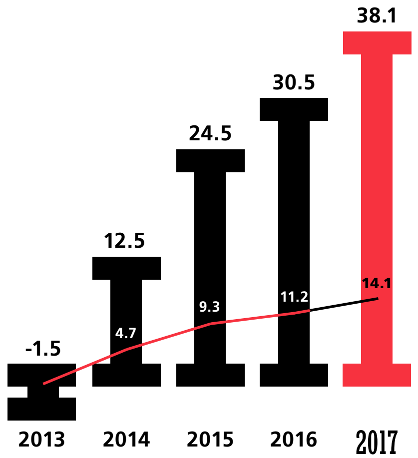
Promissory note loans taken out

Net indebtedness totalled EUR 38.1 million (previous year EUR 30.5 million). The main reason for the rise in net indebtedness was the growth-related increase in current assets and increased investment activity. In 2017, the Group restructured its external financing by taking out five-year promissory note loans for EUR 35 million at a fixed interest rate and USD 13.5 million at a variable interest rate.

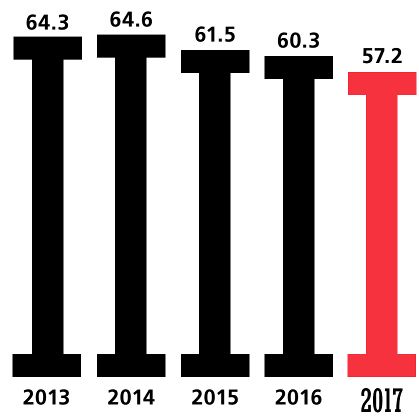
Outlook

In a still favourable economic environment, the Phoenix Mecano Group has made a solid start to the new year. Moreover, prospects for the relevant industrial markets of its three divisions remain intact, although political uncertainties could inhibit growth. As a global business, the Group consistently seeks to build on its strong positions in established markets. Its focus on future industries such as medical, automation and energy technology will allow it to tap into new growth segments. Barring any exceptional turbulence in its global target markets, sales and operating result are expected to grow in 2018.

Net debt and gearing 2013–2017
in EUR million
— in % of equity



Equity ratio 2013–2017
in %



Purchases of tangible and intangible assets

	2017 in 1 000 EUR	2017 in %	2016 in 1 000 EUR	2016 in %
BY TYPE OF ASSET				
Intangible assets	4 428	17.0	3 077	12.9
Land and buildings	2 436	9.4	3 060	12.8
Machinery and equipment	12 083	46.5	10 007	41.9
Tools	2 090	8.0	1 347	5.7
Construction in progress	4 960	19.1	6 378	26.7
Total	**25 997**	**100.0**	**23 869**	**100.0**
BY DIVISION				
Enclosures	7 105	27.3	6 213	26.0
Mechanical Components	11 035	42.5	11 262	47.2
ELCOM/EMS	7 157	27.5	5 555	23.3
Total for all divisions (segments)	25 297	97.3	23 030	96.5
Reconciliation *	700	2.7	839	3.5
Total	**25 997**	**100.0**	**23 869**	**100.0**

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

Intellec-tual

resources

Acquisitions are a key part of Phoenix Mecano's business. The 23 companies acquired since 1985 have accounted for around 30% of growth. They have allowed Phoenix Mecano to develop new markets, regions, fields of application and technologies and expand its customer offering. Internally, the J2OX programme ensures that processes in all areas and at all levels are efficiently designed and continuously improved.

Invested in R&D

14

EUR million

J2OX: our culture of continuous improvement

Introduced in 2011, Journey towards Operational Excellence (J2OX) is geared towards employees at all levels. It promotes initiative and individual responsibility with a view to the ongoing optimisation of processes and products.

Thanks to J2OX, we are able to meet specific customer requirements in a faster, more reliable and more cost-effective way (with optimum use of resources), despite rising demands and increased complexity in the global industrial components business.

As well as large, clearly quantifiable optimisations, J2OX also encompasses a plethora of small, ingenious ideas put forward by employees, which simplify, shorten or improve day-to-day work or make processes safer or more reliable.

RK Rose + Krieger, for example, implements around 450 major and minor optimisations each year, and in recent years has been able to steadily increase its sales and improve quality while keeping its head-count relatively constant.

In 2017, as part of J2OX, Bopla Gehäuse Systeme held a two-day, international set-up time reduction workshop for interested companies within the Phoenix Mecano Group. The participating companies have already implemented many suggestions and improvements. For example, Bopla was able to achieve a 30% reduction in total set-up effort, thereby boosting the capacity of its existing facilities. Phoenix Mecano Komponenten in Stein am Rhein analysed and systematically optimised its entire production process for a custom enclosure with a high annual volume, resulting in a halving of lead times. Such outcomes make production more responsive and flexible.

Since the launch of J2OX, more than 200 employees from all Group companies have completed Lean Master training courses lasting several weeks at which they have learnt to put the relevant Lean tools to practical use. In 2017, a J2OX Internet platform for internal knowledge transfer was set up, on which Lean Masters from different parts of the Group as well as heads of department and project managers can exchange their experience. In 2018, in-house seminars will be organised to teach and consolidate Lean fundamentals. A newsletter featuring examples of best practice will be published regularly on the J2OX platform to enable staff to learn from one another and consistently promote structured, cross-company solutions to problems.

J2OX
JOURNEY TOWARDS OPERATIONAL EXCELLENCE

Enclosures

Considerable organic sales growth was achieved on the back of increased sales in electrical engineering, mechanical engineering and the automotive supply industry in Germany and project successes in the oil and gas business in Asia. A progressive decrease in fixed costs and an optimisation of manufacturing structures led to a significant increase in result.

Operating result

24.3 EUR million

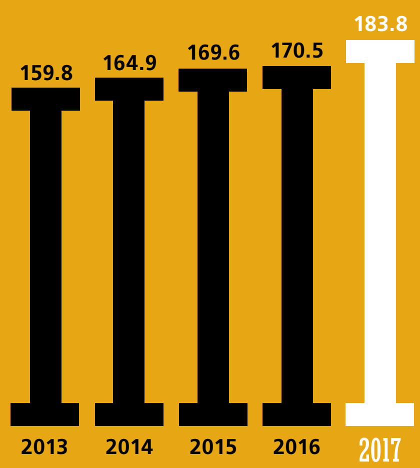
Margin

13.2 %

Investments

7.1 EUR million

Gross sales 2013 – 2017
in EUR million



Orders, sales and profitability

Orders

The Enclosures division's incoming orders were up 5.8% on the previous year at EUR 185.7 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 101.1% (previous year 102.9%).

Sales

The division saw sales increase by 7.7% to EUR 183.8 million. Corrected for differences in foreign-exchange rates, gross sales were up by 8.4%. There were no consolidation effects. In Europe, sales were up by 5.9% overall, with growth concentrated in the division's core market of Germany as well as Scandinavia, Spain and Eastern Europe. Its Russian business was strengthened in 2017 with the establishment of a dedicated sales company in Moscow. Sales in North and South America increased by 1.9% despite negative currency effects. In the Middle and Far East they were up by 20.7% overall, primarily in energy technology in the Middle East, Singapore and Malaysia.

Gross sales of industrial enclosures (including control panels and equipment carriers) rose by 7.9% worldwide. In Europe, sustained robust economic activity resulted in broad-based growth. In particular, demand for human-machine interface (HMIs), customised enclosures and system solutions combined with input systems continued to grow. The product range was strategically expanded, including new height adjustment systems and equipment carriers as well as HMI products such as the BoPad handheld enclosure. Double-digit sales growth was achieved in Asia and the Middle East, driven in particular by project business in the oil and gas sector, which remains buoyant. In China, a state-of-the-art production facility for customised electrical cabinets saw some initial successes.

Following a decline in sales in the previous year, gross sales of input systems rose by 4.9%, with growth driven by capacitive touch input devices, which are mainly used in medical technology but also in traditional membrane keypads for mechanical engineering and automation technology.

Result

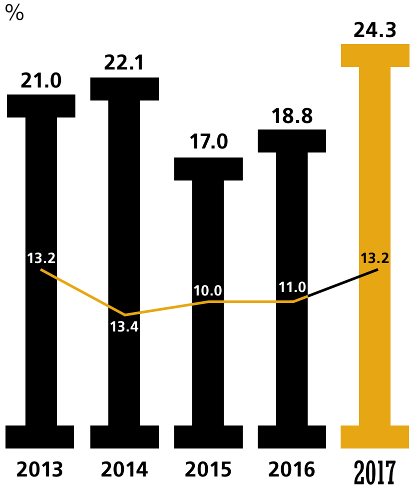
The operating result increased by 29.7% to EUR 24.3 million as a consequence of high organic sales growth and disproportionately low cost increases. In addition, the optimisation and modernisation of manufacturing structures for input systems is beginning to bearing fruit.

Asset and capital structure

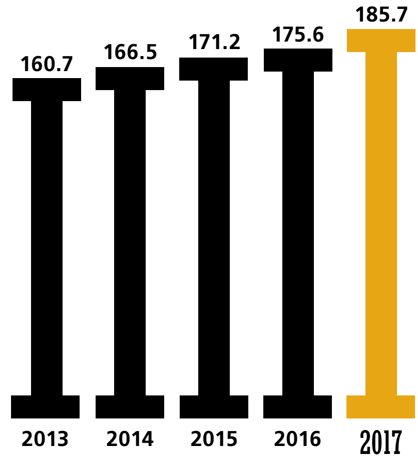
Purchases of tangible and intangible assets stood at EUR 7.1 million, up on the previous year's figure of EUR 6.2 million. Higher spending on intangible assets contributed to this increase. One focus of investment was manufacturing infrastructure in India and China, including expansion of die-casting capacity and construction of a production facility for stainless steel enclosures.

Net operating assets increased by 10.8% from EUR 64.3 million to EUR 71.2 million. The return on capital employed (ROCE) rose to 34.2% (previous year 29.2%), owing to the higher operating result.

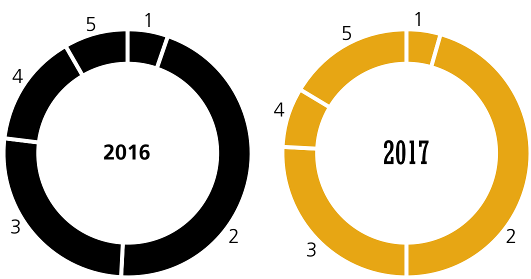
Operating result and margin 2013 – 2017
in EUR million
— in %



Incoming orders 2013 – 2017
in EUR million



Gross sales by region 2016 and 2017
in %



1 Switzerland: 5.4 | **4.7**
2 Germany: 45.5 | **45.3**
3 Europe (excl. GER and CH): 26.3 | **26.0**
4 Middle and Far East: 14.5 | **16.2**
5 North and South America: 8.3 | **7.8**

Purchases of tangible and intangible assets

	2017	2017	2016	2016
	in 1 000 EUR	in %	in 1 000 EUR	in %
Intangible assets	1 793	25.2	816	13.1
Land and buildings	400	5.6	781	12.6
Machinery and equipment	3 927	55.3	3 648	58.7
Tools	390	5.5	392	6.3
Construction in progress	595	8.4	576	9.3
Total	**7 105**	**100.0**	**6 213**	**100.0**

Financial

resources

Our solid capital structure, extremely sound equity ratio and low gearing, combined with years of high free cash flow, enable us to deliver organic growth and regular dividend payments while also making suitable acquisitions. Investing in our intellectual, material and social resources strengthens our capacity for innovation and lays the foundation for our long-term success.

Free cash flow

11.4

EUR Million

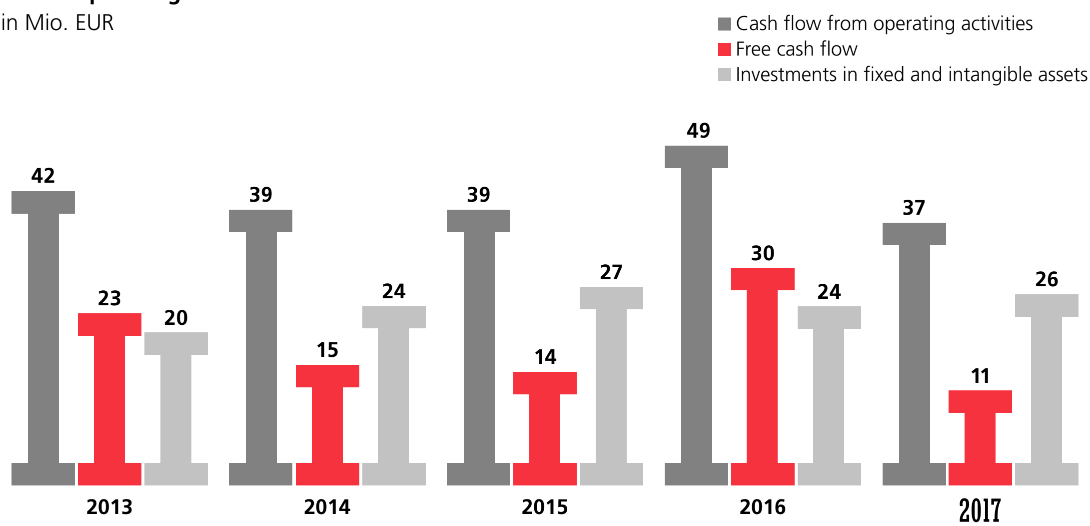
Sustainable value generation

Phoenix Mecano went public in 1988. Since then, we have grown steadily and are now present at over 60 locations worldwide, on all six economically relevant continents. Our strong equity position and stable cash flow generation allow us to achieve this growth without having to raise new capital. We therefore generate a reasonable return for our shareholders together with dividend payments that remain constant over the course of economic cycles.

Phoenix Mecano finances its acquisitions and capital expenditure entirely from cash flow. Cash flow from operating activities was EUR 37.1 million in 2017. Capital expenditure was EUR 26 million in 2017, compared to EUR 24 million in 2016.

As well as innovating with its own products, Phoenix Mecano has a track record of acquiring companies to facilitate entry into new segments of the components market, speed up new product launches and strengthen local market penetration.

Stable operating cash flow and investments
in Mio. EUR



Mechanical Components

Global growth in the industrial business and continued strong demand for comfort furniture from the US retail market led to high-single-digit sales growth and a further increase in operating result.

Operating result

26.1 EUR million

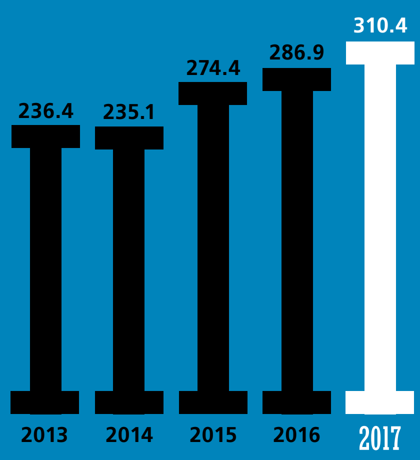
Margin

8.4 %

Investments

11.0 EUR million

Gross sales 2013 – 2017
in EUR million



Orders, sales and profitability

Orders

The Mechanical Components division's incoming orders were up 7.6% on the previous year at EUR 315.1 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 101.5% (previous year 102.0%).

Sales

Gross sales rose by 8.2% to EUR 310.4 million. Corrected for differences in foreign-exchange rates, sales growth was 10.4%; adjusted for consolidation effects, sales were up by 7.7%. In Europe, sales increased slightly by 0.6%. Growth in the industrial components business was offset by a slight decline in sales of drive technology for the furniture and care market. Sales were up by 13.1% in North and South America and by 17.0% in the Middle and Far East. Demand for electrically adjustable comfort furniture remains high in both regions.

The industrial components business saw broad-based growth thanks to positive developments in mechanical engineering and automation technology. Germany performed particularly well, recording a 9.1% increase in sales. Eastern European sales of turnkey facilities for the automotive sector also expanded. Gross sales of industrial assembly systems rose by 13.9% overall.

In the linear drives business for the furniture and healthcare market, dynamic sales performance in Asia continued, with sales up by 17.6% compared with 16.6% the previous year. Double-digit sales growth was also recorded in North and South America, although the mature European market saw a slight decline.

Overall, gross sales of linear adjustment and positioning systems increased by 7.1%. In drive technology, the focus remains on product innovations such as upgrades to electronically controlled drive systems for comfort and healthcare furniture with digital interfaces and product range expansions in office furniture and medical technology.

Result

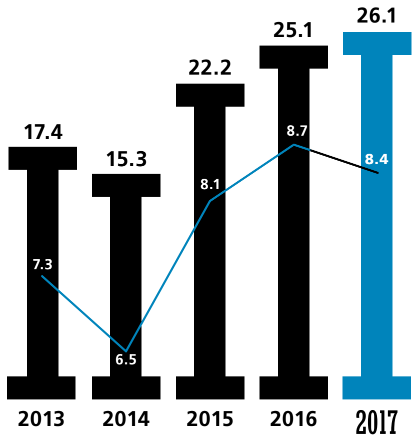
The operating result increased slightly less than sales, rising by 4.2% to EUR 26.1 million, due to the higher volume of business. Material price increases and the competitive situation in individual market segments led to a slight decline in gross margin. In addition, sales activities were stepped up in 2017, which entailed additional costs.

Asset and capital structure

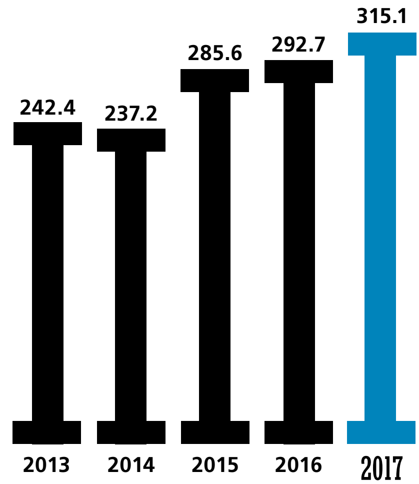
Purchases of intangible and tangible assets totalled EUR 11.0 million, practically unchanged from the previous year. In early 2017, the new 36 000 m^2 development and production centre in Jiaxing came on stream. The site was also equipped with a system for the automated assembly of printed circuit boards. In the industrial components business, we expanded production facilities in Germany and Hungary.

Despite the expansion in business, net operating assets were reduced by 1.5%. This combined with the higher operating result saw the return on capital employed (ROCE) climb to 19.5%, from 18.4% the previous year.

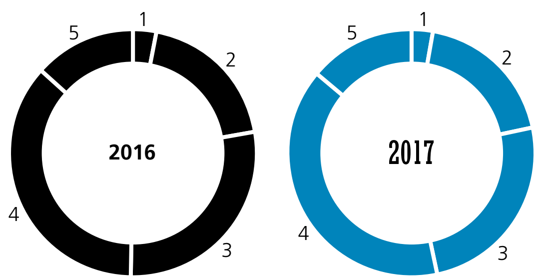
Operating result and margin 2013 – 2017
in EUR million
— in %



Incoming orders 2013 – 2017
in EUR million



Gross sales by region 2016 and 2017
in %



1 Switzerland: 3.1 | **3.0**
2 Germany: 19.3 | **18.7**
3 Europe (excl. GER and CH): 28.0 | **25.1**
4 Middle and Far East: 36.4 | **39.4**
5 North and South America: 13.2 | **13.8**

Purchases of tangible and intangible assets

	2017 in 1 000 EUR	2017 in %	2016 in 1 000 EUR	2016 in %
Intangible assets	2 175	19.7	1 438	12.8
Land and buildings	189	1.7	1 471	13.1
Machinery and equipment	4 063	36.8	2 818	25.0
Tools	1 257	11.4	671	6.0
Construction in progress	3 351	30.4	4 864	43.1
Total	**11 035**	**100.0**	**11 262**	**100.0**

Material

resources

As a global company, we have production and sales locations on every continent. Global production combined with local customisation enables us to manufacture cost-effectively while meeting our customers' individual specifications. We also use state-of-the-art technology and develop energy-efficient solutions for our products.

Locations worldwide

>60

Expansion of production in China

In September 2017, we opened our largest factory worldwide in Jiaxing, China. Around 800 people work in this state-of-the-art development, production and administration building, manufacturing smart products for the Mechanical Components division across 36 000 m² of usable space.

Having a local presence in the extremely dynamic and fast-growing Chinese market is essential. At our newest production site in Asia, the Mechanical Components division manufactures its smart products in the region for the region.

The investment in this state-of-the-art plant has significantly increased the vertical range of manufacture of innovative linear drives for furniture applications. It brings together in a single location the key stages in the value creation process, spread over the building's four floors. This enables a high degree of flexibility. A development centre employs engineers in software, electronics, mechanics and industrial design. As well as modern assembly lines and flexible assembly cells, the new building contains a showroom and a training centre complete with conference room. The facilities satisfy all possible technical requirements.

The administration and logistics centre is located in the bottom part of the building. On a separate floor, plastic injection moulding systems of various performance classes are lined up for use in multi-shift operations. A highlight of the production infrastructure is the fully automated manufacture of electric motors for linear drives. This site will enable us to further consolidate our leading position in the global market for adjustable furniture in the residential, office and healthcare sectors.

ELCOM/ EMS

The Electromechanical Components and Electronic Manufacturing and Packaging business areas were able to increase their sales and result organically. The latter was strengthened by the acquisition of Orion Technologies LLC. An extensive package of performance enhancement measures focusing on the Power Quality business area was systematically implemented and impacted the division's result.

Operating result

-16.4 EUR million

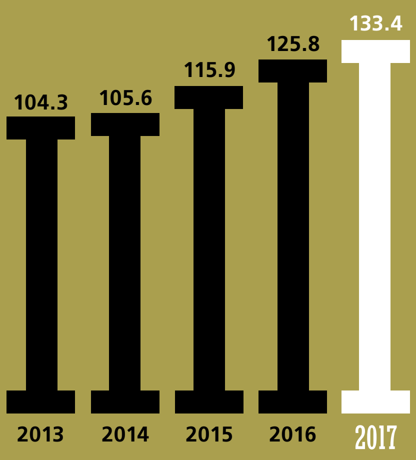
Margin

-12.3 %

Investments

7.2 EUR million

Gross sales 2013 – 2017
in EUR million



Orders, sales and profitability

Orders

The ELCOM / EMS division’s incoming orders were up 9.1% on the previous year at EUR 141.5 million (organic growth of 2.8%). The book-to-bill ratio (incoming orders as a percentage of gross sales) reached 106.1%, compared with 103.1% the previous year.

Sales

Gross sales rose by 6.1% to EUR 133.4 million. Corrected for differences in foreign-exchange rates, sales growth was 6.3%; adjusted for consolidation effects, sales were up by 0.8%. In Europe, sales increased by 5.7% overall, driven by 7.1% sales growth in Germany (2.5% in organic terms). Sales in North and South America increased by 34.6% (17.4% in organic terms), while in the Middle and Far East a slight decline in sales of 3.6% was recorded.

Gross sales of electromechanical components grew by 5.7% to EUR 50.5 million. The division won a number of new projects relating to integrated connection systems and cable test probes. Sales were also up in the switches product area, in particular circuit breakers and automation and safety technology.

Gross sales in the Power Quality business area improved by 0.6% to EUR 41.1 million. In organic terms, they fell by 12.5%. Increased delivery times due to integration, site consolidation and portfolio streamlining measures impacted sales development. On the other hand, the division achieved market successes in instrument transformer products for high-voltage applications.

The Electronic Manufacturing and Packaging business area saw sales increase by 12.5% to EUR 41.8 million. Organic growth was 8.9%. Near double-digit sales growth was achieved in electronics manufacturing, more specifically the market segments of automation and medical technology. There were also project successes in the power supplies and backplanes business, particularly in North America. Fully consolidated since 1 June 2017, Orion Technologies LLC, which strengthens the custom industrial computer system business in the US, contributed EUR 1.3 million to sales growth.

Result

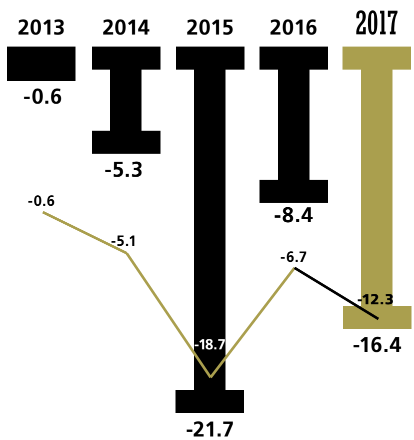
The ELCOM / EMS division’s operating loss rose from EUR 8.4 million to EUR 16.4 million. A comprehensive package of measures was implemented in 2017 to reduce the number of production sites, adapt capacity, pool sales and development activities and streamline the product ranges. This generated one-off costs of EUR 9.0 million. In the previous year, one-off expenses of EUR 2.4 million were recorded. In addition, amortisation of acquisition-related intangible assets totalling EUR 4.6 million (previous year EUR 3.4 million) impacted the result. By contrast, there was positive movement in operating cash flow before one-off expenses, which improved from EUR 2.4 million to EUR 3.0 million.

Asset and capital structure

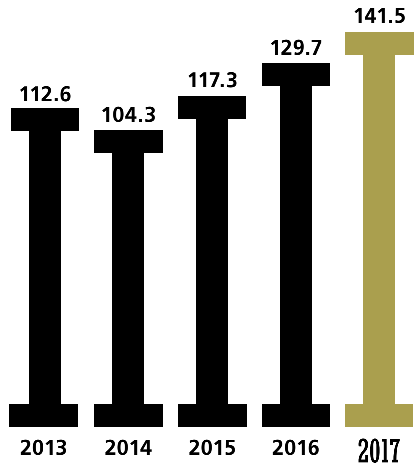
Purchases of intangible and tangible assets rose to EUR 7.2 million. Investments in manufacturing infrastructure were made in Germany as part of the site consolidation process, and there were further moves to automate production of electromechanical components.

Net operating assets increased from EUR 97.8 million to EUR 101.6 million, primarily due to the acquisition of Orion Technologies LLC. Owing to the lower operating result, the return on capital employed (ROCE) fell to –16.1% from –8.6% the previous year.

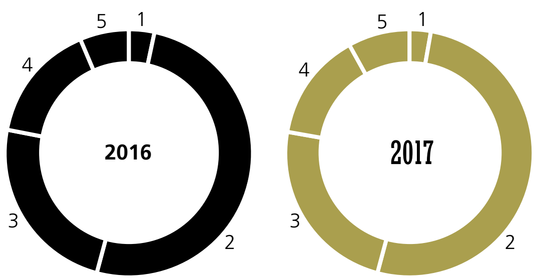
Operating result and margin 2013–2017
in EUR million
— in %



Incoming orders 2013–2017
in EUR million



Gross sales by region 2016 and 2017
in %



1 Switzerland: 3.5 | **3.0**
2 Germany: 50.9 | **51.4**
3 Europe (excl. GER and CH): 23.8 | **23.6**
4 Middle and Far East: 15.6 | **14.1**
5 North and South America: 6.2 | **7.9**

Purchases of tangible and intangible assets

	2017 in 1 000 EUR	2017 in %	2016 in 1 000 EUR	2016 in %
Intangible assets	252	3.5	433	7.8
Land and buildings	1 847	25.8	806	14.5
Machinery and equipment	3 601	50.3	3 096	55.7
Tools	443	6.2	284	5.1
Construction in progress	1 014	14.2	936	16.9
Total	**7 157**	**100.0**	**5 555**	**100.0**

Social

resources

The Phoenix Mecano Group is made up of people from a diverse range of cultural backgrounds. A willingness to collaborate across divisions and regions, an ability to see the big picture and take independent responsibility for their own business area, and a high level of identification with the company are all characteristic of our employees. With a shared vision and a high degree of flexibility to adapt quickly to changing conditions, we work together to increase the value of the business sustainably.

Number of employees

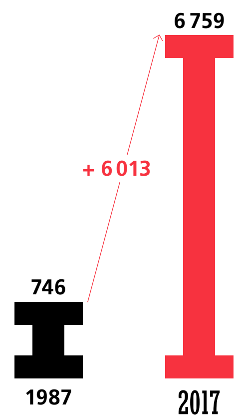
6 759

Success founded on long-term relationships

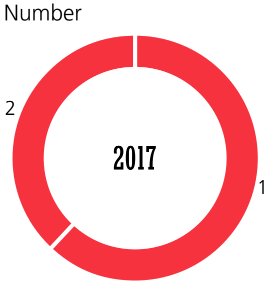
Day in day out, our highly-motivated staff deploy their knowledge and expertise for the benefit of our customers. The resulting sustainable value creation benefits everyone: employees, customers, suppliers and investors.

With global economic cycles becoming shorter and more volatile and industrial globalisation affecting all parts of the company, the flexibility and intercultural competence of our employees have never been more tested or more important. A willingness to cooperate globally is integral to Phoenix Mecano's culture and is something that sets us apart. We offer local support to our customers around the world to help them tap into promising growth markets. In close partnership with them, we develop detailed technical solutions, new products and complete system solutions tailored to their individual requirements. The result of this commitment can be seen in the long-standing relationships we enjoy with our customers and suppliers.

Employees worldwide 1987–2017
Number

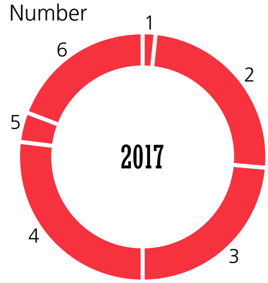


Employees by gender
Number



1 Men: **4 182**
2 Women: **2 577**

Employees by region
Number



1 Switzerland: **129**
2 Germany: **1 661**
3 Rest of Europe: **1 595**
4 Middle and Far East: **1 834**
5 North and South America: **250**
6 Rest of World**: 1 290**

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	2017	2016
1 Net sales		621 663	577 481
2 Own work capitalised and other income		8 047	8 299
3 Cost of materials		−296 208	−271 499
4 Other operating expenses	A	−78 178	−72 020
5 Depreciation/amortisation		−29 025	−24 665
6 Other non-operating result	B	548	−1 582
Value added		**226 847**	**216 014**

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	2017	2016
1 Employees	C	85.5	84.0
2 Government (Taxes)	D	4.4	5.0
3 Shareholders	E	6.0	6.2
4 Lenders (net interest expense)		0.5	0.4
5 Companies (retained earnings)	F	3.6	4.4
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.

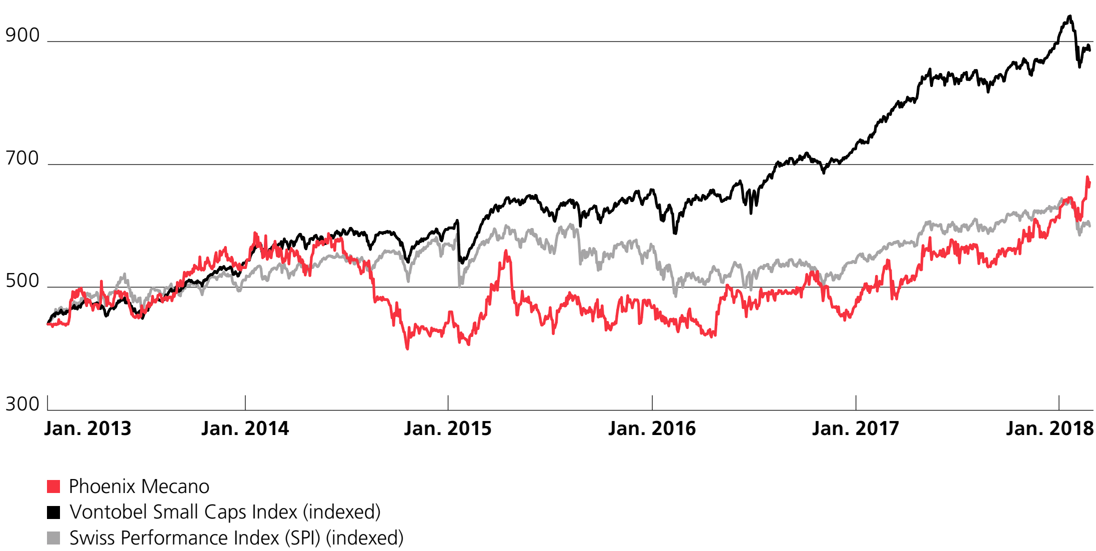
Opting-out und Opting-up

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.

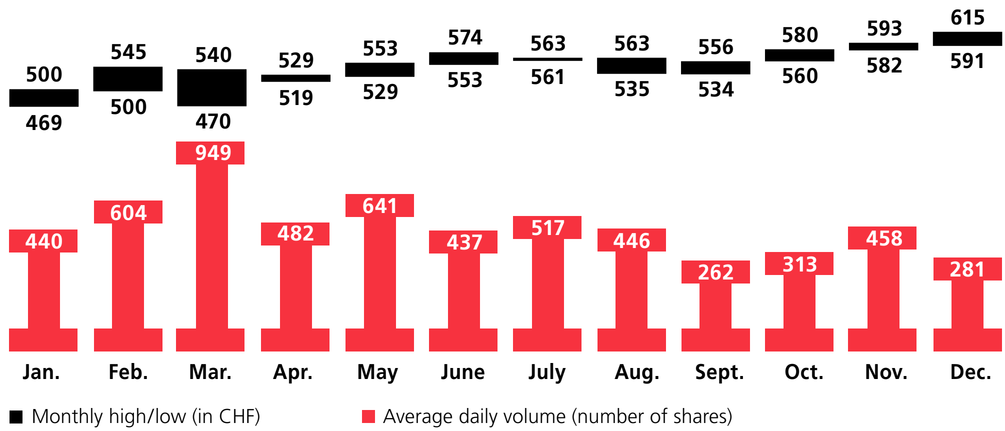
Payout and dividend policy

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 18 May 2018 a dividend of CHF 16 per share.

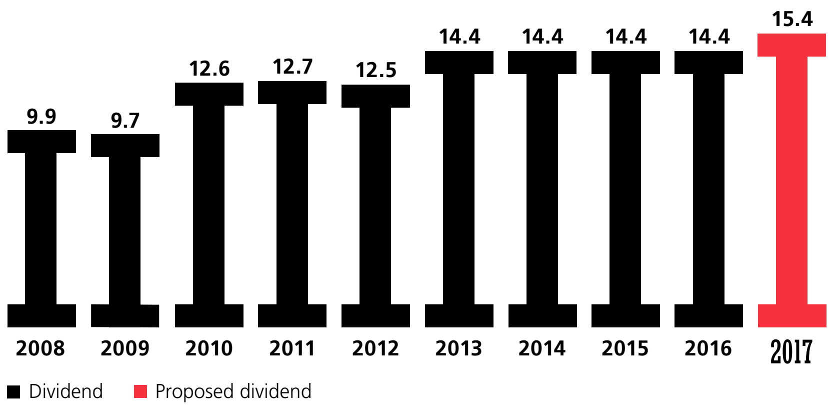
Share price 1 January 2013 – 28 February 2018
in CHF



Monthly highs and lows and average daily volume 2017



Dividend payout 2008–2017
in million CHF



Dividend payout and return of capital to shareholders 2006–2017

in million CHF	2006–2012	2013	2014	2015	2016	2017	Total
Proposed dividend	73.1	14.4	14.4	14.4	14.4	15.4	146.1
Share buy-back	47.6	3.4	–	–	–	–	51.0
Total	**120.7**	**17.8**	**14.4**	**14.4**	**14.4**	**15.4**	**197.1**

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	CH 000 218 7810
Reuters	PM.S
Bloomberg	PM SE Equity
Telekurs / Telerate	PM
Legal Entity Identifier (LEI)	529900SWF06EKVI1JY11.

Share indicators at a glance

	Unit	2017	2016	2015	2014	2013
Share capital [1] (bearer shares with a par value of CHF 1.00)	CHF	960 500	960 500	960 500	960 500	978 000
Treasury shares	Number	1 000	1 420	485	1 260	20 064
Shares entitled to dividend	Number	959 500	959 080	960 015	959 240	957 936
Operating result per share [2]	EUR	32.0	35.9	15.6	30.7	36.6
Result of the period per share [2]	EUR	22.9	24.0	7.0	20.8	23.4
Equity per share [2]	EUR	281.1	284.4	273.6	278.8	265.4
Free cash flow per share [2]	EUR	11.9	30.9	14.2	16.1	24.0
Dividend	CHF	16.00 [5]	15.00	15.00	15.00	15.00
Share price						
– High	CHF	614	528	560	589	565
– Low	CHF	475	406	407	399	436
– Year-end price	CHF	614	469	467	460	545
Market capitalisation	million CHF	589.7	450.5	448.6	441.8	533.0
Dividend yield [3]	%	2.4 [5]	3.2	3.2	3.3	2.8
Total shareholder return	%	34.1	3.6	4.8	– 12.8	29.9
Payout ratio [4]	%	63 [5]	57	202	59	52
Price / profit ratio 31 December		24.2	17.9	62.8	18.2	19.0

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 18 May 2018.

Employees

Our staff are crucial to the success of our company. In 2017, 6 759 employees contributed to the ongoing development of our products and services. Phoenix Mecano offers these employees an inspiring and rewarding work environment. We foster initiative and personal responsibility by involving employees at all levels in problem-solving processes and process optimisation. This strengthens their identification with the whole Phoenix Mecano Group while also boosting their motivation. By creating new, high-quality jobs and promoting knowledge transfer, the company contributes to ongoing economic development in a wide variety 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

Key figures at a glance

Annual average/Number unless otherwise indicated	Change 2017 to 2016 Number/1 000 EUR	2017	2016	2015	2014	2013
Employees	507	**6 759**	**6 252**	**6 204**	**6 207**	**5 839**
BY DIVISION						
Enclosures	83	1 989	1 906	1 848	1 779	1 715
Mechanical Components	221	2 238	2 017	1 917	1 908	1 914
ELCOM/EMS	200	2 490	2 290	2 401	2 488	2 182
Others	3	42	39	38	32	28
BY REGION						
Switzerland	1	129	128	137	139	137
Germany	–2	1 661	1 663	1 630	1 587	1 552
Rest of Europe	55	1 595	1 540	1 459	1 459	1 467
North and South America	39	250	211	214	201	204
Middle and Far East	284	1 834	1 550	1 454	1 441	1 251
Africa	130	1 275	1 145	1 296	1 367	1 215
Australia	0	15	15	14	13	13
BY GENDER						
Men		4 182				
Women		2 577				
Fluctuation in %		20.0				
Personnel expenses in 1 000 EUR	–0.3	28.7	29.0	28.5	26.0	25.9
Gross sales per employee in 1 000 EUR	–0.4	92.9	93.3	90.2	81.5	85.7

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.

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
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 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 128ff.).

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 60.

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 66 and 67. Detailed information about the scope of consolidation can be found on pages 98–101 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.

Major shareholders, each holding a share of the voting rights equivalent to over 3% of the share capital as at 31 December 2017

Name in %	Head office	2017	2016
Planalto AG	Luxembourg, Luxembourg	34.6[1]	34.6[1]
Tweedy, Browne Company LLC, Stamford, USA[2]	Stamford, USA	8.5	5.5[1]
Tweedy, Browne Global Value Fund[3] (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	*Stamford, USA*	*7.2*	*5.5[1]*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9[1]	4.9[1]
Credit Suisse Funds AG	Zurich, Switzerland	< 3.0	3.3

1 Shareholding not notified in the year indicated.

2 Tweedy, Browne Company LLC (TBC) is not an economic beneficiary owner of the Shares. TBC has been delegated voting authority pursuant to separate investment advisory agreements. Please note that included in the Shares reported with this filing are 68 640 shares held by Tweedy, Browne Global Value Fund, a Direct Acquirer and economic beneficiary.

3 Pursuant to an investment advisory agreement between Tweedy, Browne Global Value Fund (TBGVF) and TBC, TBGVF has delegated voting authority with respect to 68 640 bearer shares of Phoenix Mecano AG to TBC. TBC is not an economic beneficiary of any of the Shares. TBGVF is the sole economic beneficiary of the Shares.

This information is based on notifications by the aforementioned shareholders. Individual notifications can be viewed at the following link of SIX Swiss Exchange:
www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

Capital structure

Capital / shares and participation certificates

The bearer shares of Phoenix Mecano AG, Stein am Rhein, are listed on SIX Swiss Exchange, Zurich. As at 31 December 2017, the share capital was fully paid up and consisted of 960 500 bearer shares (securities no.: Inh. 218781; ISIN: CH0002187810; 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 1 000 treasury bearer shares. Based on the 2017 year-end price of CHF 614, the market capitalisation as at 31 December 2017 was CHF 589.7 million. 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 2017, 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.

Changes in capital

Year of buy-back	Cancelled shares Number	Average repurchase price CHF	Average repurchase price 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

Convertible bonds and options

There are no convertible bonds and no options.

Board of Directors

The Board of Directors is the company's senior management body and comprises at least four members. In 2017, the Board of Directors had five members. They met four times in 2017, 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

The Chairman performs an executive role. In the event of potential conflicts of interest, he is represented by the Independent Lead Director. The Chairman's executive duties include in particular:

- representing the company and the Group externally and overseeing public relations, including media contacts and corporate identity, as agreed internally with the CEO;
- monitoring compliance with and enforcement of Board of Directors' decisions;
- setting HR and wage policy, including pensions, unless otherwise determined by law, the Articles of Incorporation or the rules of procedure governing organisational matters;
- overseeing the acquisition and sale of investments and submitting proposals for approval to the Board of Directors;
- monitoring subsidiaries' budgeting processes.

Other activities and vested interests

Mr Benedikt A. 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 2017, 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. The Compensation Committee meets as often as required, but at least once a year. One meeting took place in 2017. The existing members Beat Siegrist, Ulrich Hocker and Dr Martin Furrer were proposed to the 2017 Shareholders' General Meeting for election individually and re-elected. The Compensation Committee draws up proposed remuneration guidelines for the Board of Directors and management. It can call in external compensation specialists to offer neutral advice or provide studies or data as a basis for comparison in setting remuneration. 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 2017 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. At another company, major investments were also reviewed. 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 200

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 2018 Shareholders’ General Meeting.

Board of Directors

As at 31 December 2017

Benedikt A. Goldkamp (CH)

Executive role

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)

Non-executive role

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)

Non-executive role

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 AnP Partners AG, Zurich.

Dr Martin Furrer (CH)

Non-executive role

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 mergers & acquisitions, real estate transactions, private equity and employee participation models. Has been a partner at Baker McKenzie since 2002 and co-managing partner since 2016.

Beat Siegrist (CH)

Non-executive role

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 51 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 60; Financial statements, page 69.

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.

Entries in the share register

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

Management

As at 31 December 2017

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	31.12.2017	31.12.2016
Number			
Benedikt A. Goldkamp	Chairman of the Board of Directors	1 865	1 865
Ulrich Hocker	Independent Lead Director	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**
Dr Rochus Kobler	Member of the management/CEO	200	200
René Schäffeler	Member of the management/CFO	200	125
Shares held by the management		**400**	**325**

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 19 May 2017, 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 678 000 for auditing the financial statements and consolidated financial statements.

Additional fees

KPMG received additional fees of EUR 377 000 in the reporting year: EUR 375 000 for tax consultancy and EUR 2 000 for miscellaneous services.

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 171. 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/en/media/current-media-releases
– Push link: www.phoenix-mecano.com/en/media/subscribe

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	2017	2016
Total auditing fees	678	677
Tax consultancy	375	349
Legal advice (mainly support with due diligence)	0	6
Miscellaneous	2	5
Total additional fees	377	360
Total	**1 055**	**1 037**

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 2017 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. The committee is chaired by 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 2017. The tasks, powers, responsibilities and working methods of the Compensation Committee are described on page 52 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 individual's areas of responsibility.

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). This is fully reinsured by an insurance company. In 2017, the existing basic insurance and supplementary insurance for senior managers was merged into a pension plan and the plan amended accordingly. Members of the management and the Executive Chairman of the Board of Directors 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 non-mandatory insurance retires, they can choose between a lifetime annuity or a lump-sum payment; the mandatory insurance takes the form of an annuity 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 and the Executive Chairman of the Board of Directors 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' General 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 2017 and 2016 pursuant to ERCO

The following remuneration was awarded for financial year 2017:

in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration 2017
Benedikt A. Goldkamp	Chairman of the Board of Directors	699	178	138	1 015
Ulrich Hocker	Independent Lead Director	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		1 147	178	169	1 494
Remuneration of the management		980	196	198	1 374
Remuneration of the Board of Directors and management		**2 127**	**374**	**367**	**2 868**
Highest individual management salary: Dr Rochus Kobler	CEO	592	140	119	851

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

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. Since then, he has worked for the Group as Executive Chairman of the Board of Directors. Also since then, Ulrich Hocker, formerly Chairman of the Board of Directors of Phoenix Mecano AG, has been serving 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 compensation was divided up pro rata in 2016, in accordance with these changes.

The Phoenix Mecano Group's consolidated statement of income for 2017 includes no compensation for former members of the Group's bodies who left in the preceding period or before. In financial years 2017 and 2016, legal fees of CHF 14 000 and CHF 21 000 respectively were paid to law firm Baker McKenzie Zurich, in which Dr Martin Furrer is a partner.

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, 2017. 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 64 (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, 2017 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 27, 2018

Enclosure: Remuneration report

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. Hartmann, 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,
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

HPC Sekure GmbH
D-82234 Wessling
Managing director:
M. Bergler

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

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

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

Hartmann Electronic GmbH
D-70499 Stuttgart (Weilimdorf)
Managing directors:
Dr G. Zahnenbenz, F. Godulla

Ismet GmbH
D-78056 VS-Schwenningen
Managing director:
J. Reinecke

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

Phoenix Mecano Power Quality GmbH + Co. KG
D-61279 Grävenwiesbach
Managing director:
Dr L. Schunk

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

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

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 Vienna
Managing director:
R. Kleinrath

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

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

CZECH REPUBLIC
Ismet transformátory s.r.o.
CZ-67139 Běhařovice
Managing director:
I. Kljucar

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 directors:
Dr R. Kobler, 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 Sarl
MA-93000 Tétouan
Managing director:
B. Odink

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) Company Ltd.
Dongguan, Guangdong
Managing director:
E. Lam

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

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

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-355 72 Ingelstad
Managing director:
P. Nilsson

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

TUNISIA
Phoenix Mecano Hartu S. à. r. l.
TN-2013 Ben Arous
Managing director:
W. Masmoudi

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 Zaghouan
Managing director:
C. Fitouri

TURKEY
Phoenix Mecano Mazaka
Endüstriyel Ürünler San ve Tic AS
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

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

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

Tefelen LLC
Frederick, MD 21704
Managing director:
P. Brown

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

Consolidated financial statements

PHOENIX MECANO GROUP 2017

Contents

Consolidated balance sheet as at 31 December 2017

in 1 000 EUR	Note No.	2017	2016
Assets			
NON-CURRENT ASSETS			
Goodwill	3	13 512	14 126
Other intangible assets	4	31 396	31 204
Investment properties	5	273	1 107
Tangible assets	5	127 341	127 594
Investments in associated companies	6	3 452	5 382
Other financial assets	7	1 111	31
Deferred tax assets	20	5 207	5 583
Total non-current assets		182 292	185 027
CURRENT ASSETS			
Inventories	8	131 832	125 037
Trade receivables	9	88 869	81 283
Derivative financial instruments	17	217	353
Income tax receivables		1 613	1 903
Other receivables	10	9 744	9 891
Current securities	11	1 667	3 957
Cash and cash equivalents	12	53 509	43 243
Deferred charges and prepaid expenses		2 105	1 667
Total current assets		289 556	267 334
Total assets		**471 848**	**452 361**

in 1 000 EUR	Note No.	2017	2016
Equity and liabilities			
EQUITY			
Share capital	13	594	594
Treasury shares	14	–406	–562
Retained earnings		266 815	260 709
Profits/losses from IAS 39		20	30
Translation differences		1 468	10 088
Equity attributable to shareholders of the parent company		268 491	270 859
Minority interest	15	1 211	1 898
Total equity		269 702	272 757
LIABILITIES			
Long-term financial liabilities	16	67 919	33 630
Long-term provisions	18	5 037	5 877
Long-term pension obligations	19	13 536	14 273
Deferred tax liabilities	20	4 318	6 903
Long-term liabilities		90 810	60 683
Trade payables		45 560	36 781
Short-term financial liabilities	16	25 332	44 036
Derivative financial instruments	17	376	168
Short-term provisions	18	11 429	11 584
Short-term pension obligations	19	236	225
Income tax liabilities		4 797	3 769
Other liabilities	21	21 158	19 588
Deferred income		2 448	2 770
Short-term liabilities		111 336	118 921
Total liabilities		202 146	179 604
Total equity and liabilities		**471 848**	**452 361**

Consolidated statement of income 2017

in 1 000 EUR	Note No.	2017	2016
Sales revenue	29	621 663	577 481
Changes in inventories		1 479	529
Own work capitalised		2 609	1 661
Other operating income	30	3 959	6 109
Cost of materials	31	–296 208	–271 499
Personnel expenses	32	–193 869	–181 512
Amortisation of intangible assets		–8 578	–7 381
Depreciation on tangible assets		–19 382	–17 729
Impairment and reversal of impairment losses on intangible and tangible assets		–1 065	445
Other operating expenses	33	–79 897	–73 650
Operating result		30 711	34 454
Result from associated companies	6	–578	–806
Financial income	34	6 960	4 195
Financial expenses	35	–6 856	–5 669
Financial result		–474	–2 280
Result before tax		30 237	32 174
Income tax	36	–8 308	–9 168
Result of the period		**21 929**	**23 006**
of which			
– Shareholders in the parent company		21 826	22 852
– Minority shareholders		103	154
EARNINGS PER SHARE			
Earnings per share – undiluted (in EUR)	37	22.75	23.83
Earnings per share – diluted (in EUR)	37	22.75	23.83

Consolidated statement of comprehensive income 2017

in 1 000 EUR	Note No.	2017	2016
Result of the period		**21 929**	**23 006**
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Fluctuations in fair value of financial assets		–10	–20
Translation differences attributable to the parent company		–8 620	16
Translation differences attributable to minority interest		–33	–13
Total		–8 663	–17
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of pension obligations	19	1 288	446
Deferred tax	20	–646	48
Total		642	494
Other comprehensive income (after tax)		–8 021	477
Comprehensive income		**13 908**	**23 483**
of which			
– Shareholders in the parent company		13 838	23 342
– Minority shareholders		70	141

Consolidated statement of cash flow 2017

in 1 000 EUR	Note No.	2017	2016
Result of the period		21 929	23 006
Income tax	36	8 308	9 168
Result before tax		30 237	32 174
Amortisation of intangible assets	4	8 578	7 381
Depreciation on tangible assets	5	19 382	17 729
Losses/(gains) from the disposal of intangible and tangible assets	30, 33	55	–2 078
Impairment (Reversal of impairment losses) of intangible and tangible assets	3, 4, 5	1 065	–445
Losses and value adjustments on inventories	8	4 458	4 420
Result from associated companies	6	578	806
Other non-cash expenses/(income)		–2 387	1 364
Increase/(decrease) in long-term provisions and pension obligations		316	1 518
Net interest expense/(income)	34, 35	1 022	698
Interest paid		–1 097	–1 455
Income tax paid		–11 875	–5 150
Operating cash flow before changes in working capital		**50 332**	**56 962**
(Increase)/decrease in inventories		–13 145	–2 201
(Increase)/decrease in trade receivables		–9 405	–9 655
(Increase)/decrease in other receivables, deferred charges and prepaid expenses		–1 355	906
(Decrease)/increase in trade payables		9 337	4 426
(Decrease)/increase in short-term provisions and pension obligations		260	–1 011
(Decrease)/increase in other liabilities and deferred income		1 038	–768
Cash flow from operating activities		**37 062**	**48 659**

Table continued on page 75.

in 1 000 EUR	Note No.	2017	2016
CAPITAL EXPENDITURE			
– Intangible assets	4	–4 428	–3 077
– Tangible assets	5	–21 569	–20 792
– Financial assets		–3 695	–2 380
– Current securities		0	–665
– Acquisition of Group companies	40	–363	–16 809
DISINVESTMENTS			
– Intangible assets		48	5
– Tangible assets	5, 30, 33	312	4 835
– Financial assets		6	0
– Current securities		2 206	732
Interest received		611	1 010
Dividends received	6	243	317
Cash used in investing activities		**–26 629**	**–36 824**
Dividends paid (including minority interest)		–13 678	–13 463
Change in minority interests		130	405
Purchase of treasury shares		–90	–823
Sale of treasury shares		293	529
Issue of financial liabilities		55 664	21 908
Repayment of financial liabilities		–41 190	–18 740
Cash flow from financing activities		**1 129**	**–10 184**
Translation differences in cash and cash equivalents		–1 296	–359
Change in cash and cash equivalents		**10 266**	**1 292**
Cash and cash equivalents as at 1 January	12	43 243	41 951
Cash and cash equivalents as at 31 December	12	53 509	43 243
Change in cash and cash equivalents		**10 266**	**1 292**

Consolidated statement of changes in equity 2016 and 2017

in 1 000 EUR	Note No.	Share capital	Treasury shares
Equity as at 31 December 2015		594	– 201
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			
Deferred tax			
Total other comprehensive income (after tax)		0	0
Result of the period			
Total comprehensive income		0	0
Change in minority interest	15		
Change in treasury shares	14		– 361
Dividends paid			
Total equity transactions with owners		0	– 361
Equity as at 31 December 2016		**594**	**– 562**

Table continued on pages 78/79.

Retained earnings	Profits/(losses) financial assets from IAS 39	Translation differences	Equity attributable to shareholders of the parent company	Minority interest	**Total equity**
250 299	50	10 072	260 814	1 812	262 626
	–20		–20		–20
		16	16	–13	3
446			446		446
48			48		48
494	–20	16	490	–13	477
22 852			22 852	154	23 006
23 346	–20	16	23 342	141	23 483
			0	405	405
67			–294		–294
–13 003			–13 003	–460	–13 463
–12 936	0	0	–13 297	–55	–13 352
260 709	**30**	**10 088**	**270 859**	**1 898**	**272 757**

Consolidated statement of changes in equity 2016 and 2017

in 1 000 EUR	Note No.	Share capital	Treasury shares
Equity as at 31 December 2016		594	–562
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			
Deferred tax			
Total other comprehensive income (after tax)		0	0
Result of the period			
Total comprehensive income		0	0
Change in minority interest	15		
Change in treasury shares	14		156
Dividends paid			
Total equity transactions with owners		0	156
Equity as at 31 December 2017		**594**	**–406**

Table continued from pages 76/77.

	Retained earnings	Profits/(losses) financial assets from IAS 39	Translation differences	Equity attributable to shareholders of the parent company	Minority interest	**Total equity**
	260 709	30	10 088	270 859	1 898	272 757
		–10		–10		–10
			–8 620	–8 620	–33	–8 653
	1 288			1 288		1 288
	–646			–646		–646
	642	–10	–8 620	–7 988	–33	–8 021
	21 826			21 826	103	21 929
	22 468	–10	–8 620	13 838	70	13 908
	–3 206			–3 206	–282	–3 488
	47			203		203
	–13 203			–13 203	–475	–13 678
	–16 362	0	0	–16 206	–757	–16 963
	266 815	**20**	**1 468**	**268 491**	**1 211**	**269 702**

Consolidated segment information 2017

By division	Enclosures		Mechanical Components	
in 1 000 EUR	**2017**	**2016**	**2017**	**2016**
Gross sales to third parties	183 753	170 540	310 401	286 894
Gross sales between divisions	457	260	162	71
Revenue reductions				
Sales revenue				
Reversal of impairment losses / (Impairment) of intangible and tangible assets			– 272	– 7
Amortisation of intangible assets and depreciation on tangible assets	– 6 822	– 6 382	– 8 852	– 8 867
Operating result	24 328	18 760	26 129	25 075
Financial result				
Result before tax				
Income tax				
Result of the period				
Purchases of intangible and tangible assets	7 105	6 213	11 035	11 262
Segment assets	94 615	88 359	184 256	180 097
Cash and cash equivalents				
Other assets				
Total assets	94 615	88 359	184 256	180 097
Segment liabilities	23 451	24 106	50 113	43 939
Interest-bearing liabilities				
Other liabilities				
Total liabilities	23 451	24 106	50 113	43 939
Net assets	**71 164**	**64 253**	**134 143**	**136 158**

* 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	
2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
133 446	125 795	627 600	583 229	0	0	627 600	583 229
3 779	3 776	4 398	4 107	–4 398	–4 107	0	0
						–5 937	–5 748
						621 663	577 481
–793	452	–1 065	445	0	0	–1 065	445
–11 367	–8 859	–27 041	–24 108	–919	–1 002	–27 960	–25 110
–16 407	–8 376	34 050	35 459	–3 339	–1 005	30 711	34 454
						–474	–2 280
						30 237	32 174
						–8 308	–9 168
						21 929	**23 006**
7 157	5 555	25 297	23 030	700	839	25 997	23 869
121 278	115 290	400 149	383 746	3 050	3 870	403 199	387 616
				53 509	43 243	53 509	43 243
				15 140	21 502	15 140	21 502
121 278	115 290	400 149	383 746	71 699	68 615	471 848	452 361
19 642	17 488	93 206	85 533	5 867	5 558	99 073	91 091
				93 251	77 666	93 251	77 666
				9 822	10 847	9 822	10 847
19 642	17 488	93 206	85 533	108 940	94 071	202 146	179 604
101 636	**97 802**	**306 943**	**298 213**	**–37 241**	**–25 456**	**269 702**	**272 757**

Consolidated segment information 2017

Sales revenue in 1 000 EUR	**2017**	**2016**
BY REGION		
Switzerland	21 955	22 581
Germany	209 899	197 003
UK	15 255	15 846
France	19 619	20 572
Italy	13 419	13 887
The Netherlands	18 086	18 990
Rest of Europe	90 646	85 694
North and South America	67 566	59 646
Middle and Far East	171 155	149 010
Gross sales	627 600	583 229
Revenue reductions	– 5 937	– 5 748
Sales revenue	**621 663**	**577 481**
BY PRODUCT GROUP		
Industrial enclosures	172 106	159 438*
Input systems	11 647	11 102*
Enclosures	183 753	170 540
Industrial assembly systems	51 433	45 170
Linear adjustment and positioning systems	258 968	241 724
Mechanical Components	310 401	286 894
Electro-mechanical Components	50 519	47 788
Power Quality	41 129	40 864
Electronic Manufacturing and Packaging	41 798	37 143
ELCOM/EMS	133 446	125 795
Gross sales	627 600	583 229
Revenue reductions	– 5 937	– 5 748
Sales revenue	**621 663**	**577 481**

* In 2016, a reclassification of EUR 5.7 million was made from the Input Systems product group to Industrial Enclosures.

Long-term assets (tangible assets, intangible assets and investments in associated companies) in 1 000 EUR	**2017**	**2016**
BY REGION		
Switzerland	7 171	8 138
Germany	58 248	60 895
UK	2 208	3 079
France	363	379
Italy	249	152
The Netherlands	5 743	8 339
Rest of Europe	40 926	42 513
North and South America	9 505	5 397
Middle and Far East	51 561	50 521
Total	**175 974**	**179 413**

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 2017, 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 2017:
- Amendments to IAS 7
- Amendments to IAS 12
- Annual Improvements to IFRS 2014 – 2016

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. With the exception of IFRS 15 and IFRS 9, 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.	1	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	3	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.	4	1 Jan. 2019	Financial year 2019
IFRIC 23	Uncertainty over Income Tax Treatments	4	1 Jan. 2019	Financial year 2019

REVISIONS AND AMENDMENTS OF STANDARDS AND INTERPRETATIONS				
Annual Improvements to IFRS 2014 – 2016 Cycle	Amendments to IAS 28 Investments in Associates and Joint Ventures	3	1 Jan. 2018	Financial year 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	3	1 Jan. 2018	Financial year 2018
Amendments to IAS 40	Transfers of Investment Property	3	1 Jan. 2018	Financial year 2018
Amendments to IFRS 9	Prepayment Features with Negative Compensation	4	1 Jan. 2019	Financial year 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	4	1 Jan. 2019	Financial year 2019
Annual Improvements to IFRS 2015 – 2017 Cycle	– Amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – Amendments to IAS 12 Income Taxes – Amendments to IAS 23 Borrowing Costs	4	1 Jan. 2019	Financial year 2019

1 Phoenix Mecano's analysis has shown that revenue recognition under IFRS 15, as under IAS 18, will essentially continue to occur at one point in time and that this timing will not change. Consequently, no significant impact on Phoenix Mecano's consolidated financial statements is expected.

2 Phoenix Mecano has analysed its financial assets and liabilities. Financial assets classified as loans and receivables under IAS 39 and financial liabilities measured at amortised cost will continue to be classified under IFRS 9 as financial instruments measured at amortised cost. Financial instruments at fair value through profit or loss such as derivatives and purchase price liabilities measured at market value will continue to be measured at fair value through profit or loss. Current securities will be recognised at fair value with changes in market value under Other comprehensive income in the statement of comprehensive income (FVOCI). There will be a slight increase in the value adjustments on trade receivables as a result of the new calculation model. Overall, IFRS 9 will only have an insignificant impact on Phoenix Mecano's consolidated financial statements.

3 No or negligible impact is expected on Phoenix Mecano's consolidated financial statements.

4 The 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 minority shareholder a put option on the remaining minority interest, resulting in a de facto obligation to buy, this option is recognised as a 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 purchase price liability. Subsequent adjustments to such purchase price liabilities are recognised as income/expense.

In the case of step acquisitions, when the Phoenix Mecano Group obtains control, the fair value of the investment is determined at the time of the change of control and any difference between this fair value and the share of equity due to the prior accounting under the equity method is recognised in the financial result 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

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 turnover and 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 plus financial result and share in the profit/loss of associated companies.

The operating cash flow corresponds to the operating result plus amortisation of intangible assets, depreciation on tangible assets and impairment/reversal of impairment losses on intangible and tangible assets.

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 (in the case of goodwill) or if there are any indications of a reduction in value (in the case of other assets). 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 goodwill, 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
An international 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 and some inventory items are customised, leading to increased storage risks. On the basis of appropriate inventory turnover and coverage analyses, assessments of recoverability and impairment 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. For the book values of provisions, see note 18.

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 19.

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 2017

1 Currency exchange rates

	Balance sheet		Statements of income and cash flow	
Euro for	**2017**	**2016**	**2017**	**2016**
1 CHF	0.853	0.934	0.901	0.917
1 GBP	1.124	1.175	1.142	1.225
1 USD	0.829	0.956	0.887	0.904
100 HUF	0.324	0.323	0.323	0.321
1 RON	0.215	0.220	0.219	0.223
1 TND	0.340	0.414	0.371	0.423
1 CNY	0.128	0.138	0.131	0.136
1 INR	0.013	0.014	0.014	0.014

2 Scope of consolidation

In 2017 and 2016 the scope of consolidation changed as follows:

Date	Company	Change	Division
2017			
27.12.17	Jiaxing Yinuo Electronic Technology Co. Ltd.	Merger with OKIN Refined Electric Technology Co., Ltd.	Mechanical Components
07.07.17	Jiaxing Yinuo Electronic Technology Co. Ltd.	Acquisition	Mechanical Components
20.06.17	Tefelen LLC	Foundation	ELCOM/EMS
31.05.17	Orion Technologies LLC	Acquisition	ELCOM/EMS
26.01.17	OMP Officina Meccanica di Precisione S.r.l. in liquidation	Liquidation	Reconciliation
01.01.17	I-GEB spol. s.r.o.	Merger with ismet transformatory s.r.o.	ELCOM/EMS
01.01.17	ismet Holding GmbH	Merger with Ismet GmbH	ELCOM/EMS
01.01.17	Platthaus GmbH Elektrotechnische Fabrik	Merger with Ismet GmbH	ELCOM/EMS
2016			
01.10.16	Phoenix Mecano OOO	Foundation	Enclosures
01.07.16	I-GEB spol. s.r.o.	Acquisition	ELCOM/EMS
01.07.16	ismet transformatory s.r.o.	Acquisition	ELCOM/EMS
01.07.16	ismet GmbH	Acquisition	ELCOM/EMS
01.07.16	ismet Holding GmbH	Acquisition	ELCOM/EMS
31.03.16	Robco Design Ltd.	Liquidation	Mechanical Components
01.01.16	PTR Messtechnik Verwaltungs-GmbH	Merger with PTR Messtechnik GmbH (former PTR Messtechnik GmbH + Co. KG)	ELCOM/EMS

The following companies were fully consolidated as at 31 December 2017:

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
HPC Sekure GmbH (former Sekure Ident GmbH)	Wessling, Germany
Hartmann Codier GmbH	Baiersdorf, Germany
PTR Hartmann GmbH (former PTR Messtechnik GmbH)	Werne, Germany
Phoenix Mecano Power Quality GmbH + Co. KG	Grävenwiesbach, Germany
ismet GmbH	Villingen-Schwenningen, Germany
Hartmann Electronic GmbH	Stuttgart, Germany
Wiener Power Electronics GmbH	Burscheid, Germany
Phoenix Mecano Digital Elektronik GmbH	Wutha-Farnroda, Germany
ATON Lichttechnik GmbH	Wutha-Farnroda, 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
IFINA Beteiligungsgesellschaft mbH	Porta Westfalica, 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, Kanalinseln, GB
Phoenix Mecano AB	Ingelstad, Sweden
Phoenix Mecano ApS	Odense, Denmark
Phoenix Mecano S.r.l.	Inzago, Milano, Italy
Sistemas Phoenix Mecano España S.A.	Zaragoza, Spain
PM Komponenten B.V.	Doetinchem, The Netherlands
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

Activity	Currency	Registered capital in 1 000	2017 Stake in %	2016 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	500	100	100
Production / Sales	EUR	300	100	100
Production / Sales	EUR	100	100	100
Production / Sales	EUR	300	100	100
Production / Sales	EUR	512	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
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
Finance	EUR	4 000	100	100
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
Sales	EUR	60	90	90
Sales	EUR	20	100	100
Production / Sales	EUR	18	100	100
Production / Sales	EUR	16	100	100
Finance	EUR	18	100	100

Scope of consolidation

Company	Head office
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
Phoenix Mecano OOO	Moscow, Russia
Phoenix Mecano Inc.	Frederick, USA
WIENER, Plein & Baus Corp.	Springfield, USA
OKIN America Inc.	Shannon, USA
Orion Technologies LLC	Orlando, USA
Tefelen LLC	Frederick, 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. in liquidation	Ben Arous, Tunisia
Phoenix Mecano ELCOM S.à.r.l.	Zaghouan, 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	2017 Stake in %	2016 Stake in %
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	200	100	100
Sales	RUB	21 300	100	100
Production / Sales	USD	10 000	100	100
Sales	USD	100	100	100
Production / Sales	USD	10	100	100
Production / Sales	USD	8	90	n/a
Production / Sales	USD	300	51	n/a
Sales	BRL	7 601	100	100
Finance	BRL	1 062	100	100
Sales	UYU	200 000	100	100
Sales	SGD	1 000	100	75
Sales	KRW	370 000	100	75
Production / Sales	INR	299 452	100	100
Production / Sales	USD	3 925	100	100
Production / Sales	CNY	15 000	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	48 636	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	1 200	100	100
Production	TND	100	100	100
Production	EUR	2359	100	100

3 Goodwill

in 1 000 EUR	Note No.	2017	2016
Acquisition costs 1 January		21 311	21 712
Additions of companies included in consolidation	40	440	0
Translation differences		–1 054	–401
Acquisition costs 31 December		20 697	21 311
Accumulated impairment losses 1 January		7 185	7 185
Impairment losses		0	0
Accumulated impairment losses 31 December		7 185	7 185
Net values 1 January		**14 126**	**14 527**
Net values 31 December		**13 512**	**14 126**

The book values for goodwill of EUR 13.5 million (previous year EUR 14.1 million) relate to the following cash-generating units: the Bopla product area (Enclosures division), EUR 0.3 million (previous year EUR 0.3 million); Okin Refined Electric Technology Co. Ltd. in China (Mechanical Components division), EUR 12.8 million (previous year EUR 13.8 million); and Orion Technologies LLC in the US (ELCOM/EMS division), in which the majority of the capital was acquired in 2017, EUR 0.4 million.

The change in goodwill in 2017 is due to currency effects relating to the goodwill of Okin Refined Electric Technology Co. Ltd. and the addition of Orion Technologies LLC (see note 40). 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 9.0% (previous year 8.5%) was used to measure the goodwill of the Bopla product area and Orion Technologies LLC, and of 9.7% (previous year 9.2%) 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

Impairment test on Orion

The impairment test on the goodwill of Orion resulted in a value in use that exceeded the book value by EUR 2.7 million. If the discount rate were to increase from 9.0% to 11.9% or the perpetuity growth rate were to decrease from 0.5% to –4.5%, the value in use would still just about correspond to the book value.

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 2015		10 932	62 655	1 199	74 786
Additions of companies included in consolidation	40		11 961		11 961
Translation differences		4	– 1 393	7	– 1 382
Addition		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		701	6 680		7 381
Impairment losses					0
Reversal of impairment losses			– 657		– 657
Disposals		– 91	– 1 182		– 1 273
Reclassification					0
Accumulated amortisation 31 December 2016		9 567	46 393	0	55 960
Net values 1 January 2016		**1 975**	**20 313**	**1 199**	**23 487**
Net values 31 December 2016		**2 461**	**27 952**	**791**	**31 204**
Acquisition costs 31 December 2016		12 028	74 345	791	87 164
Additions of companies included in consolidation	40		6 335		6 335
Translation differences		– 54	– 2 177	– 9	– 2 240
Additions		445	2 814	1 169	4 428
Disposals			– 2 282	– 46	– 2 328
Reclassification		169	91	– 260	0
Acquisition costs 31 December 2017		**12 588**	**79 126**	**1 645**	**93 359**
Accumulated amortisation 31 December 2016		9 567	46 393	0	55 960
Translation differences		– 9	– 1 272		– 1 281
Amortisation		745	7 833		8 578
Impairment losses		272	713		985
Reversal of impairment losses					0
Disposals			– 2 279		– 2 279
Reclassification					0
Accumulated amortisation 31 December 2017		10 575	51 388	0	61 963
Net values 31 December 2017		**2 013**	**27 738**	**1 645**	**31 396**

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 0.2 million (previous year EUR 0.07 million) were subject to reservation of title as at the balance sheet date.

Within the framework of the impairment tests on CGUs and assets at the balance sheet date, write-downs of EUR 0.7 million were performed on a customer base (recoverable amount EUR 7.0 million) in the ELCOM / EMS division and of EUR 0.2 million on capitalised development projects in the Mechanical Components division, because these business relationships or activities had not developed as originally planned. A pre-tax discount rate (WACC) of 9.0% (previous year 8.5%) was applied to determine the present value (value in use).

In the previous year, a reversal of impairment losses was performed on a customer base and unprotected inventions (know-how) in the ELCOM / EMS division 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.

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 reporting year of EUR 1.0 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.

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 2015		395	125 562	221 083	7 126	354 166
Additions of companies included in consolidation	40		6 765	1 105		7 870
Translation differences		102	146	46	20	314
Addition			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		30	3 653	14 046		17 729
Impairment losses				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 1 January 2016		**268**	**62 348**	**51 035**	**7 126**	**120 777**
Net values 31 December 2016		**1 107**	**67 071**	**51 384**	**9 139**	**128 701**
Acquisition costs 31 December 2016		1 437	128 416	227 690	9 139	366 682
Additions of companies included in consolidation	40		36	342		378
Translation differences		–127	–2 916	–3 408	–550	–7 001
Additions			2 436	14 173	4 960	21 569
Disposals			–317	–11 568		–11 885
Reclassification		–879	8 186	2 032	–9 339	0
Acquisition costs 31 December 2017		431	135 841	229 261	4 210	369 743
Accumulated depreciation 31 December 2016		330	61 345	176 306	0	237 981
Translation differences		–35	–1 498	–2 262		–3 795
Depreciation		30	3 981	15 371		19 382
Impairment losses			80			80
Disposals			–317	–11 202		–11 519
Reclassification		–167	173	–6		0
Accumulated depreciation 31 December 2017		158	63 764	178 207	0	242 129
Net values 31 December 2017		**273**	**72 077**	**51 054**	**4 210**	**127 614**

Land and buildings is divided into developed and undeveloped land and land use rights in China with a book value of EUR 13.1 million (previous year EUR 13.0 million) and factory and administration buildings with a balance sheet value of EUR 59.0 million (previous year EUR 54.1 million).

The fire insurance value of the tangible assets amounted to EUR 346.0 million on the balance sheet date, compared with EUR 342.4 million the previous year.

Land and buildings with a book value of EUR 9.5 million (previous year EUR 14.0 million) were mortgaged to cover debts. The amount of the corresponding credit taken up totalled EUR 6.1 million (previous year EUR 6.6 million).

Tangible assets with a balance sheet value of EUR 0.02 million (previous year EUR 0.01 million) were subject to reservation of title on the balance sheet date.

Write-downs of land and buildings (previous year 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 land/buildings and in the previous year 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 of EUR 0.1 million (previous year EUR 0.2 million) are included under Impairment of intangible and tangible assets.

The fair value of the investment property in Brazil is EUR 1.0 million (previous year EUR 1.2 million). The reduction is the result of translation differences. A property in India that had been leased since 2016 is now being used by the Group again and has therefore been reclassified to land and buildings. The fair value in the previous year was 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 0.3 million and their direct operating expenses are EUR 0.03 million.

6 Investments in associated companies

in 1 000 EUR	Investment in %	2017	2016
UPDATE OF INVESTMENT IN ASSOCIATED COMPANIES			
AVS Phoenix Mecano GmbH, Vienna (A)	50		
Electroshield C (RU)	20		
Tefelen Preissinger GmbH	50		
As at 1 January		**5 382**	**4 303**
Purchases		0	1 500
Disposals		–475	0
Result		–578	–806
Dividends paid		–243	–317
Translation differences		–634	702
As at 31 December		**3 452**	**5 382**

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

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 insofar as the Phoenix Mecano Group received additional shares in the reporting year, and thus acquired the majority of the capital, because the 2016 result fell short of a certain minimum level. As a result, the shares were reclassified and revalued in 2017 (see note 40).

On 4 June 2015, the Phoenix Mecano Group acquired a 40% stake in Jiaxing Yinuo Electronic Technology Co. Ltd., Jiaxing, China. The remaining 60% of the shares in the company were acquired on 7 July 2017. As a result, the shares were reclassified and revalued (see note 40).

On 11 June 2015, the Phoenix Mecano Group acquired a 20% stake in Electroshield C, Babynino, Russia. There is a call option to acquire the remaining shares, which can be exercised in 2018 and which was not recognised as having a fair value at 31 December 2017 or 2016. If this 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.

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. At the balance sheet date there was a loan from Group companies to Tefelen Preissinger GmbH totalling EUR 0.5 million in the reporting year.

Total purchases of goods from Group companies amounted to EUR 3.3 million (previous year EUR 3.2 million) for all investments in associated companies and sales of goods to Group companies in the previous year totalled EUR 0.3 million. The result of the period and the comprehensive income for all investments in associated companies in the holding period in 2017 totalled EUR –1.3 million (previous year EUR –2.1 million).

7 Other financial assets

in 1 000 EUR	Note No.	2017	2016
Other loans		1 099	19
Investments (under 20%)		12	12
Balance sheet value		**1 111**	**31**
INTEREST RATES (LOANS)			
EUR		3.9%	3.2%
USD		–	6.0%
CNY		4.0%	–
UPDATE OF VALUE ADJUSTMENT ON OTHER FINANCIAL ASSETS			
As at 1 January		432	104
Allocation of value adjustment	35	0	328
As at 31 December		**432**	**432**

The loans are fixed rate.

Before acquiring the majority of the capital in Orion Technologies LLC (see note 40), the Group had granted the company loans of EUR 2.5 million in 2017, which were subsequently eliminated as part of the full consolidation.

8 Inventories

in 1 000 EUR	2017	2016
Raw and ancillary materials	85 313	81 561
Work in progress	5 943	6 528
Finished goods and merchandise for resale	58 556	53 201
Value adjustments	– 17 980	– 16 253
Balance sheet value	**131 832**	**125 037**

The value adjustments were determined based on marketability and range of the stocks. Changes in value adjustments and losses on inventories totalling EUR 4.5 million (previous year EUR 4.4 million) are included in the statement of income under Other operating expenses (see note 33).

Other than the usual reservations of title applied in typical business operations, no stocks had liens on them as at 31 December 2017 and 2016.

9 Trade receivables

in 1 000 EUR	2017	2016
Trade receivables	92 024	84 023
Receivables due from associated companies	183	141
Value adjustments	– 3 338	– 2 881
Balance sheet value	**88 869**	**81 283**
REGIONAL BREAKDOWN OF TRADE RECEIVABLES		
Switzerland	1 799	1 872
Germany	13 395	10 638
UK	2 216	1 967
France	3 671	3 963
Italy	3 276	3 590
The Netherlands	2 379	2 550
Rest of Europe	12 124	11 498
North and South America	8 861	8 578
Middle and Far East	41 148	36 627
Balance sheet value	**88 869**	**81 283**
UPDATE OF VALUE ADJUSTMENT ON TRADE RECEIVABLES		
Individual value adjustments		
As at 1 January	984	1 095
Change	32	– 111
As at 31 December	1 016	984
Flat-rate value adjustments		
As at 1 January	1 897	1 925
Change	425	– 28
As at 31 December	2 322	1 897
Total	**3 338**	**2 881**

in 1 000 EUR	2017 Gross	2017 Value adjustments	2016 Gross	2016 Value adjustments
AGING ANALYSIS OF TRADE RECEIVABLES NOT SUBJECT TO INDIVIDUAL VALUE ADJUSTMENTS				
Gross values	92 207		84 164	
Gross value of receivables subject to individual value adjustments	– 1 056		– 1 032	
Total	**91 151**		**83 132**	
of which:				
Not due	68 065		67 327	
Overdue for 1 – 30 days	15 295		10 489	
Overdue for 31 – 60 days	4 277		2 480	
Overdue for 61 – 90 days	775	219	656	164
Overdue for 91 – 180 days	1 012	376	708	299
Overdue for more than 180 days	1 727	1 727	1 472	1 434
Total	**91 151**	**2 322**	**83 132**	**1 897**

The average payment term was 54 days (previous year 52 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.

Receivables not due and to which individual value adjustments have not been applied are mainly receivables from long-standing customers. The largest single receivable from a customer as at the balance sheet date of 31 December 2017 was EUR 12.7 million (previous year EUR 11.7 million). It is not due.

The Phoenix Mecano Group considers the value adjustments formed as appropriate based on past experience.

10 Other receivables

in 1 000 EUR	2017	2016
Tax receivables from VAT and other taxes	5 158	4 288
Current portion of long-term financial assets	1 556	2 535
Financial receivables	79	63
Advanced payments for inventories	1 356	1 586
Other	1 595	1 419
Balance sheet value	**9 744**	**9 891**

11 Current securities

in 1 000 EUR	2017	2016
AVAILABLE-FOR-SALE SECURITIES		
Bonds and bond funds	1 667	3 957
Balance sheet value	**1 667**	**3 957**
EFFECTIVE INTEREST RATE FOR BONDS		
EUR	1.2%	1.4%
Other currencies	8.6%	8.1%

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	2017	2016
MEANS OF PAYMENT		
Cash at bank and in postal accounts	47 301	26 494
Cash on hand	186	514
Total	**47 487**	**27 008**
OTHER CASH AND CASH EQUIVALENTS		
Fixed-term deposits (up to 3 months)	6 022	16 235
Balance sheet value	**53 509**	**43 243**
BY CURRENCY		
CHF	0.0%	0.0%
EUR	0.0%	0.0%
USD	0.2%	0.1%
HUF	0.0%	0.0%
CNY	0.3%	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	2017	2016
Planalto AG	Luxembourg, Luxembourg	34.6 [1]	34.6 [1]
Tweedy, Browne Company LLC, Stamford, USA [2]	Stamford, USA	8.5	5.5 [1]
Tweedy, Browne Global Value Fund [3] (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	*Stamford, USA*	*7.2*	*5.5 [1]*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9 [1]	4.9 [1]
Credit Suisse Funds AG	Zurich, Switzerland	< 3.0	3.3

1 Shareholding not notified in the year indicated.

2 Tweedy, Browne Company LLC (TBC) is not an economic beneficiary owner of the Shares. TBC has been delegated voting authority pursuant to separate investment advisory agreements. Please note that included in the Shares reported with this filing are 68 640 shares held by Tweedy, Browne Global Value Fund, a Direct Acquirer and economic beneficiary.

3 Pursuant to an investment advisory agreement between Tweedy, Browne Global Value Fund (TBGVF) and TBC, TBGVF has delegated voting authority with respect to 68 640 bearer shares of Phoenix Mecano AG to TBC. TBC is not an economic beneficiary of any of the Shares. TBGVF is the sole economic beneficiary of the Shares.

This information is based on notifications by the aforementioned shareholders.

14 Treasury shares

	Number of shares		Acquisition costs	
Number/in 1 000 EUR	2017	2016	2017	2016
As at 1 January	1 420	485	562	201
Share purchases	90	2 104	39	823
Share sales	–510	–1 169	–195	–462
As at 31 December	**1 000**	**1 420**	**406**	**562**

Detailed information on the purchases and sales effected in 2017 can be found in the notes to the financial statements of Phoenix Mecano AG on page 159 (see note 2.9).

15 Minority interest

The minority interests are: in %	2017	2016
Tefelen LLC	49	*
I2 Mechanical and Electrical Co. Ltd.	45	45
Phoenix Mecano Australia Pty. Ltd.	30	30
Integrated Furniture Technologies Ltd.	15	15
Sistemas Phoenix Mecano España S.A.	10	10
Orion Technologies LLC	10	0
Phoenix Mecano Mazaka A.S.	9	9
Phoenix Mecano S.E. Asia Pte. Ltd.	0	25
Phoenix Mecano Korea Co. Ltd.	0	25

* New foundation in 2017.

The foundation of Tefelen LLC is linked to the acquisition of a 50% stake in Tefelen Preissinger GmbH in 2016 and will enable the Group to tap into the busbar markets in North and South America. The Phoenix Mecano Group owns 51% of Tefelen LLC and has committed to contribute USD 3 million to capital reserves by mid-2021.

The Phoenix Mecano Group acquired the majority of the capital in Orion Technologies LLC in 2017 (see notes 6 and 40). Accordingly, as of 2017 this company is fully consolidated and is listed under minority interest for the first time.

The change in minority interests at Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd. is due to the conclusion of a purchase agreement for the remaining 25% interest. An equivalent liability has been set aside for the expected purchase price, which is to be paid in two instalments in 2018 and 2020 (see notes 16 and 22). The difference between the expected purchase price and the existing minority interest has been charged to equity attributable to shareholders of the parent company.

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.

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

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

16 Financial liabilities

in 1 000 EUR	2017 Short-term	2017 Long-term	2017 Total	2016 Short-term	2016 Long-term	2016 Total
Liabilities to financial institutions	22 538	17 151	39 689	43 356	29 768	73 124
Promissory note loans		46 192	46 192			0
Purchase price liabilities from acquisitions	2 628	1 490	4 118	558	3 754	4 312
Other financial liabilities	108	3 049	3 157	90	42	132
Present value of leasing commitments	58	37	95	32	66	98
Balance sheet value	**25 332**	**67 919**	**93 251**	**44 036**	**33 630**	**77 666**
BY MATURITY						
in < 1 year	25 332		25 332	44 036		44 036
in 1–2 years		4 903	4 903		14 099	14 099
in 2–3 years		6 047	6 047		8 279	8 279
in 3–4 years		4 627	4 627		4 180	4 180
in 4–5 years		50 603	50 603		4 996	4 996
in > 5 years		1 739	1 739		2 076	2 076
Balance sheet value	**25 332**	**67 919**	**93 251**	**44 036**	**33 630**	**77 666**

	2017 in 1 000 EUR	2017 in %	2017 Interest rate in %	2016 in TEUR	2016 in %	2016 Interest rate in %
BY CURRENCY						
CHF	14 289	15.3	1.2	26 715	34.4	1.0
EUR	56 057	60.1	0.9	33 717	43.4	1.0
USD	20 712	22.2	3.0	12 146	15.6	2.3
CNY	2 012	2.2	3.5	5 003	6.5	3.8
Other currencies	181	0.2	6.4	85	0.1	10.0
Balance sheet value	**93 251**	**100**	**–**	**77 666**	**100**	**–**

RECONCILIATION OF FINANCIAL LIABILITIES	**2016**	**Cash items**	**Non-cash items**				**2017**
			Additions of companies included in consolidation	Currency differences	Change in fair value	Other	
Long-term liabilities to financial institutions	29 768	– 10 468		– 2 149			17 151
Short-term liabilities to financial institutions	43 356	– 19 709	444	– 1 553			22 538
Promissory note loans	0	46 837		– 645			46 192
Purchase price liabilities from acquisitions	4 312	– 3 172		– 306	– 590	3 874	4 118
Other financial liabilities	132	1 018	590	– 48		1 465	3 157
Present value of leasing commitments	98	– 32	31	– 2			95
Balance sheet value	**77 666**	**14 474**	**1 065**	**– 4 703**	**– 590**	**5 339**	**93 251**

On 3 November 2017, a purchase agreement was signed for the acquisition of the remaining 25% interest in Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd. An equivalent purchase price liability has been set aside for the expected purchase price (see notes 15 and 22).

For Okin Refined Electric Technology Co., Ltd., acquired in 2010, there was a purchase commitment in the previous year for the remaining shares held by a third party resulting from call and put options totalling EUR 4.3 million. These remaining shares were acquired early, in 2017 (see note 22).

On 6 March 2017, the Phoenix Mecano Group took out five-year promissory note loans (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.

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

For the securing of long-term financial liabilities to financial institutions by mortgage, see note 5.

The promissory note loans and long-term liabilities to financial institutions do not include any financial covenants.

17 Derivative financial instruments

in 1 000 EUR	Contract values		Receivables due from derivative financial instruments		Liabilities from derivative financial instruments	
	2017	2016	2017	2016	2017	2016
FORWARD EXCHANGE CONTRACTS BY CURRENCY						
CHF	5 971	3 736			241	27
USD						
HUF	22 200	10 500	129	328	18	
RON	4 500	5 060	88	25		
Other currencies						
Total	**32 671**	**19 296**	**217**	**353**	**259**	**27**
FORWARD EXCHANGE CONTRACTS BY MATURITY						
in 1 year			217	353	259	27
Total			**217**	**353**	**259**	**27**
INTEREST RATE CHANGE CONTRACTS BY CURRENCY						
EUR		4 000				69
CHF		5 604				72
USD	8 283				117	
Total	**8 283**	**9 604**	**0**	**0**	**117**	**141**
INTEREST RATE CHANGE CONTRACTS BY MATURITY						
in 1 year					117	141
Total			**0**	**0**	**117**	**141**
NET BALANCE SHEET VALUE BY MATURITY						
Total short-term			217	353	376	168
Net balance sheet value			**217**	**353**	**376**	**168**

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 for Phoenix Mecano AG.

In 2017, in connection with the promissory note loan taken out in USD, a cross currency swap of USD 10 million for CHF was performed to fix the interest rate and adjust the payment flows to the functional currency of the company preparing accounts. The interest rate change contracts in the previous year relate to payer swaps in EUR and CHF. All swaps were held for trading purposes in the consolidated financial statements at 31 December 2017 and 31 December 2016.

18 Provisions

in 1 000 EUR	Provisions for long-term employee benefits	Guarantee provisions	Restructuring provisions	Other provisions	Total 2017	Total 2016
Provisions as at 1 January	4 261	2 664	1 372	9 164	17 461	17 091
Change in scope of consolidation					0	439
Translation differences	–52	–72		–168	–292	67
Usage	–463	–709	–2 562	–6 104	–9 838	–8 950
Releases	–242	–293	–358	–1 514	–2 407	–2 462
Allocation	553	1 268	1 841	7 880	11 542	11 276
Provisions as at 31 December	**4 057**	**2 858**	**293**	**9 258**	**16 466**	**17 461**
Due within 1 year	601	2 793	293	7 742	11 429	11 584
Due after 1 year	3 456	65	0	1 516	5 037	5 877

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 arising from the announced package of measures to improve performance in the ELCOM/EMS division. The provision created in this regard during the year was largely used in 2017.

Other provisions include provisions for short-term payments to employees (primarily salary bonuses but also indemnities not related to restructuring) totalling EUR 5.6 million (previous year EUR 5.8 million) and provisions of EUR 1.4 million (previous year EUR 0.7 million) to cover the remaining lease term following the closure and resizing of sites in Germany, as well as provisions for litigation risks, impending losses and other conceivable risks from contractual or constructive obligations.

19 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). This is fully reinsured by an insurance company. In 2017, the existing basic insurance and supplementary insurance for senior managers was merged into a pension plan and the plan amended accordingly. A change in collective foundation took place on 1 January 2018, but the benefits remain unchanged.

The senior management body of the collective foundation used until the balance sheet date 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 non-mandatory insurance retires, they can choose between a lifetime annuity or a lump-sum payment; the mandatory insurance takes the form of an annuity 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 2017 it was 1% (2016: 1.25%).

The terms and conditions of the pension plan applicable in the reporting year 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.

The pension assets are not invested by the collective foundation itself but by the insurance company. The pension plan assets as at the balance sheet date therefore consist solely of a receivable due from the insurance company. Under the new pension system applying from 2018, the investment will be made by the collective foundation itself.

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 12 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 2017 and 2016 in 1 000 EUR	**Switzer-land**	**Germany**	**2017 Total**	Switzer-land	Germany	**2016 Total**
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS						
As at 1 January	28 857	8 194	37 051	27 077	5 421	32 498
Change in scope of consolidation			0		2 318	2 318
Service costs	1 289	39	1 328	1 234	54	1 288
Employee contributions	753		753	748		748
Interest expense	139	121	260	160	112	272
Capital	907		907	2 016		2 016
Pension payments	– 2 190	– 231	– 2 421	– 2 293	– 203	– 2 496
Actuarial (gains)/losses	47	– 467	– 420	– 562	492	– 70
Plan amendments	953		953	118		118
Translation differences	– 2 626		– 2 626	359		359
As at 31 December	28 129	7 656	35 785	28 857	8 194	37 051
FAIR VALUE OF PLAN ASSETS						
As at 1 January	20 788	1 765	22 553	18 680	0	18 680
Change in scope of consolidation			0		1519	1 519
Reclassification			0		266	266
Interest income	100		100	112		112
Employer contributions	895		895	872		872
Employee contributions	753		753	748		748
Capital	907		907	2 016		2 016
Pension payments	– 2 190		– 2 190	– 2 293		– 2 293
Income from plan assets excluding interest income	848	20	868	396	– 20	376
Translation differences	– 1 873		– 1 873	257		257
As at 31 December	20 228	1 785	22 013	20 788	1 765	22 553
NET BALANCE SHEET VALUE OF PENSION OBLIGATIONS (SWITZERLAND AND GERMANY)						
Present value of defined benefit obligations			– 35 785			– 37 051
Fair value of plan assets			22 013			22 553
Balance sheet value			**– 13 772**			**– 14 498**

Table continued on page 121.

Financial position of defined benefit pension plans as at 31 December 2017 and 2016 in 1 000 EUR	**2017** **Total**	**2016** **Total**
THE NET PENSION OBLIGATION HAS DEVELOPED AS FOLLOWS (SWITZERLAND AND GERMANY)		
As at 1 January	–14 498	–13 818
Change in scope of consolidation including reclassification	0	–533
Total expenses recognised in the statement of income	–2 441	–1 566
Total expenses recognised in other comprehensive income	1 288	446
Pension payments	231	203
Employer contributions	895	872
Translation differences	753	–102
As at 31 December	**–13 772**	**–14 498**
Weighted average duration of pension obligations (in years)	16.9	16.7
PENSION EXPENSE (SWITZERLAND AND GERMANY)		
Service costs	1 328	1 288
Net interest expenses	160	160
Plan amendments	953	118
Pension expense for defined benefit plans	2 441	1 566
Pension expense for defined contribution plans	789	728
Pension expense	3 230	2 294
THE EXPENSES RECOGNISED IN OTHER COMPREHENSIVE INCOME BREAKS DOWN AS FOLLOWS (SWITZERLAND AND GERMANY)		
(Gains)/losses from changed financial assumptions	–2 068	925
Experience (gains)/losses	1 648	–995
Income from plan assets excluding amounts contained in interest income	–868	–376
(Income)/expenses in other comprehensive income	**–1 288**	**–446**

Actuarial assumptions in %	**2017** **Total**	**2016** **Total**
Discount rate Switzerland	0.65	0.50
Discount rate Germany	1.90	1.50
Interest rate payable on retirement savings in Switzerland	1.00	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 2015 generation table

The expected outflow of funds for employer contributions from defined benefit plans in 2018 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 2017 in %	2017 +0.25% effect on DBO	2017 −0.25% effect on DBO
Discount rate Switzerland	−4.0	4.6
Discount rate Germany	−3.7	3.9
Interest rate payable on retirement savings in Switzerland	4.0	−4.6
Future salary increases Switzerland	0.3	−0.3
Future pension increase Germany	3.1	−3.0
Increase in life expectancy Switzerland (+/− 1 year)	1.6	−1.7

Sensitivities as at 31 December 2016 in %	2016 +0.25% effect on DBO	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

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.

20 Deferred Tax

in 1 000 EUR	2017	2016
DEFERRED TAX ASSETS		
– Non-current assets	998	1 155
– Inventories	2 781	2 267
– Receivables	399	361
– Provisions	3 196	3 439
– Other	653	867
Deferred tax assets	8 027	8 089
Deferred tax on losses carried forward	1 661	1 056
Total deferred tax assets	9 688	9 145
Netting with deferred tax liabilities	–4 481	–3 562
Balance sheet value	5 207	5 583
DEFERRED TAX LIABILITIES		
– Non-current assets	–8 376	–9 837
– Inventories	–215	–284
– Receivables	–102	–84
– Provisions	–63	–53
– Other	–43	–207
Total deferred tax liabilities	–8 799	–10 465
Netting with deferred tax assets	4 481	3 562
Balance sheet value	–4 318	–6 903
Net position deferred tax	**889**	**–1 320**
TREND OF DEFERRED TAX		
As at 1 January	–1 320	1 084
Changes of tax rate recognised in the statement of income	173	10
Translation differences	–129	96
Change in scope of consolidation	–2 026	–4 238
Reduction / (increase) in value adjustments on actuarial gains and losses from IAS 19, not affecting income	–646	48
Change in temporary differences recognised in the statement of income	4 837	1 680
As at 31 December	**889**	**–1 320**

Table continued on page 124.

in 1 000 EUR	2017	2016
EXPIRY OF NON-CAPITALISED TAX LOSSES CARRIED FORWARD		
Up to 1 year	455	370
1–2 years	1 513	835
2–3 years	1 462	1 963
3–4 years	2 741	1 453
4–5 years	2 165	1 538
Over 5 years	37 551	54 321
Total	**45 887**	**60 480**
VALUATION DIFFERENCES ON WHICH NO DEFERRED TAXES WERE CAPITALISED		
Non-current assets	1 912	1 798
Inventories	188	2 292
Receivables	16	120
Provisions	2 620	833
Other	440	210
Total	**5 176**	**5 253**

Due to uncertainties regarding the usability of tax losses carried forward totalling EUR 45.9 million (previous year EUR 60.5 million), no deferred tax assets were recorded on this amount. Of the tax losses carried forward which expire after five years, EUR 22.1 million (previous year EUR 24.2 million) expire within 20 years. The remaining losses can be carried forward for an indefinite period. The reduction compared to the previous year is largely due to the expiry of tax loss carryforwards following the liquidation of OMP Officina Meccanica di Precisione S.r.l. (see note 2) and restructuring measures in Germany.

No deferred tax liabilities were recorded on temporary differences on investments in fully consolidated companies totalling EUR 76.0 million (previous year EUR 83.0 million).

21 Other liabilities

in 1 000 EUR	2017	2016
Social security liabilities	1 886	1 677
Liabilities to employees	8 815	7 530
Liabilities arising from VAT and other taxes	5 015	5 227
Advance payments on orders	3 370	3 487
Other	2 072	1 667
Balance sheet value	**21 158**	**19 588**

22 Categories of financial instruments

As at 31 December 2017 and 31 December 2016, the book values of financial assets and liabilities (excluding long-term fixed-interest financial liabilities), as shown below, correspond approximately to the IFRS fair value. The fair value of long-term fixed-interest financial liabilities is EUR 0.2 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.	2017	2016
Other financial assets (excluding investments)	7	1 099	19
Trade receivables	9	88 869	81 283
Other receivables (excluding VAT and other taxes and advance payments for inventories)	10	3 230	2 392
Cash and cash equivalents (excluding cash on hand)	12	53 323	42 729
Loans and receivables		**146 521**	**126 423**
Current securities	11	1 667	3 957
Available-for-sale financial assets		**1 667**	**3 957**
Contingent variable purchase price payment on acquisitions	7, 10	0	1 625
Derivative financial instruments (not used for hedging)	17	217	353
Financial assets at fair value through profit or loss		**217**	**1 978**
Liabilities from financial leasing	16	–95	–98
Financial liabilities (excluding residual purchase price liabilities)	16	–89 038	–73 256
Trade payables		–45 560	–36 781
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	21	–2 072	–1 667
Liabilities at amortised cost		**–136 765**	**–111 802**
Derivative financial instruments (not used for hedging)	17	–376	–168
Residual purchase price liabilities from acquisitions	16	–4 118	–4 312
Financial liabilities at fair value through profit or loss		**–4 494**	**–4 480**

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.	2017	2016	Hierarchy
FINANCIAL ASSETS MEASURED AT MARKET VALUE				
Current securities	11	1 667	3 957	Level 1
Derivative financial instruments	17	217	353	Level 2
Contingent variable purchase price payment on acquisitions	7	0	1 625	Level 3
Total		**1 884**	**5 935**	
FINANCIAL LIABILITIES MEASURED AT MARKET VALUE				
Derivative financial instruments	17	−376	−168	Level 2
Residual purchase price liabilities from acquisitions	16	−4 118	−4 312	Level 3
Total		**−4 494**	**−4 480**	

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.	2017	2016
As at 1 January		**4 312**	**3 864**
Change in scope of consolidation	40	0	595
Currency differences		−306	−99
Usage		−3 172	−486
Releases (Other financial income)	34	−590	−595
Allocation (Other financial expense)	35	0	880
Allocation (via equity)		3 771	0
Interest expense	35	103	153
Balance as at 31 December		**4 118**	**4 312**

The fair value of the purchase price liabilities is dependent on results (i.e. earnings) benchmarks, which are based partly on target figures. The purchase price liabilities may alter owing to a change in exchange rates (see note 24), a change in the interest rate, the addition of accrued interest or a change in the parameters for determining the purchase price. If the relevant future results were 10% greater, the purchase price liabilities would increase by EUR 0.1 million (previous year EUR 0.3 million), assuming all other variables remained constant.

The addition in 2016 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 (see note 40).

The usage of EUR 3.2 million (previous year EUR 0.5 million) relates to payments as part of the existing purchase price liability (call and put agreement on existing minority interest) from the 2010 acquisition of Okin Refined Electric Technology Co., Ltd. In 2017, these shares were acquired early and the existing residual purchase price liability of EUR 0.6 million was released to income (see note 34).

A review of the fair value of the contingent purchase price payment for the 2016 acquisition of the Ismet Group, which was dependent on the 2016 and 2017 operating result, resulted in a residual purchase price of zero as at 31 December 2016 and 2017. Accordingly, the fair value of EUR 0.6 million was released via other financial income in 2016 (see note 34).

The allocation of EUR 0.9 million to the residual purchase price liability in the previous year was 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 35).

On 3 November 2017, a purchase agreement was signed for the acquisition of the remaining 25% interest in Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd. in two instalments, with an income-dependent contingent purchase price payment that is dependent on the operating cash flow in the years 2015 to 2019 (see notes 15 and 16). The purchase price payment will be due in 2018 and 2020.

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

in 1 000 EUR	Note No.	2017	2016
As at 1 January		**1 625**	**1 562**
Change in scope of consolidation	40	– 1 625	0
Currency differences		0	63
As at 31 December		**0**	**1 625**

The change in the scope of consolidation relates to the acquisition of the majority of the capital in Orion Technologies LLC (see notes 6 and 40).

23 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.

24 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 and bond funds. These investments are diversified and internal limits are applied to individual investment categories. The investments are conducted principally in EUR. There are currently no investments in equities and equity funds.

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. Except for one trade receivable (see note 9), there are no individual receivables accounting for more than 10% of the total.

The maximum credit risk on financial instruments corresponds to the book values of the individual financial assets (see note 22). There are no guarantees or similar obligations that could cause the risk to exceed book values.

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 2017, unused credit lines with major banks totalled EUR 96.4 million (previous year EUR 77.8 million).

Maturity analysis as at 31 December 2017 and 2016

Maturity analysis as at 31 December 2017 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	45 560	–45 560	–45 435	–94	–31		
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	2 072	–2 072	–2 072				
Financial liabilities (excluding financial leasing)	93 156	–97 100	–12 831	–7 491	–6 028	–68 959	–1 791
Liabilities from financial leasing (long- and short-term)	95	–105	–17	–17	–30	–41	
Total	**140 883**	**–144 837**	**–60 355**	**–7 602**	**–6 089**	**–69 000**	**–1 791**
DERIVATIVE FINANCIAL INSTRUMENTS							
Interest rate swap	117	–117	–117				
Forward exchange transaction	42						
– Outflow of funds		–32 671	–32 671				
– Inflow of funds		32 629	32 629				
Total	**141 042**	**–144 996**	**–60 514**	**–7 602**	**–6 089**	**–69 000**	**–1 791**

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	141	–141	–141				
Forward exchange transaction	–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**

Contingent liabilities (see note 26) 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

While it generates 45% of its sales in the euro area (previous year 48%) 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. Exceptions to this are a USD financing arrangement and purchase price liability from an acquisition in EUR at Phoenix Mecano AG, EUR financing arrangements at Phoenix Mecano (India) Pvt. Ltd. and, in the previous year, a residual purchase price liability 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 2017** in 1 000 EUR	EUR	CHF	USD	HUF	CNY
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Trade receivables	2 724		3 277	44	
Cash and cash equivalents	588	37	11 510	558	298
Trade payables	−217	−9	−2 621	−238	−33
Derivatives			8 290		
Financial liabilities	−3 771		−11 191		
Net risk	**−676**	**28**	**9 265**	**364**	**265**

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**

In relation to the above-mentioned currency risks and taking into account the forward exchange contracts open on the balance sheet date (see note 17), 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 2017 in 1 000 EUR	CHF/EUR	CHF/USD	EUR/USD	EUR/HUF	EUR/CNY	USD/CNY	EUR/RON
Change in result of the period (+/–)	239	298	432	2 256	23	727	427

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

The increase in the EUR/HUF currency pair is attributable to the increased volume of forward exchange contracts at the balance sheet date.

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 2017 and 2016:
An interest rate change of 50 basis points in the financial year and the previous year would have only an insignificant impact of less than EUR 0.1 million on the result of the period and equity.

25 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 purchase price liabilities from acquisitions) less current securities and cash and cash equivalents.

Net indebtedness as at 31 December 2017 and 31 December 2016 was as follows:

in 1 000 EUR	Note No.	2017	2016
Liabilities from financial leasing	16	95	98
Long-term financial liabilities	16	67 882	33 564
Short-term financial liabilities	16	25 274	44 004
Interest-bearing liabilities		93 251	77 666
less current securities	11	1 667	3 957
less cash and cash equivalents	12	53 509	43 243
Net indebtedness		**38 075**	**30 466**
Equity		269 702	272 757
Gearing		**14.1%**	**11.2%**

26 Contingent liabilities

in 1 000 EUR	2017	2016
Sureties and guarantees	1 310	1 275
Commitments from bills of exchange	255	0
Total	**1 565**	**1 275**

27 Commitments to purchase tangible and intangible assets

Purchase commitments as at 31 December 2017 were EUR 4.7 million for tangible assets (previous year EUR 5.8 million) and EUR 0.0 million for intangible assets (previous year EUR 1.2 million).

28 Operating leases, rent and leasehold rent

in 1 000 EUR	2017	2016
Minimum commitments due within 1 year	3 280	3 909
Minimum commitments due within 1 – 5 years	7 218	6 378
Minimum commitments due after 5 years	5 293	5 979
Minimum operating leasing, rent and leasehold rent commitments	**15 791**	**16 266**
Minimum claims due within 1 year	59	213
Minimum claims due within 1 – 5 years	75	647
Minimum claims from rent / leasehold rent	**134**	**860**

The operating leasing, rent and leasehold rent commitments consist almost exclusively of commitments for leased premises and floor space (long-term lease). The reduction in claims from rent is due to the termination of a lease (see note 5).

29 Sales revenue

in 1 000 EUR	2017	2016
Gross sales	627 600	583 229
Revenue reductions	– 5 937	– 5 748
Sales revenue (Net Sales)	**621 663**	**577 481**

Gross sales rose by 7.6% compared with the previous year (previous year 4.2%). Differences in foreign exchange rates and changes to the scope of consolidation affected gross sales by – 1.3% and + 1.4% respectively (previous year – 1.6% and + 1.7% respectively).

30 Other operating income

in 1 000 EUR	2017	2016
Reimbursement from insurance	190	190
Gains on the disposal of intangible and tangible assets	286	2 182
Goverment subsidies	1 016	803
Other	2 467	2 934
Total	**3 959**	**6 109**

Included in 2016 is an accounting profit of EUR 1.8 million from the sale of a property in Italy.

31 Cost of materials

in 1 000 EUR	2017	2016
Cost of raw and ancillary materials, merchandise for resale and external services	287 773	263 664
Incidental acquisition costs	8 435	7 835
Total	**296 208**	**271 499**

Losses and value adjustments on inventories are posted under Other operating expenses (see note 33).

32 Personnel expenses

in 1 000 EUR	2017	2016
Wages and salaries	153 504	144 571
Social costs	30 451	28 685
Supplementary staff costs	9 914	8 256
Total	**193 869**	**181 512**

33 Other operating expenses

in 1 000 EUR	Note No.	2017	2016
External development costs		1 546	1 235
Establishment expenses		26 018	23 246
Rent, leasehold rent, leases		4 854	5 445
Administration expenses		8 376	8 195
Advertising expenses		4 914	4 368
Sales expenses		20 109	18 605
Losses from the disposal of intangible and tangible assets		342	104
Losses and value adjustments on inventories	8	4 458	4 420
Capital and other taxes		1 719	1 630
Other		7 561	6 402
Total		**79 897**	**73 650**

Total research and development costs, including internal costs, amounted to EUR 13.9 million (previous year EUR 12.3 million).

34 Financial income

in 1 000 EUR	Note No.	2017	2016
Interest income from third parties		492	900
Gain from financial instruments at fair value through profit or loss (trading derivative)	17	199	388
Exchange rate gains		4 759	2 272
Other financial income		1 510	635
Total		**6 960**	**4 195**

Other financial expense includes the adjustment (recognised in the statement of income) of residual purchase price liabilities from acquisitions totalling EUR 0.6 million in both 2017 and 2016 (see note 22) and in 2017 the result from the revaluation of the investments in Orion Technologies LLC and Jiaxing Yinuo Electronic Technology Co. Ltd. linked to step acquisitions (see notes 6 and 40) totalling EUR 0.9 million.

35 Financial expenses

in 1 000 EUR	Note No.	2017	2016
Interest expense		1 412	1 445
Interest expense for accrued interest on residual purchase price liability	22	102	153
Loss from financial instruments at fair value through profit or loss (trading derivative)	17	543	11
Exchange rate losses		4 468	2 340
Other financial expense		331	1 720
Total		**6 856**	**5 669**

Other financial expense in 2016 includes the adjustment (recognised in the statement of income) of residual purchase price liabilities from acquisitions totalling EUR 0.9 million (see note 22) and the value adjustment on investments and loans totalling EUR 0.3 million (see note 7).

36 Income tax

in 1 000 EUR	2017	2016
Current income tax	13 318	10 858
Deferred tax	–5 010	–1 690
Income tax	8 308	9 168
RECONCILIATION FROM THEORETICAL TO EFFECTIVE INCOME TAX		
Result before tax	30 237	32 174
Theoretical income tax	7 049	7 526
Weighted income tax rate	23.3	23.4
Changes of tax rate deferred tax	–173	–10
Tax-free income	–906	–696
Non-deductible expenses	1 727	1 542
Tax effect on losses in the reporting year	1 325	1 692
Tax effect of losses carried forward from previous years	–1 078	–388
Income tax relating to other periods	–240	–812
Other	604	314
Effective income tax	**8 308**	**9 168**
Effective income tax rate	27.5%	28.5%

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

The income from changes of tax rate for deferred tax is mainly attributable to the tax cuts passed in the US.

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

37 Earnings per share

in 1 000 EUR	2017	2016
Result of the period attributable to shareholders of the parent company	21 826	22 852

Number		
NUMBER OF SHARES		
Shares issued on 1 January	960 500	960 500
Treasury shares (annual average)	–1 052	–1 701
Shares outstanding	**959 448**	**958 799**
Basis for diluted earnings per share	959 448	958 799
Basis for undiluted earnings per share	959 448	958 799
EARNINGS PER SHARE		
Earnings per share – undiluted (in EUR)	22.75	23.83
Earnings per share – diluted (in EUR)	22.75	23.83

38 Operating cash flow

in 1 000 EUR	2017	2016
Operating result	30 711	34 454
Amortisation of intangible assets	8 578	7 381
Depreciation on tangible assets	19 382	17 729
Impairment/(reversal of impairment losses) on intangible and tangible assets	1 065	–445
Operating cash flow	**59 736**	**59 119**

39 Free cash flow

in 1 000 EUR	Note No.	2017	2016
Cash flow from operating activities		37 062	48 659
Purchases of intangible assets	4	–4 428	–3 077
Purchases of tangible assets	5	–21 569	–20 792
Disinvestments in intangible assets		48	5
Disinvestments in tangible assets		312	4 835
Free cash flow (before financial investments)		**11 425**	**29 630**

40 Acquisition of Group companies

The acquired assets and assumed liabilities break down provisionally as follows:

in 1 000 EUR	Fair value 2017	Fair value 2016
Other intangible assets	6 335	11 961
Tangible assets	378	7 870
Inventories	2 073	4 255
Trade receivables	2 900	1 425
Other current assets	200	463
Cash and cash equivalents	387	782
Deferred tax	–2 026	–4 238
Other liabilities	–7 051	–4 332
Identifiable net assets	3 196	18 186
Minority interest	–193	0
Goodwill from acquisitions	440	0
Purchase price	**–3 443**	**–18 186**
Residual purchase price liability	0	595
Fair value of previously held shares	2 693	0
Cash and cash equivalents acquired	387	782
Change in funds	**–363**	**–16 809**

Given the below-target earnings performance in 2016 of Orion Technologies LLC, which develops and manufactures industrial computer systems for customised applications, the Phoenix Mecano Group was entitled to receive additional shares in the company from a capital increase and thus to acquire a majority of the capital in the reporting year. The Phoenix Mecano Group had therefore recorded part of the payment as a contingent receivable in 2015. Following regulatory approval in the US, the company was integrated into the scope of consolidation as of 31 May 2017 and no longer recognised as an investment in associated companies. As a result of this transaction, the Phoenix Mecano Group holds a 76.35% stake in the company. There is also a call/put option on a minority interest of 13.65%, which can be exercised in 2020. In addition, there is a further minority interest of 10%. As expected, the acquired receivables of EUR 2.1 million were paid in full at the time of acquisition. The EUR 0.4 million goodwill from the acquisition is based on synergy effects and staff skills. The company is being integrated into the ELCOM/EMS division and generated gross sales of around EUR 5 million in 2016 with 33 employees.

On 7 July 2017, the Phoenix Mecano Group acquired the remaining 60% of the shares in Jiaxing Yinuo Electronic Technology Co. Ltd. and ceased recognising it as an investment in associated companies. The company develops and manufactures electrical components such as handsets and control units for drive technology. As expected, the acquired receivables of EUR 0.8 million were paid in full at the time of acquisition. Following the acquisition, the activities of Jiaxing Yinuo Electronic Technology Co. Ltd. were integrated into an existing subsidiary and the company was dissolved. The company generated gross sales of around EUR 1 million in 2016 with 34 employees.

The acquired companies generated sales revenue with third parties of EUR 2.7 million in 2017 (post-acquisition). Their contribution to the Phoenix Mecano Group's result of the period was EUR –1.9 million. Had the companies been consolidated since 1 January 2017, the Group's sales revenue in 2017 would have totalled EUR 631.0 million and consolidated result of the period EUR 21.2 million.

In the previous year, 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 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, the Group's sales revenue in 2016 would have totalled EUR 590.0 million and consolidated result of the period EUR 23.0 million.

41 Transactions with related parties

in 1 000 EUR	2017	2016
Benedikt A. Goldkamp, Chairman of the Board of Directors	789	462
Ulrich Hocker, Independent Lead Director	231	235
Other members of the Board of Directors	173	176
Remuneration of the Board of Directors	1 193	873
Remuneration of the management	1 059	1 411
Remuneration of the Board of Directors and management	2 252	2 284
Social security contributions	185	158
Pension obligations	146	176
Total remuneration of the Board of Directors and management	**2 583**	**2 618**

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. Since then, he has worked for the Group as Executive Chairman of the Board of Directors. Also since then, Ulrich Hocker, formerly Chairman of the Board of Directors of Phoenix Mecano AG, has been serving 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 compensation was divided up pro rata in 2016, in accordance with these changes. All compensation is short term in nature.

Detailed information on transactions with related parties is provided in the notes to the financial statements of Phoenix Mecano AG on pages 161 – 162 (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 2017 or 2016.

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

42 Events after the balance sheet date

No events occurred between 31 December 2017 and 27 March 2018 that would alter the book values of assets and liabilities or should be disclosed under this heading.

43 Approval of the consolidated financial statements

At its meeting on 27 March 2018, the Board of Directors of Phoenix Mecano AG released the 2017 consolidated financial statements for publication. They will be submitted to the Shareholders' General Meeting on 18 May 2018 with a recommendation for their approval.

44 Dividend

The Board of Directors recommends to the Shareholders' General Meeting of 18 May 2018 that a dividend of CHF 16.00 per share (CHF is the statutory currency of Phoenix Mecano AG) be paid out (see Proposal for the appropriation of retained earnings on page 164). The total outflow of funds is expected to be CHF 15.4 million. The dividend paid out in 2017 was CHF 15.00 per share (previous year CHF 15.00). The outflow of funds in 2017 was CHF 14.4 million (previous year CHF 14.4 million).

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, 2017, 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 70 to 143) give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, 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

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.

Valuation of goodwill and other intangible assets

Key Audit Matters

As at December 31, 2017, Phoenix Mecano AG balance sheet included goodwill and other intangible assets amounting to (in TEUR):

- Goodwill 13 512
- Other intangible assets 31 396

Other intangible assets mainly contain concessions, licences, similar rights and assets such as know-how, customer base and patents amounting to TEUR 27 738.

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;
– 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 84
– Note 3 to the consolidated financial statements, page 102
– Note 4 to the consolidated financial statements, page 103

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 Licensed Audit Expert Auditor in Charge	Thomas Lehner Licensed Audit Expert

Zurich, March 27, 2018

Five-year overview

in 1 000 EUR	2017	2016	2015	2014	2013
CONSOLIDATED BALANCE SHEET					
Total assets	471 848	452 361	426 720	414 007	395 558
Non-current assets	182 292	185 027	170 330	171 348	143 408
– in % of total assets	38.6	40.9	39.9	41.4	36.3
– Tangible assets	127 614	128 701	120 777	116 110	108 310
Current assets	289 556	267 334	256 390	242 659	252 150
– in % of total assets	61.4	59.1	60.1	58.6	63.7
– Inventories	131 832	125 037	122 838	117 844	109 908
– Cash and cash equivalents	53 509	43 243	41 951	44 185	60 409
Equity	269 702	272 757	262 626	267 470	254 237
– in % of total assets	57.2	60.3	61.5	64.6	64.3
Liabilities	202 146	179 604	164 094	146 537	141 321
– in % of total assets	42.8	39.7	38.5	35.4	35.7
Net indebtedness/(Net liquidity)	38 075	30 466	24 455	12 488	– 1 548
– in % of equity	14.1	11.2	9.3	4.7	–
CONSOLIDATED STATEMENT OF INCOME					
Gross sales	627 600	583 229	559 806	505 621	500 550
Sales revenue (net sales)	621 663	577 481	554 462	500 349	495 352
Total operating performance	629 710	585 780	560 367	504 419	500 114
Personnel expenses	193 869	181 512	176 506	161 128	151 332
Amortisation of intangible assets	8 578	7 381	8 344	7 109	5 296
Depreciation on tangible assets	19 382	17 729	17 801	16 326	15 680
Operating result	30 711	34 454	14 991	29 483	35 042
Financial result	– 474	– 2 280	– 2 173	– 452	– 3 264
Result before tax	30 237	32 174	12 818	29 031	31 778
Income tax	8 308	9 168	6 133	9 043	9 386
Result of the period	21 929	23 006	6 685	19 988	22 392
– in % of gross sales	3.5	3.9	1.2	4.0	4.5
– in % of equity	8.1	8.4	2.5	7.5	8.8
CONSOLIDATED STATEMENT OF CASH FLOW					
Cash flow from operating activities	37 062	48 659	38 952	38 808	42 349
Cash used in investing activitie	– 26 629	– 36 824	– 33 285	– 38 814	– 19 369
– Purchases of tangible and intangible assets	25 997	23 869	26 674	24 039	20 347
Cash flow from financing activities	1 129	– 10 184	– 8 970	– 17 636	– 24 584
Free cash flow	11 425	29 630	13 614	15 437	23 038

Financial statements

PHOENIX MECANO AG 2017

Contents

Balance sheet as at 31 December 2017

in CHF	Note No.	2017	2016
Assets			
CURRENT ASSETS			
Cash and cash equivalents		459 284	357 465
Other short-term receivables			
– due from investments	2.1	11 215 682	1 979 249
– due from third parties		6 018	1 663
Deferred charges and prepaid expenses		72 942	1 518
Total current assets		11 753 926	2 339 895
NON-CURRENT ASSETS			
Financial assets			
– Loans to investments	2.2	11 624 300	8 175 023
Investments			
– Investments	2.3	183 395 812	181 933 908
– Value adjustment on investments		– 3 500 000	– 3 500 000
Total non-current assets		191 520 112	186 608 931
Total assets		**203 274 038**	**188 948 826**

in CHF	Note No.	2017	2016
Equity and liabilities			
SHORT-TERM LIABILITIES			
Other short-term liabilities			
– Bank liabilities	2.4	6 500 000	18 505 000
– to investments	2.5	637	436 338
– to third parties		33 564	2 000
– to shareholders		416	1 417
Short-term provisions	2.6	950 000	776 950
Deferred income		500 921	358 493
Total short-term liabilities		7 985 538	20 080 198
LONG-TERM LIABILITIES			
Long-term interest-bearing liabilities	2.4	18 858 500	10 250 000
Total long-term liabilities		18 858 500	10 250 000
Total liabilities		26 844 038	30 330 198
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		50 813 290	51 540 100
Net profit for the year		32 030 437	13 665 690
Treasury shares	2.9	–433 951	–607 386
Total equity		176 430 000	158 618 628
Total equity and liabilities		**203 274 038**	**188 948 826**

Statement of income 2017

in CHF	Note No.	2017	2016
Dividend income	2.10	36 063 914	16 459 538
Other financial income	2.11	3 076 245	1 159 956
Other operating income		78 448	2 246
Total income		39 218 607	17 621 740
Financial expenses	2.12	– 992 015	– 583 208
Administration expenses		– 1 304 795	– 1 047 623
Other operating expenses	2.13	– 4 843 098	– 2 188 702
Direct taxes		– 48 262	– 136 517
Total expenses		– 7 188 170	– 3 956 050
Net profit for the year		**32 030 437**	**13 665 690**

Notes to the financial statements 2017

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 and EUR from subsidiaries in Switzerland and abroad.

2.2 Loans to investments

This item includes long-term loans in 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.	Aylesbury, UK	Development
Phoenix Mecano Components (Taicang) Co. Ltd.	Taicang, China	Production/Sales
Phoenix Mecano Maroc S.à.r.l.	Tétouan, Morocco	Production
Electroshield-C	Babynino, Russia	Production
Phoenix Mecano OOO	Moscow, Russia	Sales
Phoenix Mecano Elcom S.à.r.l.	Zaghouan, Tunisia	Production
Phoenix Mecano Hartu S.à.r.l. in liquidation	Ben Arous, Tunisia	Production
Phoenix Mecano Digital Tunisie S.à.r.l.	Bori-Cedria, Tunisia	Production

		2017	2016
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	15 000	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	100
TND	1 200	25	25
TND	7 800	20	20
TND	100	20	20

The CHF 1.5 million change in the balance sheet value compared with the previous year is due to two capital increases and the payment of a capital contribution linked to the establishment of a company in Russia.

An overview of all directly and indirectly held investments is given on pages 98 – 101.

2.4 Bank loans / Bank liabilities

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

in 1 000 CHF	2017	2016
BY CURRENCY		
CHF	12 250	24 100
EUR	0	1 071
USD	13 108	3 584
Balance sheet value	**25 358**	**28 755**
BY MATURITY		
in 1 year	6 500	18 505
in 2 years	1 250	6 500
in 3 years	0	1 250
in 4 years	2 500	0
in 5 years	15 108	2 500
Balance sheet value	**25 358**	**28 755**

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 0.5 million) as well as a provision for derivative financial instrument risks totalling CHF 0.4 million (previous year CHF 0.2 million), used for structuring of external debts or for currency management purposes. A provision of CHF 0.05 million for a legal dispute in Brazil was reversed in the reporting year.

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 2017 closed with a net profit for the year of CHF 32 030 437. The retained earnings brought forward from the previous year totalled CHF 50 813 290. The ordinary Shareholders' General Meeting of 18 May 2018 therefore has at its disposal retained earnings totalling CHF 82 843 727. For the Board of Directors' proposal regarding the appropriation of retained earnings, see page 164.

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
January			120	500.43
February			220	524.22
March	90	481.28	30	545.17
April			35	
May			105	
Total year	**90**	**481.28**	**510**	**526.84**

No purchases or sales were made in the other months.

At the balance sheet date, the company owned a total of 1 000 treasury shares (previous year 1 420), which are booked according to the strict lower-of-cost-or-market principle. These shares represent 0.1% 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 and net exchange rate gains totalling CHF 1.58 million (exchange rate gains of CHF 2.95 million minus exchange rate losses of CHF 1.37 million; previous year exchange rate gains of CHF 0.16 million).

2.12 Financial expense
This item comprises interest and securities expenses as well as expenses for derivative financial instruments.

2.13 Other operating expenses
As in the previous year, other operating expenses include a waiver of receivables due from a subsidiary totalling CHF 3.8 million (previous year CHF 2.2 million) and a value adjustment on receivables due from a subsidiary totalling CHF 1.0 million.

2.14 Net release of hidden reserves
In the reporting year, the statement of income contains a net release of hidden reserves totalling CHF 0.4 million. In the previous year, CHF 0.6 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	2017	2016
Guarantees and letters of comfort	**223 104**	**150 816**

Contingent liabilities are given for subsidiaries, predominantly in favour of financial institutions. The actual book value of Group company liabilities was CHF 71.7 million (previous year CHF 44.9 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.

Phoenix Mecano AG also concluded a share purchase agreement with the minority shareholder of Phoenix Mecano S.E. Asia Pte Ltd. to acquire the latter's shares in 2018 and 2020.

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	2017	2016
Planalto AG	Luxembourg, Luxembourg	34.6[1]	34.6[1]
Tweedy, Browne Company LLC, Stamford, USA[2]	Stamford, USA	8.5	5.5[1]
Tweedy, Browne Global Value Fund[3] (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	*Stamford, USA*	*7.2*	*5.5[1]*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Schweiz	4.9[1]	4.9[1]
Credit Suisse Funds AG	Zurich, Schweiz	< 3.0	3.3

1 Shareholding not notified in the year indicated.

2 Tweedy, Browne Company LLC (TBC) is not an economic beneficiary owner of the Shares. TBC has been delegated voting authority pursuant to separate investment advisory agreements. Please note that included in the Shares reported with this filing are 68 640 shares held by Tweedy, Browne Global Value Fund, a Direct Acquirer and economic beneficiary.

3 Pursuant to an investment advisory agreement between Tweedy, Browne Global Value Fund (TBGVF) and TBC, TBGVF has delegated voting authority with respect to 68 640 bearer shares of Phoenix Mecano AG to TBC. TBC is not an economic beneficiary of any of the Shares. TBGVF is the sole economic beneficiary of the Shares.

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 2017:

Name in 1 000 CHF	Position	Fixed remune-ration	Variable remune-ration	Social security and pension	Total remuneration **2017**
Benedikt A. Goldkamp	Chairman of the Board of Directors	699	178	138	1015
Ulrich Hocker	Independent Lead Director	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		1 147	178	169	1 494
Remuneration of the management		980	196	198	1 374
Remuneration of the Board of Directors and management		**2 127**	**374**	**367**	**2 868**
Highest individual management salary: Dr Rochus Kobler	CEO	592	140	119	851

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

Name in 1 000 CHF	Position	Fixed remunera-tion	Variable remunera-tion	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

Benedikt Goldkamp, Delegate of the Board of Directors and CEO of Phoenix Mecano AG, has held the position of Chairman of the Board of Directors since the Shareholders' General Meeting of 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, serves as an independent Lead Director, representing the 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 2017 annual accounts was CHF 10 800 for the individual financial statements and CHF 125 000 for the consolidated financial statements plus cash expenses of CHF 5 300.

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

Name	Position	31.12.2017	31.12.2016
Number			
Benedikt A. Goldkamp	Chairman	1 865	1 865
Ulrich Hocker	Independent Lead Director	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**
Dr Rochus Kobler	Member / CEO	200	200
René Schäffeler	Member / CFO	200	125
Shares held by the management		**400**	**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 events occurred between 31 December 2017 and 27 March 2018 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 2017	32 030 437
Retained earnings brought forward 2016	50 813 290
Release of reserve for treasury shares	0
Retained earnings	**82 843 727**

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

in CHF	
Dividend of CHF 16.00 per share*	15 368 000
Carried forward to new account	67 475 727
Total	**82 843 727**

* 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, 2017, 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 152 to 163) for the year ended December 31, 2017 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 financial statements according to the instructions of the Board of Directors.

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

KPMG AG

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

Zurich, March 27, 2018

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Financial calendar

15 February 2018 7.00 a.m.	**Media release** Financial year 2017, provisional figures	
24 April 2018 7.00 a.m.	**Media release** Financial year 2017 Q1 2018	Publication of 2017 annual report
24 April 2018 9.30 a.m.	**Media conference** Financial year 2017 Q1 2018	Widder Hotel, Rennweg 7, Zurich
24 April 2018 11.30 a.m.	**Financial analysts' conference** Financial year 2017 Q1 2018	Widder Hotel, Rennweg 7, Zurich
18 May 2018 3.00 p.m.	**Shareholders' General Meeting**	Hotel acrona LIVING, Schaffhausen
16 August 2018 7.00 a.m.	**Media release** Half-yearly results 2018	Publication of 2018 semi-annual report
30 October 2018 7.00 a.m.	**Media release** Q3 2018	

Further information

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Strong brands

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1

4

7

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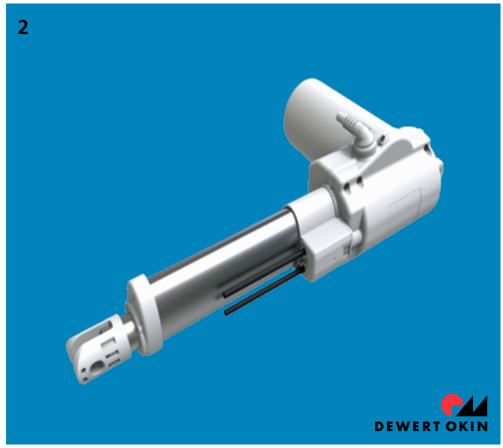
2



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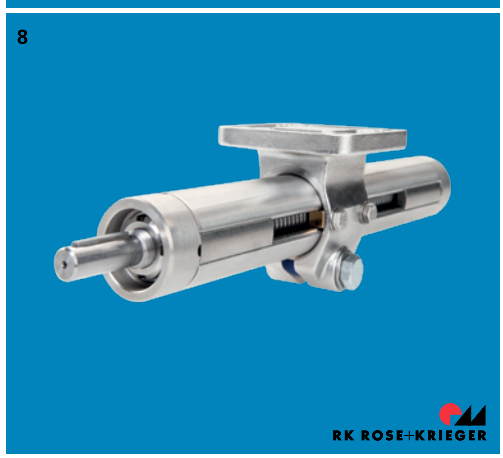

ELCOM / EMS

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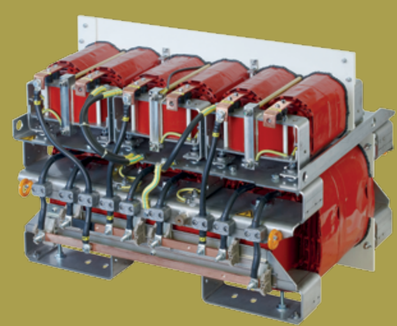

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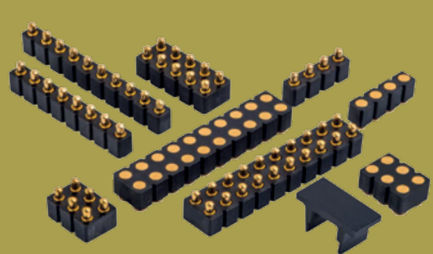

Most Phoenix Mecano products are used in a variety of markets and end products, so the applications listed here are not exhaustive:

1 BoPad enclosure for:
- Data loggers
- Input terminals
- (Industrial) measuring devices
- Medical devices

2 Megamat single drive for:
- Nursing beds
- Hospital beds

3 High-speed backplane for:
- Industrial computers
- Aerospace

4 Input system for:
- Equipment manufacture and plant engineering
- Mechanical engineering
- Medical technology
- Measurement and control technology
- Haulage and transport
- Construction machinery

5 Okimat double drive for:
- Adjustable comfort beds
- Comfort furniture

6 Transformer choke for:
- Mechanical and plant engineering
- Marine equipment
- Railway technology
- Renewable energy

7 AluformPlus enclosure for:
- Measurement technology
- Control technology
- Outdoor use in harsh environments
- Automation engineering

8 E-II stainless steel linear positioning system for:
- Manual or motorised adjustment systems
- Food packaging machines
- High humidity areas

9 Interface contacts for:
- Interface pin blocks
- Scanners
- Card readers
- Communication devices

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