PHOENIX MECANO

Growth

Annual Report 2018

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)

74.5 **EUR million**

Key figures of the Phoenix Mecano Group

KEY FINANCIAL FIGURES	Units	2018	2017	2016	2015	2014
Gross sales	EUR million	650.8	627.6	583.2	559.8	505.6
Change	%	3.7	7.6	4.2	10.7	1.0
Operating cash flow (EBITDA)	EUR million	74.5	59.7	59.1	52.3	53.1
Change	%	24.8	1.0	12.9	−1.4	−5.5
in % of sales	%	11.5	9.5	10.1	9.4	10.5
Operating result	EUR million	45.8	30.7	34.5	15.0	29.5
Change	%	49.2	−10.9	129.8	−49.2	−15.9
in % of sales	%	7.0	4.9	5.9	2.7	5.8
in % of net operating assets	%	14.5	10.4	11.6	5.4	10.6
Result of the period	EUR million	32.3	21.9	23.0	6.7	20.0
Change	%	47.1	−4.7	244.1	−66.6	−10.7
in % of sales	%	5.0	3.5	3.9	1.2	4.0
in % of equity	%	11.3	8.1	8.4	2.5	7.5
Total assets/capital	EUR million	482.1	471.8	452.4	426.7	414.0
Equity	EUR million	285.0	269.7	272.8	262.6	267.5
in % of total assets	%	59.1	57.2	60.3	61.5	64.6
Net indebtedness	EUR million	33.9	38.1	30.5	24.5	12.5
in % of equity	%	11.9	14.1	11.2	9.3	4.7
Cash flow from operating activities	EUR million	37.9	37.1	48.7	39.0	38.8
Free cash flow	EUR million	12.9	11.4	29.6	13.6	15.4
Purchases of tangible and intangible assets	EUR million	25.6	26.0	23.9	26.7	24.0
SHARE INDICATORS						
Share capital (bearer shares with a par value of CHF 1.00)	CHF	960 500	960 500	960 500	960 500	960 500
Shares entitled to dividend [1]	Number	959 500	959 500	959 080	960 015	959 240
Operating result per share [3]	EUR	47.7	32.0	35.9	15.6	30.7
Result of the period per share [3]	EUR	33.6	22.9	24.0	7.0	20.8
Equity per share [3]	EUR	297.0	281.1	284.4	273.6	278.8
Free cash flow per share [3]	EUR	13.5	11.9	30.9	14.2	16.1
Dividend	CHF	17.00 [2]	16.00	15.00	15.00	15.00
Share price						
High	CHF	728	614	528	560	589
Low	CHF	456	475	406	407	399
Year-end price	CHF	503	614	469	467	460

1 As at the balance sheet date, the company owned 1 000 treasury shares, which are not entitled to dividend.

2 Proposal to the Shareholders' General Meeting of 17 May 2019.

3 Based on shares entitled as at 31 December.

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	2018	2017
Gross sales	186.6	183.8
Purchases of tangible and intangible assets	9.4	7.1
Operating result	22.2	24.3
Margin in %	11.9	13.2
Employees	2 129	1 989

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	2018	2017
Gross sales	327.9	310.4
Purchases of tangible and intangible assets	7.3	11.0
Operating result	23.9	26.1
Margin in %	7.3	8.4
Employees	2 388	2 238

ELCOM / EMS

This division comprises three business areas: Electromechanical Components, including terminal blocks, connector systems, test probes, series terminals and switches for industrial electronics; 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; and Power Quality, encompassing transformers, instrument transformers and inductors for use in renewable energies, drive technology, switchgear and power distribution networks.

KEY FIGURES in EUR million	2018	2017
Gross sales	136.3	133.4
Purchases of tangible and intangible assets	8.1	7.2
Operating result	3.0	– 16.4
Margin in %	2.2	– 12.3
Employees	2 754	2 490

GROWTH

Phoenix Mecano is geared towards growth, supported by a solid financial base. Since the company was founded, it has relied on a combination of organic and acquisition-led growth. Its growth strategy is a long-term one, with innovation and investment in product infrastructure and expertise taking place countercyclically where appropriate, ensuring healthy organic growth for the Group.

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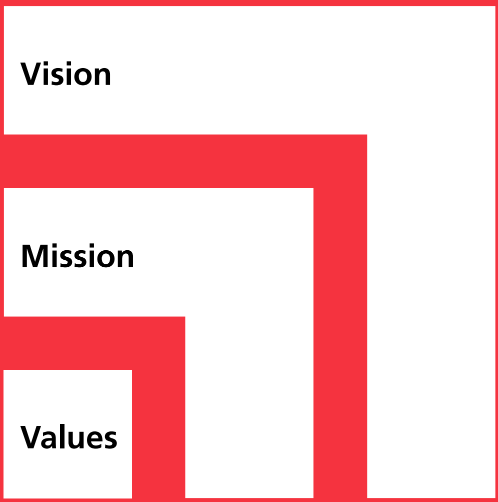
MISSION STATEMENT



Vision

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

Mission

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

Values

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

HIGHLIGHTS 2018

Further increase in dividend

The Board of Directors proposes to the Shareholders' General Meeting that the dividend be increased from CHF 16 to CHF 17. Phoenix Mecano's dividend policy is geared towards creating long-term added value for shareholders.

Payment systems for Expo 2020

At the 2020 World Expo in Dubai, visitors from around the world will use complete money-changing systems manufactured by Phoenix Mecano Digital Elektronik. Located in the city's metro, the machines are products from the company's Public Transport and Automatic Fare Collection/Ticketing range.

Award-winning assembly control system

Designed to ensure user-friendliness and simplicity of operation at all times, the SETAGO assembly control system was developed by the Business Development Team at Phoenix Mecano Komponenten AG in Stein am Rhein. SETAGO allows anyone at an assembly site to select a production process and run even complicated assembly processes without error, using the materials and tools shown and following the steps described. This means flexible personnel planning and higher productivity for manufacturing companies, with less worry about skilled staff shortages and defect rates. SETAGO is the winner of the swiss DINNO Award. The accolade, which recognises innovative digitisation, was presented by the Swiss minister of economic affairs.

LETTER TO SHAREHOLDERS

Dear shareholders

Phoenix Mecano achieved the goals it set itself in a range of areas in 2018. As well as increasing the Group's sales and operating result, one of the main objectives was to deliver operational break-even in our ELCOM/EMS division, which has been undergoing realignment in recent years. The operating result of EUR 43 million (before one-off items) fell within the projected range of EUR 40 million to EUR 46 million. This success was achieved despite an appreciable deterioration in the economic environment towards the end of the year. Geopolitical risks, which the Group's Board of Directors and management monitor closely at all times, have steadily increased, weakening the already fragile state of the global capital goods markets.

However, Phoenix Mecano, with its geographically and technologically diverse structure, has always been able to develop new areas of business and tap into new markets at times of economic weakness and technological upheaval. We see the megatrends of our time – digitalisation, for example, with associated developments such as the Internet of Things (IoT), or changing sales and marketing processes – as more of an opportunity than a threat to our business model. Examples of how we are exploiting these new opportunities can be found in the management report starting on page 16.

All three divisions achieved organic growth in 2018. Nevertheless, following dynamic conditions in the first six months, we saw growing uncertainty and caution among many industrial customers towards the end of the year. This makes systematic implementation of our growth strategy all the more important – a strategy geared towards technical innovations but focusing above all on the ability to create local added value in the Group's target markets. For a component supplier like Phoenix Mecano, exploiting the benefits of industrial mass production to optimise costs and quality processes, while identifying and flexibly meeting customers' individual needs, is of paramount importance. This is achieved by systematically aligning the product architecture with a common-parts strategy and flexible toolkits. For the final step, i.e. tailoring products to customer needs, we rely on our global network of sales companies with local advisory expertise, local engineering and local capacity for machining and assembly processes – the last link in the value chain.

We will therefore continue to expand our capacity in growth markets such as India and China in the coming years, regardless of the current economic fluctuations. Time and again, this long-term approach has provided us with opportunities to create growth and added value across economic cycles for all our stakeholders – including you, our valued shareholders.

Thanks to the impressive result generated in 2018, we are able to propose to the Shareholders' General Meeting that the dividend be increased from CHF 16 last year to CHF 17, in line with our long-term dividend policy. With an equity ratio of 59.1%, this is consistent with our top priority of ensuring a solid financial base for the Group.

Thank you to our employees

Every high-performing organisation requires a number of employees and managers with the initiative to break new ground, move beyond job descriptions and hierarchical structures, exceed expectations and achieve something extraordinary. It gives us great pleasure to note that Phoenix Mecano has such employees in all geographical regions. In our medium-sized enterprise, Europeans are now inspired by Asian colleagues, Americans by Europeans and Asians by Americans. Whereas in other companies, a mania for top-down control is gaining ground, with global headquarters infiltrating all processes and regions and stifling local initiatives,

Benedikt A. Goldkamp, Executive Chairman of the Board of Directors *Dr Rochus Kobler, CEO*

at Phoenix Mecano technical and cultural interaction between all parts of the world is flourishing. Phoenix Mecano's Board of Directors and management would like to express sincere and heartfelt thanks for the courage and initiative shown by these exceptional employees, who are the decisive factor in our Group's success.

Outlook

The gloomy economic outlook for capital goods markets around the world will pose particular challenges for our Group in 2019. However, while momentum may be slowing, we see many long-term growth opportunities that we plan to seize quickly and decisively. Experience has repeatedly shown that the best business opportunities arise in challenging times.

We will continue to implement our forward-looking investment plans with resolute focus. In the short term, we anticipate a slowdown in our markets. This may be linked to temporary inventory cycles or signal the start of a downturn in demand for industrial goods. Though we cannot make a reliable forecast at present, we firmly believe that we have a suitable response for every economic scenario.

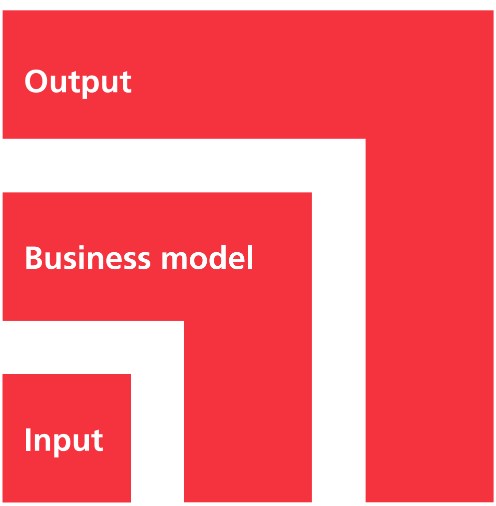
Our flexible cost structure and forward-thinking solutions to a range of technological megatrends mean that we can look to the future with optimism.

Benedikt A. Goldkamp
Executive Chairman of the Board of Directors

Dr Rochus Kobler
CEO

VALUE CREATION

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

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

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

Output

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.

OUR RESOURCES

Intellectual resources

J2OX (Journey towards Operational Excellence) is an internal programme ensuring that processes in all areas and at all levels are efficiently designed and continuously improved. 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. The programme is applied worldwide, across all Group countries, and connects Phoenix Mecano employees around the globe. It therefore also plays a role in the integration of newly acquired companies.

Financial resources

Investing in our intellectual, material and social resources strengthens our capacity for innovation and lays the foundation for our long-term success. 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. 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. 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.

Material resources

We are a global enterprise with production and sales locations on every continent. This makes us highly flexible when it comes to optimising our business and procurement activities. 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. As well as building new facilities in key markets, such as the factory we opened in Jiaxing, China, in September 2017 (our largest anywhere in the world), we invest continuously in improving our existing production facilities and making them more cost-efficient.

Social resources

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. 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.

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 risktaking.

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.

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.

The risks faced by the Phoenix Mecano Group are divided into five main categories:
- external risks
- financial risks
- operational risks
- legal risks
- strategic risks.

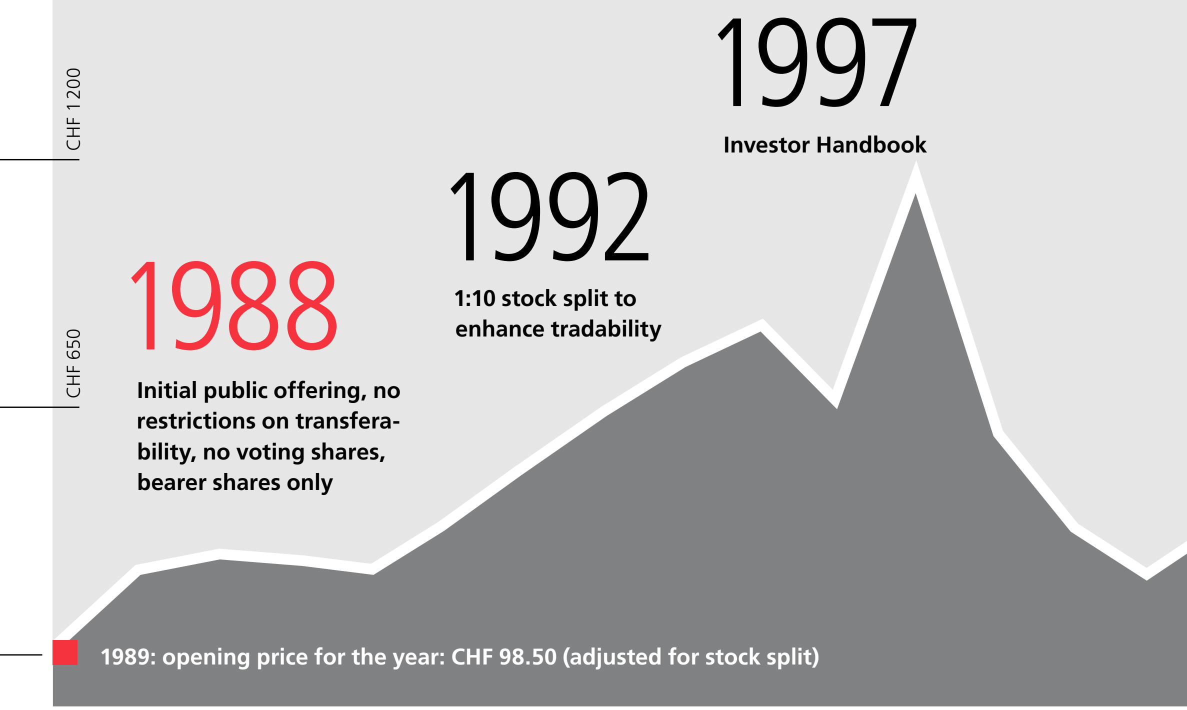
More information about financial risk management can be found in the consolidated financial statements (pages 121ff.).

30 YEARS ON THE CAPITAL MARKET

Since Phoenix Mecano went public, a total of CHF 262.6 million has been paid out in dividends and returned to shareholders through par value repayments and share buy-backs.

" Just seven months on from the worst stock market crash in living memory, the IPO candidates are starting to creep back out of their shells. ... (X) AG – hardly a household name in investor circles – and the equally unknown Phoenix Mecano AG have already announced their intention ... to hold out their hands for the big money in the coming weeks. Having previously shied away from shares, will these companies, without reputation or recognition, succeed in getting investors to part with their jealously guarded capital? ... Who even knows whether companies like Phoenix Mecano will still be welcome on the stock exchange in a year's time. "

Extract from a well-known Swiss business newspaper (22 June 1988)



"Shareholder value has always been the guiding principle behind our work, and we have consistently advocated that approach. Phoenix Mecano provided the first president of Pro Swiss Invest, an association aimed, among other things, at strengthening shareholders' rights, particularly in small-cap companies. It was the first company to issue a dedicated Investor Handbook, was one of three Swiss industrial enterprises involved in developing the new SIX Swiss Exchange Listing Rules, and has worked in a range of other ways to gain and nurture shareholders' trust. Our primary focus has been on predictability and stable growth, and on making quantitative forecasts that we then reliably meet. When shareholders invest in securities with limited liquidity, they should at least have peace of mind about the quality of their stock. Phoenix Mecano's aim was always to be a sound medium-term investment."

Dr Hermann Chr. Goldkamp in the 1997 annual report

2006–2014

Between 2006 and 2014, the company reduced its share capital from 1 100 000 to 960 500 shares by buying back and cancelling 139 500 shares.

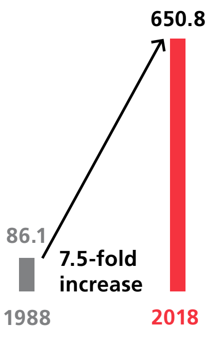
2002

Par value reduction from CHF 10.00 to CHF 1.00

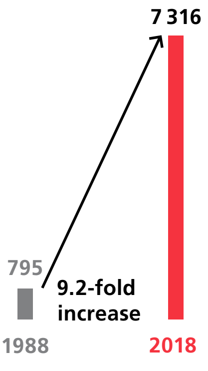
DEVELOPMENT

Over the past 30 years, the Group's broad market presence, development of customised system solutions, targeted acquisitions and global procurement policy have enabled it to achieve sustainable growth and leading positions in core markets.

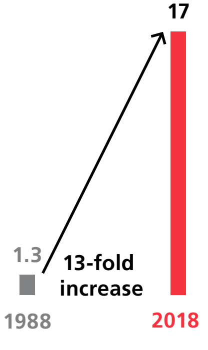
Consolidated sales
EUR million



Employees
Number

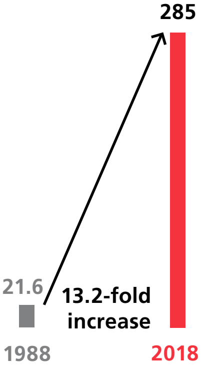


Dividend*
in CHF



* Total dividends paid and capital repayments incl. proposed dividend 2018.

Equity
EUR million



FUTURE MARKETS

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

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

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.

Gross sales in North and South America

71.0

EUR million

1988

Switzerland, Europe, USA

1994

India

1995

South America, Singapore

1996

China

1998
North Africa

2005
Australia

2016
Russia

MANAGEMENT REPORT

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BUSINESS PERFORMANCE GROUP

Growth is the central pillar of our business strategy. All three Group divisions contributed to that growth in 2018. The strongest organic growth was recorded by the Mechanical Components division, driven by robust demand in drive technology for comfort furniture in America and the Far East. The Enclosures division saw its business expand in the European and North American industrial markets, while the ELCOM / EMS division not only increased its sales but also reached a strategically important milestone in the form of a break-even operating result (EBIT).

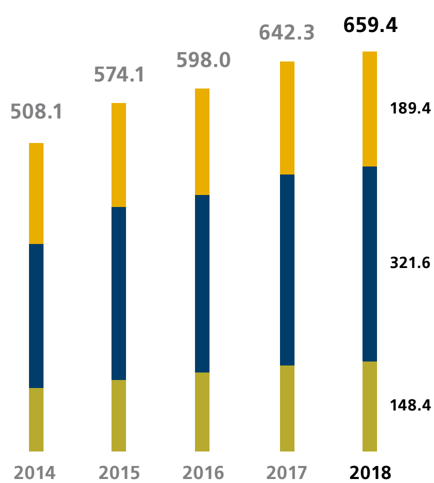
Divisions of the Phoenix Mecano Group

Enclosures

Mechanical Components

ELCOM / EMS

Incoming orders Group and Divisions
in EUR million



Business activity

Forward-looking, technologically advanced products are the backbone of our Group's success. Digitalisation is bringing the real and virtual worlds closer and closer together (Internet of Things). In industrial environments too, the boundaries between hardware and software, mechanics and electronics, are becoming increasingly blurred (Industry 4.0). This creates new growth opportunities for our Group:

Production and logistics processes are being automated:
– Flexible and modular products involving high-quality linear units and profile systems for use in factory and process automation as well as ergonomic workstation systems (Mechanical Components)
– Electromechanical and electrical components enabling the reliable operation of a growing number of distributed control units and high-performance industrial computers (ELCOM/EMS)

Single-source system solutions are in demand:
– Customised system solutions for harsh environments and exposed operating locations demanding the highest specifications (Enclosures)
– Robust, ergonomic, cutting-edge digital input systems for a variety of human-machine interfaces (Enclosures)

Industrial end products are being digitalised and networked:
– Electrotechnical components for connecting decentralised, renewable energy sources to increasingly complex power grids (ELCOM/EMS)
– Upgrading of electromechanical linear drives into electronically controlled drive systems for comfort and healthcare furniture with digital interfaces (Mechanical Components)

The industrial production of the future will be characterised by increasing product individualisation in highly flexible production environments, early involvement of customers and business partners in design and value-added processes, and the combination of sustainably manufactured high-tech components with high-quality services. These are the core elements of the Phoenix Mecano Group's forward-looking business model.

To increase value added in growth regions, we further expanded our production capacity and development expertise in Asia. In our core European markets, we continued to upgrade our production, development and sales infrastructure and to further improve operational business processes.

The planned acquisition this year of a majority shareholding in Chinese company Mei Hui Machinery Co., Ltd. will support our strategy of systematically increasing vertical integration in drive technology and local value creation in growth regions.

In the ELCOM/EMS division, efforts to streamline the product range, the divestiture and pooling of capacity and a number of targeted operational enhancements laid the foundations for a sustainable improvement in earnings.

Thanks to a high degree of innovation in all divisions, continuous performance improvements in all operational areas, organic growth from digitalisation as well as strategic acquisition activities to expand our target markets, we will continue to generate sustainable added value for Phoenix Mecano in the current year.

Orders, sales and profitability

Solid order situation
Consolidated incoming orders for the Phoenix Mecano Group rose by 2.7%, from EUR 642.3 million to EUR 659.4 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 101.3%, compared with 102.3% the previous year. It was above 100% in the Enclosures and ELCOM/EMS divisions and slightly below 100% in the Mechanical Components division.

Sales growth in all divisions
The Phoenix Mecano Group's consolidated gross sales increased by 3.7%, from EUR 627.6 million to EUR 650.8 million. Organic growth in local currency was 5.4%.

In Europe, overall sales were up by 0.3% (2.0% in organic terms). Growth of 2.9% in the core market of Germany was a key driver, but we also achieved sales increases in the UK, Austria and Italy, and organically in the Netherlands. These were offset by falling sales in other regions.

Asian markets saw an increase of 10.9%, driven by sales growth in drives for electrically adjustable comfort and healthcare furniture in China and Taiwan. In North and South America, sales were up by 5.1% thanks to broad-based growth in the industrial components business.

The Enclosures division increased its sales by 1.6% (2.9% when adjusted for currency effects), following strong growth of 7.7% the previous year. There was continued high demand for system solutions, which combine modern industrial enclosures with electronic input modules. Demand also remained high in the core market of Germany.

The Group's largest division, Mechanical Components, recorded the strongest growth of 5.6% (7.9% in organic terms). In the industrial segment, there was robust demand in Western industrial markets. In the comfort and healthcare furniture sector, double-digit sales growth in electric drive systems was achieved in Asia.

The ELCOM/EMS division recorded a 2.2% increase in sales (organic growth of 2.9%). There was dynamic sales growth in high-voltage instrument transformer products as well as customised industrial computer systems.

Disproportionate rise in operating result
The operating result increased by 49.2% from EUR 30.7 million to EUR 45.8 million. Adjusted for one-off items, the operating result grew by a disproportionately high 8.2%, from EUR 39.7 million to EUR 43.0 million. In 2017, the one-off items included expenses for adjustments to the product portfolio and production infrastructure in the ELCOM/EMS division totalling EUR 9.0 million. In the reporting year, a one-off gain of EUR 2.8 million was generated by the sale of Wijdeven Inductive Solutions B.V. and Wijdeven Power Holding B.V. (both in the Netherlands). The operating margin (before non-recurring items) increased from 6.3% to 6.6%.

Following a jump in earnings the previous year, the Enclosures division posted a slightly reduced operating result of EUR 22.2 million (down 8.8%), with a corresponding drop in profitability of 4.6 percentage points. The Mechanical Components division also recorded a lower operating profit, down by 8.6% to EUR 23.9 million, and a reduction in profitability of 2.4 percentage points.

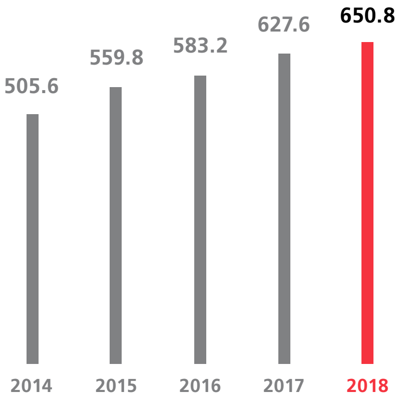
For the first time since 2010, the ELCOM/EMS division posted a positive operating result of EUR 3.0 million (EUR 0.2 million before one-off items).

Despite pricing pressure in some market segments, supply bottlenecks in electronic components and shifts in product mix, the Phoenix Mecano Group's material use rate as a percentage of gross sales remained virtually unchanged (47.4% compared to 47.2% the previous year).

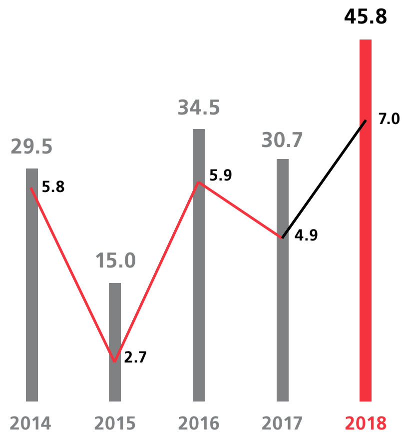
Personnel expenses were up by 1.0%, slightly less than sales. Average staff numbers over the year increased from 6759 to 7316. Most of the additional jobs were created in Asia and North Africa.

Amortisation of intangible assets and depreciation on tangible assets decreased slightly, from EUR 28.0 million to EUR 27.9 million.

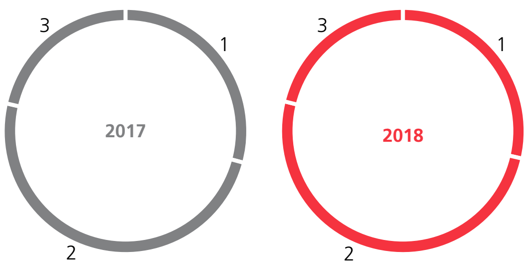
Gross sales 2014–2018
in EUR million



Operating result and margin 2014–2018
in EUR million
— in %



Gross sales by division 2017 and 2018
in %



1 Enclosures: 29.3 | **28.7**
2 Mechanical Components: 49.5 | **50.4**
3 ELCOM/EMS: 21.2 | **20.9**

Profitability by division*
in %

	Change from prior year in % points	2018	2017
Enclosures	–4.6	29.6	34.2
Mechanical Components	–2.4	17.1	19.5
ELCOM/EMS	18.9	2.8	–16.1
Group	**4.4**	**14.5**	**10.1**

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

Other operating expenses were down by 2.6% on the previous year, mainly as a result of lower expenses from value adjustments on inventories. Establishment expenses (maintenance, operating supplies, etc.) and selling expenses remained largely stable.

Jump in result of the period

The financial result was down from EUR –0.5 million to EUR –3.1 million. This was due to a) one-off income of EUR 0.9 million in the previous year from the revaluation of investments linked to step acquisitions, and b) value adjustments in 2018 on investments and loans to associated companies totalling EUR 1.0 million.

The income tax rate in 2018 was lower than the previous year (24.4% vs. 27.5%), mainly because of the tax-free profit from the sale of Group companies.

The result of the period increased by 47.1% from EUR 21.9 million to EUR 32.3 million. The net margin rose from 3.5% to 5.0%.

Asset and capital structure

Growth investments

Purchases of tangible assets totalled EUR 22.4 million (previous year EUR 21.6 million). Purchases of intangible assets stood at EUR 3.2 million (previous year EUR 4.4 million). Overall investment levels were therefore slightly lower than the previous year. They include the construction and expansion of factories in China and India (under Construction in progress).

Increase in equity ratio

Thanks to the improved result of the period, the equity ratio climbed to a comfortable 59.1% (previous year 57.2%), following slight declines in previous years.

Lower net indebtedness

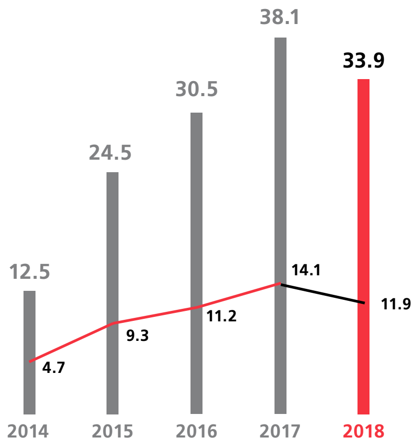
Net indebtedness fell from EUR 38.1 million to EUR 33.9 million in the reporting year due to the free cash flow of EUR 12.9 million and the proceeds from the sale of Group companies. As a percentage of equity, net indebtedness was 11.9% (previous year 14.1%). The Group has the financial flexibility needed to cope with the increasingly challenging economic environment and to take advantage of potential acquisition opportunities.

Outlook

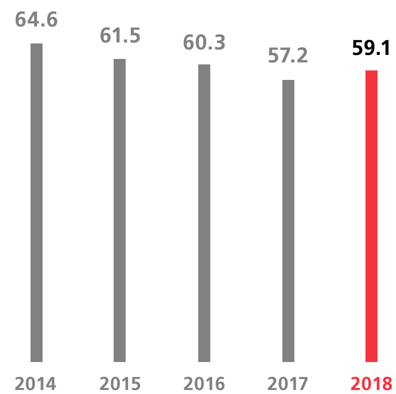
The economic climate deteriorated across the board in the last months of 2018 and into 2019. The weakening of global purchasing managers' indices (PMIs) signals a slowdown in growth, which is also reflected in Phoenix Mecano's end markets. However, order books in many industries are well filled. Structural growth trends such as digitalisation, industrial automation and the development of renewable energy sources open up a wealth of opportunities for the continued growth of the Phoenix Mecano Group.

With its strong balance sheet and geographically and technologically diverse portfolio, the Group is ideally placed to continue creating value, even in times of cyclical upheaval and political uncertainty.

Net debt and gearing 2014–2018
in EUR million
— in % of equity



Equity ratio 2014–2018
in %



Purchases of tangible and intangible assets

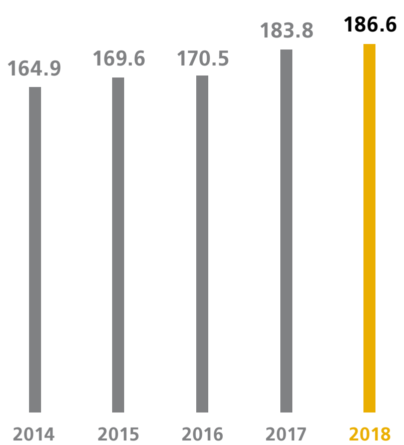
	2018 in 1 000 EUR	2018 in %	2017 in 1 000 EUR	2017 in %
BY TYPE OF ASSET				
Intangible assets	3 215	12.6	4 428	17.0
Land and buildings	2 133	8.3	2 436	9.4
Machinery and equipment	12 163	47.5	12 083	46.5
Tools	1 705	6.7	2 090	8.0
Construction in progress	6 380	24.9	4 960	19.1
Total	**25 596**	**100.0**	**25 997**	**100.0**
BY DIVISION				
Enclosures	9 393	36.7	7 105	27.3
Mechanical Components	7 300	28.5	11 035	42.5
ELCOM/EMS	8 096	31.6	7 157	27.5
Total for all divisions (segments)	24 789	96.8	25 297	97.3
Reconciliation *	807	3.2	700	2.7
Total	**25 596**	**100.0**	**25 997**	**100.0**

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

BUSINESS PERFORMANCE ENCLOSURES

The robust economic situation in traditional industrial markets coupled with consistent expansion of system integration activities helped the Enclosures division to achieve a small increase in sales, despite lower sales in the oil and gas business in Asia. Following a jump in earnings the previous year, cost increases led to a slightly lower operating result in 2018.

Gross sales 2014–2018
in EUR million

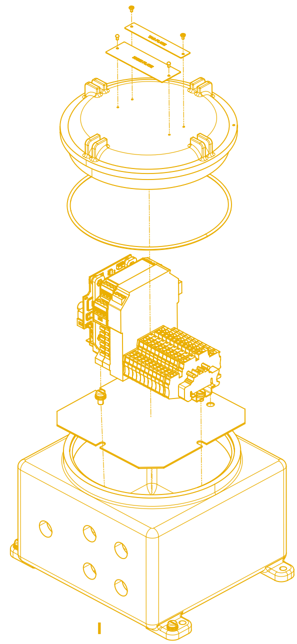


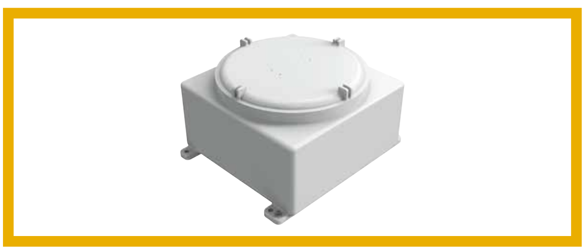
Operating result
22.2 **EUR million**

Margin
11.9 **%**

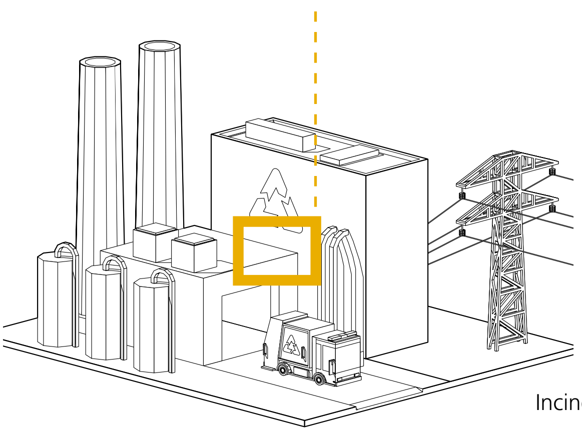
Investments
9.4 **EUR million**

Our flameproof enclosures allow customers to use even the most complex electrics and electronics in potentially explosive atmospheres.





Rose, Ex d enclosure



Incineration plant

Orders, sales and profitability

Orders
Incoming orders in 2018 were up 2.0% on the previous year at EUR 189.4 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 101.5% (previous year 101.1%).

Sales
The division saw sales increase by 1.6% to EUR 186.6 million. Adjusted for currency effects, gross sales were up by 2.9%. There were no consolidation effects. In Europe, sales were up by 3.0%, mainly thanks to a strong economy in the core market of Germany. Sales in North and South America increased by 5.6% (11.5% when adjusted for currency effects) on the back of sales successes in customised enclosures, equipment carriers and online distribution, and despite negative currency effects. In the Middle and Far East, sales fell by 7.2% following dynamic growth of 20.7% the previous year, mainly due to fewer large orders in the energy technology sector.

Gross sales of industrial enclosures (including control panels and equipment carriers) rose by 1.1% worldwide. The division continued to expand its system integration activities, i.e. the incorporation of electromechanical devices, electronic assemblies, displays and input systems into enclosures. Combinations involving new enclosure systems such as Bopla's versatile BoPAD handheld enclosure proved particularly successful. The division is also looking to the future with new products such as BoLink for use in Internet of Things applications. ROSE presented its first panel PC at SPS IPC Drives in Nuremberg, one of the biggest international trade fairs for electrical automation technology.

Gross sales of input systems increased by 7.8%, while touch applications – used primarily in medical technology – saw double-digit growth. In-house expertise in electronics and capacitive touch systems is being further expanded to meet this demand. However, there was also greater market demand for traditional membrane keypads, especially in the mechanical engineering sector.

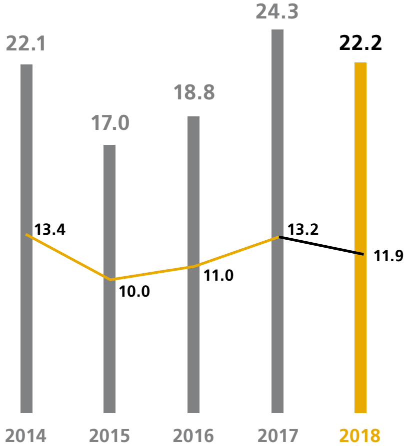
Result
The operating result fell by 8.8% to EUR 22.2 million owing to slightly disproportionate cost increases in industrial enclosures. In the input systems segment, the margin situation improved thanks to continuing optimisation measures.

Asset and capital structure

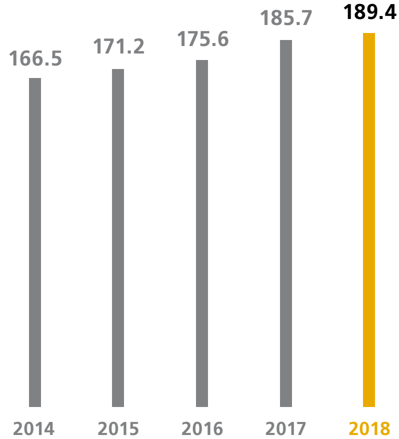
Purchases of tangible and intangible assets stood at EUR 9.4 million, up 32.2% on the previous year. The increase was due to a factory expansion in India (this plant was still under construction at the balance sheet date).

Higher capital expenditure and an increase in current assets caused net operating assets to rise by 5.2% to EUR 74.9 million. This, together with the lower operating result, saw the return on capital employed (ROCE) fall to 29.6% (previous year 34.2%).

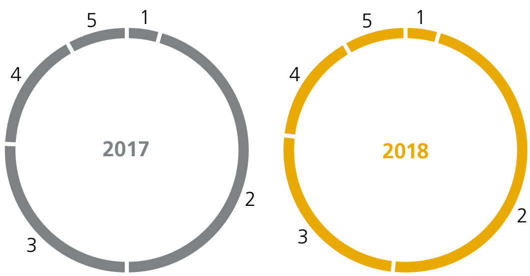
Operating result and margin 2014–2018
in EUR million
— in %



Incoming orders 2014–2018
in EUR million



Gross sales by region 2017 and 2018
in %



1 Switzerland: 4.7 | **4.7**
2 Germany: 45.3 | **47.2**
3 Europe (excl. GER and CH): 26.0 | **25.1**
4 Middle and Far East: 16.2 | **14.9**
5 North and South America: 7.8 | **8.1**

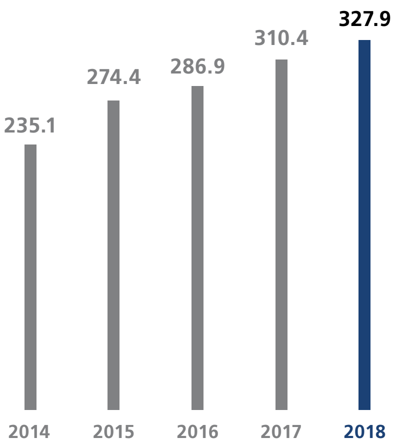
Purchases of tangible and intangible assets

	2018 in 1 000 EUR	2018 in %	2017 in 1 000 EUR	2017 in %
Intangible assets	655	7.0	1793	25.2
Land and buildings	894	9.5	400	5.6
Machinery and equipment	4 210	44.8	3 927	55.3
Tools	580	6.2	390	5.5
Construction in progress	3 054	32.5	595	8.4
Total	**9 393**	**100.0**	**7 105**	**100.0**

BUSINESS PERFORMANCE MECHANICAL COMPONENTS

Thanks to strong sales growth in Asia, the Mechanical Components division continued on its path of organic growth, with sales rising by a mid-single-digit rate in 2018. Owing to various factors, the operating result fell just short of the record figure from 2017.

Gross sales 2014–2018
in EUR million

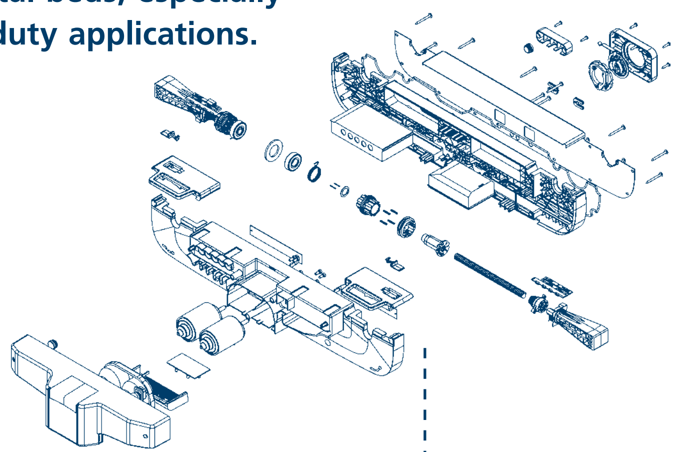


Operating result
23.9 EUR million

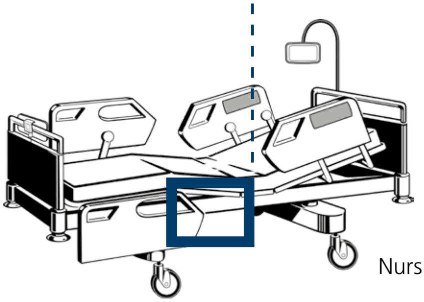
Margin
7.3 %

Investments
7.3 EUR million

Robust and reliable: with its high load capacity of 6000 N, the DUOMAT 9 double drive is designed for use in nursing and hospital beds, especially in heavy-duty applications.



DewertOkin, Duomat 9



Nursing/hospital bed

Orders, sales and profitability

Orders
Incoming orders were up 2.1% on the previous year at EUR 321.6 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) was 98.1% (previous year 101.5%), due to a slightly weaker order situation in the second half of the year.

Sales
Gross sales rose by 5.6% to EUR 327.9 million. Adjusted for currency effects, they were up by 8.7%. Consolidation effects contributed 0.8% to this growth. Europe recorded a 1.6% drop in sales. Slight growth in the industrial components business was offset by a decline in sales of drive technology for the furniture and healthcare market. Sales in North and South America fell by 3.0%, but increased by 3.3% when adjusted for currency effects. In the Middle and Far East, sales rose by 17.3% following a 17.0% increase the previous year. In Asia, business in electric drive systems for comfort furniture remained dynamic in 2018, while in North America sales in the industrial business expanded.

In the industrial components business, demand from the mechanical and plant engineering sector held steady, while the automotive sector saw fewer big orders in Eastern Europe following a very successful year in 2017. In the agricultural engineering sector, a new electric cylinder series was launched. Overall, gross sales of industrial assembly systems fell slightly, by 1.7%.

In the linear drives business for the furniture and healthcare market, dynamic sales performance in Asia continued, with sales up by 19.4% compared with 17.6% the previous year. North and South America saw a slight decline in sales due to currency effects, following double-digit growth the previous year. Sales were also slightly down in the saturated European market. Worldwide, however, gross sales of linear adjustment and positioning systems increased by 7.1%. Product innovation remains a key issue in drive technology. The product range is being strategically expanded, with an increasing focus on electronics, sensor technology and app applications such as voice control.

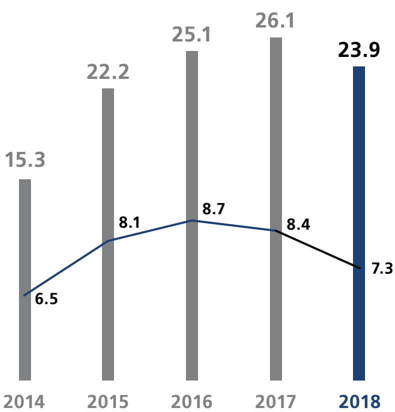
Result
The operating result was EUR 23.9 million, down 8.6% on the previous year's record figure. This reflected a slight reduction in gross margin in some business segments, lower sales of drives for the furniture and healthcare market in Europe, the initial impacts of the tariff dispute between the US and China and increased provision for customer risks.

Asset and capital structure

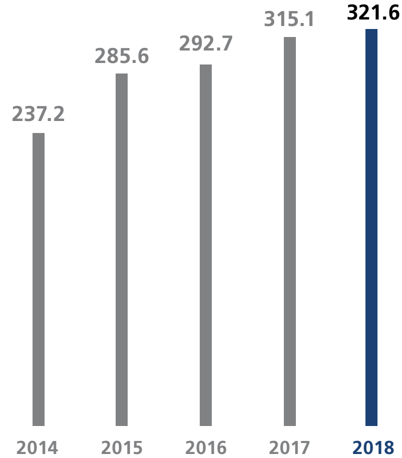
Following high levels of capital expenditure in the previous two years due to the construction of a development and production centre in China, purchases of tangible and intangible assets decreased to EUR 7.3 million.

An increase in current assets in Asia caused net operating assets to rise by 4.0% to EUR 139.5 million. This, together with the lower operating result, saw the return on capital employed (ROCE) decline to 17.1% (previous year 19.5%).

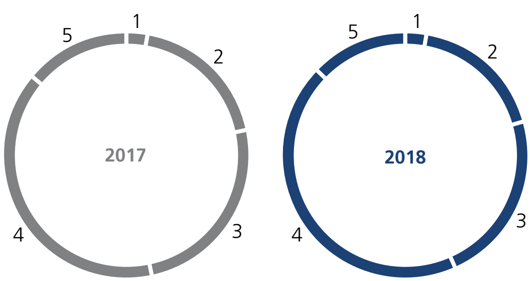
Operating result and margin 2014–2018
in EUR million
— in %



Incoming orders 2014–2018
in EUR million



Gross sales by region 2017 and 2018
in %



1 Switzerland: 3.0 | **2.8**
2 Germany: 18.7 | **18.0**
3 Europe (excl. GER and CH): 25.1 | **22.8**
4 Middle and Far East: 39.4 | **43.8**
5 North and South America: 13.8 | **12.6**

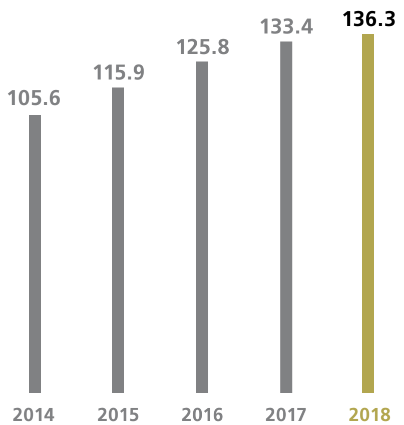
Purchases of tangible and intangible assets

	2018	**2018**	2017	2017
	in 1 000 EUR	in %	in 1 000 EUR	in %
Intangible assets	1 775	24.3	2 175	19.7
Land and buildings	282	3.9	189	1.7
Machinery and equipment	3 652	50.0	4 063	36.8
Tools	587	8.0	1 257	11.4
Construction in progress	1 004	13.8	3 351	30.4
Total	**7 300**	**100.0**	**11 035**	**100.0**

BUSINESS PERFORMANCE ELCOM / EMS

The ELCOM / EMS division recorded a slight increase in sales in 2018, thanks mainly to the Electronic Manufacturing and Packaging business area. Following successful implementation of the package of performance enhancement measures launched in 2017, the division achieved a turnaround in operating result in 2018.

Gross sales 2014 – 2018
in EUR million



Operating result

3.0 **EUR million**

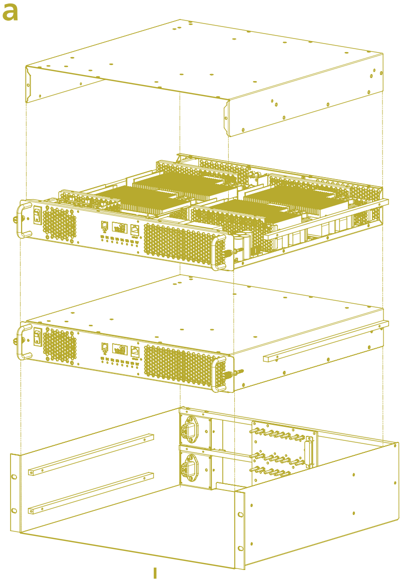
Margin

2.2 **%**

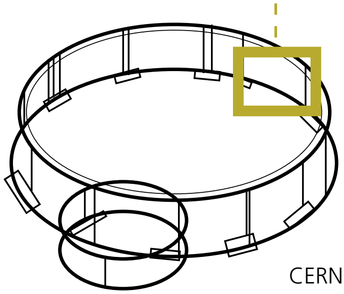
Investments

8.1 **EUR million**

3000 W multi-channel power supply, remote controlled via Ethernet. It is used in areas with ionising radiation and high magnetic fields.



WIENER, Maraton



CERN particle accelerator, Geneva

Orders, sales and profitability

Orders

Incoming orders were up 4.9% on the previous year at EUR 148.4 million. The book-to-bill ratio (incoming orders as a percentage of gross sales) reached 108.9%, compared with 106.1% the previous year. The order situation is particularly healthy in the Electronic Manufacturing and Packaging business area.

Sales

Gross sales increased by 2.2% to EUR 136.3 million. Adjusted for currency effects, they were up by 2.5%. Consolidation effects depressed sales growth by 0.4%. In Europe, sales fell slightly by 0.6%. Sales in North and South America increased by 37.2% (14.3% in organic terms), while a slight decline of 2.2% was recorded in the Middle and Far East.

The sale of subsidiaries led to a 2.2% reduction in gross sales in the Electromechanical Components business area, down to EUR 64.0 million. Organic growth was 2.6%. With the integration of HARTU inductive components (formerly part of Power Quality) into the business area, its customers can now enjoy a broader range of products. In addition, joint manufacturing in Tunisia enables synergies to be exploited.

In the Power Quality business area, now geared towards instrument transformer products and transformers, gross sales fell by 3.2% to EUR 25.4 million. Sales growth in high-voltage instrument transformer products was offset by declining transformer sales. The latter were due to supply issues linked to integration measures and site consolidations. These issues have now been resolved.

The Electronic Manufacturing and Packaging business area saw sales increase by 12.3% to EUR 46.9 million. Organic growth was 6.0%. Lower research spending in 2018 had a negative impact on power supply sales. However, year-end orders for 2019 are high, and there were increased sales of customised industrial computer systems made by Orion Technologies and backplanes.

Result

For the first time in several years, the ELCOM/EMS division posted a positive operating result of EUR 3.0 million. Even excluding the profit from the sale of Wijdeven Inductive B.V. and Wijdeven Power Holding B.V., the operating result was positive (EUR 0.2 million). This was despite the continued high impact from amortisation of acquisition-related intangible assets totalling EUR 4.6 million (previous year EUR 4.6 million).

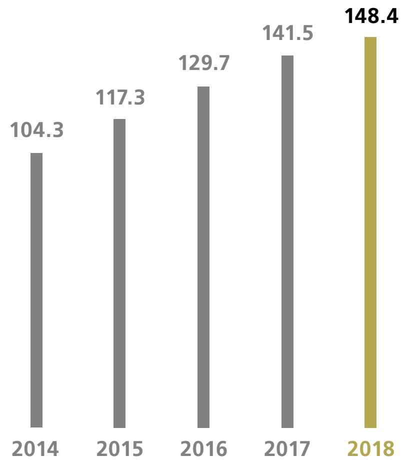
Asset and capital structure

Purchases of intangible and tangible assets rose to EUR 8.1 million (up 13.1%) due to the construction of a new factory in China (recognised under Construction in progress).

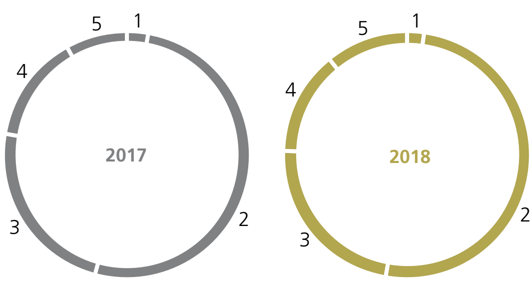
Net operating assets increased by 4.8% to EUR 106.5 million. Thanks to the positive operating result, the return on capital employed (ROCE) climbed to 2.8% from – 16.1% the previous year.

Operating result and margin 2014–2018
in EUR million
— in %

Incoming orders 2014–2018
in EUR million



Gross sales by region 2017 and 2018
in %



1 Switzerland: 3.0 | **2.3**
2 Germany: 51.4 | **50.5**
3 Europe (excl. GER and CH): 23.6 | **23.0**
4 Middle and Far East: 14.1 | **13.6**
5 North and South America: 7.9 | **10.6**

Purchases of tangible and intangible assets

	2018	2018	2017	2017
	in 1 000 EUR	in %	in 1 000 EUR	in %
Intangible assets	521	6.4	252	3.5
Land and buildings	936	11.6	1 847	25.8
Machinery and equipment	3 810	47.1	3 601	50.3
Tools	538	6.7	443	6.2
Construction in progress	2 291	28.2	1 014	14.2
Total	**8 096**	**100.0**	**7 157**	**100.0**

CORPORATE RESPONSIBILITY

Our transparent and open communication creates trust. We give shareholders, employees and all other interested parties a comprehensive insight into the company and keep our stakeholders informed about all relevant aspects of our business. Rather than focusing on short-term gain and maximum quarterly profits, we pursue a strategy of sustainable growth. The foundation for sustainable business success is provided by the Phoenix Mecano Group's mission statement, which is based on environmental, social and economic aspects.

Creation of value added

in 1 000 EUR	Note	2018	2017
1 Net sales		645 015	621 663
2 Own work capitalised and other income		11 794	8 047
3 Cost of materials		−308 589	−296 208
4 Other operating expenses	A	−76 023	−78 178
5 Depreciation/amortisation		−28 733	−29 025
6 Other non-operating result	B	−1 956	548
Value added		**241 508**	**226 847**

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	2018	2017
1 Employees	C	81.0	85.5
2 Government (taxes)	D	5.1	4.4
3 Shareholders	E	5.6	6.0
4 Lenders (net interest expense)		0.5	0.5
5 Companies (retained earnings)	F	7.8	3.6
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 information

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.

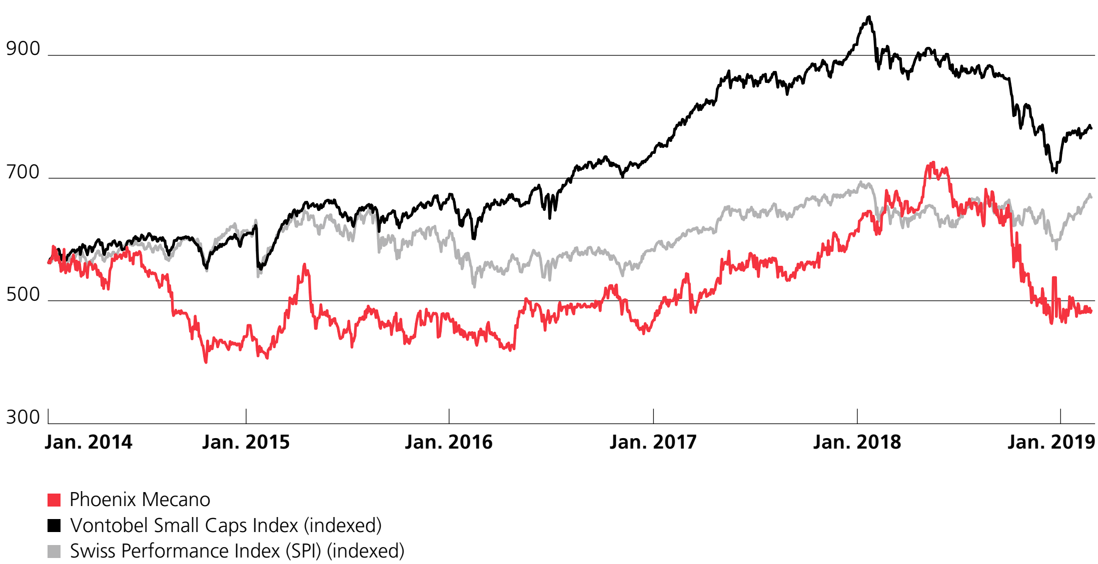
Opting-out and opting-up

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.

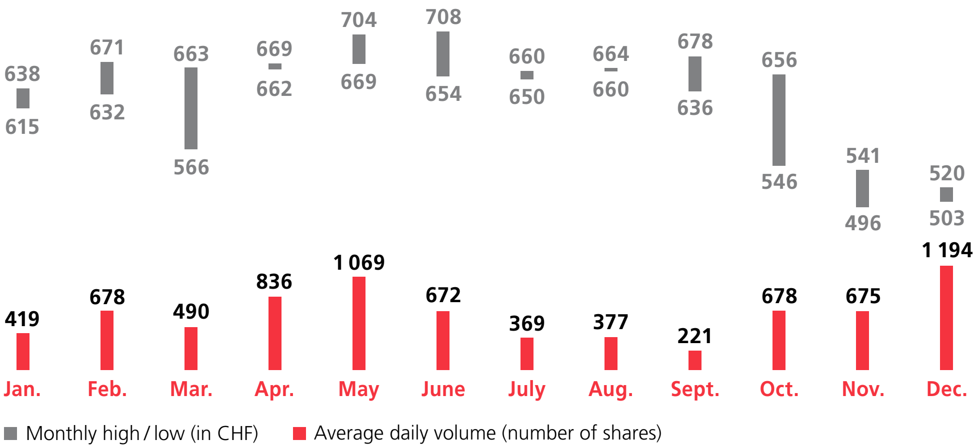
Payout and dividend policy

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 17 May 2019 a dividend of CHF 17 per share. This corresponds to a payout ratio of 44%.

Share price 1 January 2014 – 28 February 2019
in CHF

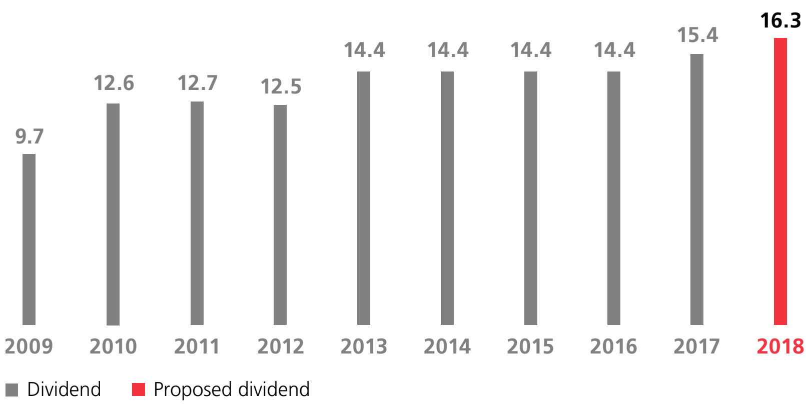


Monthly highs and lows and average daily volume 2018



Dividend payout 2009–2018

in CHF million



Dividend payout and return of capital to shareholders 2006–2018

in CHF million	2006–2013	2014	2015	2016	2017	2018	Total
Proposed dividend	87.5	14.4	14.4	14.4	15.4	16.3	162.4
Share buy-back	51.0	–	–	–	–	–	51.0
Total		**14.4**	**14.4**	**14.4**	**15.4**	**16.3**	**213.4**

Dialogue with the capital market

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

Analyst coverage and recommendation

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

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

Share information

Listing	SIX Swiss Exchange/Zurich
Securities No.	Inh. 218781
ISIN	CH0002187810
Reuters	PM.S
Bloomberg	PM SE Equity
Telekurs/Telerate	PM
Legal Entity Identifier (LEI)	529900SWF06EKVI1JY11.

Share indicators at a glance

	Unit	2018	2017	2016	2015	2014
Share capital (bearer shares with a par value of CHF 1.00)	CHF	960 500	960 500	960 500	960 500	960 500
Treasury shares	Number	1 000	1 000	1 420	485	1 260
Shares entitled to dividend	Number	959 500	959 500	959 080	960 015	959 240
Operating result per share [1]	EUR	47.7	32.0	35.9	15.6	30.7
Result of the period per share [1]	EUR	33.6	22.9	24.0	7.0	20.8
Equity per share [1]	EUR	297.0	281.1	284.4	273.6	278.8
Free cash flow per share [1]	EUR	13.5	11.9	30.9	14.2	16.1
Dividend	CHF	17.00 [4]	16.00	15.00	15.00	15.00
Share price						
High	CHF	728	614	528	560	589
Low	CHF	456	475	406	407	399
Year-end price	CHF	503	614	469	467	460
Market capitalisation	CHF million	483.1	589.7	450.5	448.6	441.8
Dividend yield [2]	%	3.4 [4]	2.4	3.2	3.2	3.3
Total shareholder return	%	–15.5	34.1	3.6	4.8	–12.8
Payout ratio [3]	%	44 [4]	63	57	202	59
Price/profit ratio 31 December		13.0	24.2	17.9	62.8	18.2

1 Based on shares entitled to dividend as at 31 December.

2 Dividend in relation to year-end price.

3 Dividend (shares entitled to dividend only) in relation to result of the period.

4 Proposal to the Shareholders' General Meeting of 17 May 2019.

Employees

The Phoenix Mecano Group is made up of people from a diverse range of cultural backgrounds. They are crucial to the success of our company. In 2018, 7 316 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 jeopardising the company's value and the long-term job security of our employees. For this reason, the

Key figures at a glance

Annual average/Number unless otherwise indicated	Change 2018 to 2017 Number/1 000 EUR	2018	2017	2016	2015	2014
Employees	557	**7 316**	**6 759**	**6 252**	**6 204**	**6 207**
BY DIVISION						
Enclosures	140	2 129	1 989	1 906	1 848	1 779
Mechanical Components	150	2 388	2 238	2 017	1 917	1 908
ELCOM/EMS	264	2 754	2 490	2 290	2 401	2 488
Others	3	45	42	39	38	32
BY REGION						
Switzerland	10	139	129	128	137	139
Germany	–16	1 645	1 661	1 663	1 630	1 587
Rest of Europe	–19	1 576	1 595	1 540	1 459	1 459
North and South America	17	267	250	211	214	201
Middle and Far East	258	2 092	1 834	1 550	1 454	1 441
Africa	304	1 579	1 275	1 145	1 296	1 367
Australia	3	18	15	15	14	13
BY GENDER						
Men		4 131	3 709			
Women		3 185	3 050			
Personnel expenses in 1 000 EUR	–1.9	26.8	28.7	29.0	28.5	26.0
Gross sales per employee in 1 000 EUR	–3.9	89.0	92.9	93.3	90.2	81.5

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.

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 56.

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 62 and 63. Detailed information about the scope of consolidation can be found on pages 92–95 of the consolidated financial statements. None of the shareholdings is listed.

Cross-ownership

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

Shareholders' agreements

There are no shareholders' agreements.

Capital structure

Capital / shares and participation certificates

The bearer shares of Phoenix Mecano AG, Stein am Rhein, are listed on SIX Swiss Exchange, Zurich. As at 31 December 2018, 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 2018 year-end price of CHF 503, the market capitalisation as at 31 December 2018 was CHF 483.1 million. There are no nominal shares and no participation or dividend-right certificates.

Major shareholders, each holding a share of the voting rights equivalent to over 3% of the share capital as at 31 December 2018

Name in %	Head office	2018	2017
Planalto AG	Luxembourg, Luxembourg	34.6[1]	34.6[1]
Tweedy, Browne Company LLC, Stamford, USA[2]	Stamford, USA	8.5[1]	8.5
Tweedy, Browne Global Value Fund[3] (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	*Stamford, USA*	*7.2[1]*	*7.2*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9[1]	4.9[1]
Credit Suisse Funds AG	Zurich, Switzerland	3.06	<3.0

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

Contingent and authorised capital
At present the Group has no contingent or authorised capital.

Changes in capital
No changes in capital took place in 2018, 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.

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 2018, the Board of Directors had five members. They met four times in 2018, 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

Changes in capital

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

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)

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 2018, 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 2018. The existing members Beat Siegrist, Ulrich Hocker and Dr Martin Furrer were proposed to the 2018 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.

Set up in 2002, the dedicated, full-time Internal Auditing Department is accountable to the Board of Directors and reports directly to it. Key audit issues in 2018 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 2000

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

Dr Florian Ernst
Non-executive role
Member since 2003

Dr Martin Furrer
Non-executive role
Member since 2003

Beat Siegrist
Non-executive role
Member since 2003

Audit Committee

Dr Florian Ernst (Chairman)
Member since 2003

Ulrich Hocker
Member since 2003

Compensation Committee

Beat Siegrist (Chairman)
Member since 2013

Ulrich Hocker
Member since 2013

Dr Martin Furrer
Member since 2013

All members of the Board of Directors are elected for one year until the 2019 Shareholders' General Meeting.

BOARD OF DIRECTORS
as at 31 December 2018

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. 1985–1986 Development engineer for data transfer with Contraves. 1987–1993 Consultant and Project Manager at McKinsey & Co. responsible for reorganisation and turnaround projects in the machine industry. 1993–1996 Founder and CEO of Outsourcing AG. 1996–2008 CEO of Schweiter Technologies, Horgen. 2008–2012 CEO of the Satisloh Group and member of the Management Committee of Essilor. 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. 2013–2018 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 47 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, pages 56ff.; Financial statements, pages 64ff.

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 2018

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	Number 31.12.2018	Number 31.12.2017
Benedikt A. Goldkamp	Chairman of the Board of Directors	2 844	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		**12 252**	**11 273**
Dr Rochus Kobler	Member of the management/CEO	400	200
René Schäffeler	Member of the management/CFO	300	200
Shares held by the management		**700**	**400**

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 18 May 2018, 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 651 000 for auditing the financial statements and consolidated financial statements.

Additional fees

KPMG received additional fees of EUR 351 000 in the reporting year: EUR 349 000 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 162. 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

Information about transactions by members of the Board of Directors and management can be found at the following link:

- www.six-exchange-regulation.com/en/home/publications/management-transactions.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	2018	2017
Total auditing fees	651	678
Tax consultancy	349	375
Legal advice	0	0
Miscellaneous	2	2
Total additional fees	351	377
Total	**1 002**	**1 055**

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 2018 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.

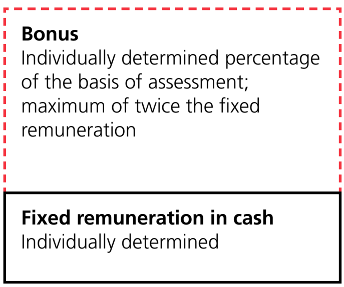
The Compensation Committee meets as often as required, but at least once a year. One meeting of the Compensation Committee took place in 2018. The tasks, powers, responsibilities and working methods of the Compensation Committee are described on page 47 of the corporate governance report. The Compensation 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

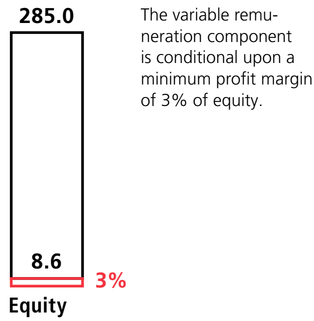
The composition and level of remuneration awarded to the Board of Directors and management are based on sector and labour market comparisons. The Compensation Committee also consults comparative figures and surveys of listed companies operating in the same sector, with similar sales, headcounts and geographical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

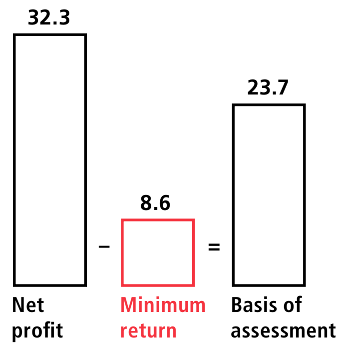
Management remuneration structure



Minimum return 2018
in EUR million



Calculation of basis of assessment for 2018 variable remuneration
in EUR million



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 non-executive 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), in which the insurance risks are reinsured and the investment risks are borne by the insured (semi-autonomous pension solution). The 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. Upon retirement, the legal framework provides for the payment of an annuity, with the option of a lump-sum payment. The annuity is calculated by multiplying the retirement savings by the current conversion rate. In addition to retirement benefits, pension benefits also include disability pensions and, in the event of death, partner's and orphan's pensions and, where applicable, a lump-sum death benefit. 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 2018 and 2017 pursuant to ERCO

The following remuneration was awarded for financial year 2018:

Name in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration 2018
Benedikt A. Goldkamp	Chairman of the Board of Directors	704	328	163	1 195
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		1 152	328	194	1 674
Remuneration of the management		996	362	225	1 583
Remuneration of the Board of Directors and management		**2 148**	**690**	**419**	**3 257**
Highest individual management salary: Dr Rochus Kobler	CEO	592	258	138	988

The following remuneration was awarded for financial year 2017:

Name 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

All compensation is short term in nature.

The Phoenix Mecano Group’s consolidated statement of income for 2018 and 2017 includes no compensation for former members of the Group’s bodies who left in the preceding period or before. In financial years 2018 and 2017, legal fees of CHF 21 000 and CHF 14 000 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, 2018. 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 60 (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, 2018 of Phoenix Mecano AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

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

Zurich, March 26, 2019

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

GROUP OPERATIONAL STRUCTURE

FINANCE AND SERVICE COMPANIES

SWITZERLAND

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

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

BRAZIL

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

GERMANY

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

HUNGARY

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

THE NETHERLANDS

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

UNITED KINGDOM

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

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

ENCLOSURES

Dr H. W. Rixen

GERMANY

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

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

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

RK System & Lineartechnik GmbH
D-88682 Salem-Neufrach
Managing director:
H. Hoffmann

PEOPLE'S REPUBLIC OF CHINA

I2 Mechanical and Electrical Co., Ltd.
314024 Jiaxing
Managing directors:
Dr J. Gross, S. Li

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

USA

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

ELCOM/EMS

Dr R. Kobler

CZECH REPUBLIC

Ismet transformátory s.r.o.
CZ-67139 Běhařovice
Managing directors:
I. Kljucar, O. Huppertz

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

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

REDUR GmbH & Co KG (former Phoenix Mecano Power Quality GmbH + Co. KG)
D-52382 Niederzier
Managing director:
Dr L. Schunk

Tefelen Preissinger GmbH
D-96149 Breitenguessbach
Managing director:
R. Walger

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

MOROCCO

Phoenix Mecano Maroc S.à.r.l.
MA-93000 Tétouan
Managing director:
B. Odink

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

PRODUCTION AND SALES COMPANIES

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

Shenzhen ELCOM Co., Ltd.
Shenzhen
Managing directors:
E. Lam, P. Scherer

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

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

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

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

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

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

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

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

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

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

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

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:
L. Morlet

GERMANY
Tefelen Preissinger GmbH
96149 Breitenguessbach
Managing director:
R. Walger

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

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

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

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

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

PEOPLE'S REPUBLIC OF CHINA
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

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

SAUDI ARABIA
Phoenix Mecano Saudi Arabia LLC
SA-3451, Dammam
Managing director:
S. Shukla

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

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

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

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

URUGUAY
Phoenix Mecano America Latina S. A.
Montevideo, 11.300
Managing director:
D. Weber

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

Phoenix Mecano Group

CONSOLIDATED FINANCIAL STATEMENTS 2018

CONTENTS

Consolidated balance sheet as at 31 December 2018

in 1 000 EUR	Note No.	2018	2017
Assets			
NON-CURRENT ASSETS			
Goodwill	3	13 432	13 512
Other intangible assets	4	24 222	31 396
Investment properties	5	235	273
Tangible assets	5	129 890	127 341
Investments in associated companies	6	1 928	3 452
Other financial assets	7	1 026	1 111
Deferred tax assets	20	5 322	5 207
Total non-current assets		176 055	182 292
CURRENT ASSETS			
Inventories	8	148 513	131 832
Trade receivables	9	90 880	88 869
Derivative financial instruments	17	21	217
Income tax receivables		1 718	1 613
Other receivables	10	9 310	9 744
Current securities	11	636	1 667
Cash and cash equivalents	12	53 244	53 509
Deferred charges and prepaid expenses		1 760	2 105
Total current assets		306 082	289 556
Total assets		**482 137**	**471 848**

in 1 000 EUR	Note No.	2018	2017
Equity and liabilities			
EQUITY			
Share capital	13	594	594
Treasury shares	14	–406	–406
Retained earnings		283 704	266 815
Profits / losses financial assets		5	20
Translation differences		–320	1 468
Equity attributable to shareholders of the parent company		283 577	268 491
Minority interest	15	1 430	1 211
Total equity		285 007	269 702
LIABILITIES			
Long-term financial liabilities	16	72 410	67 919
Long-term provisions	18	4 688	5 037
Long-term pension obligations	19	15 160	13 536
Deferred tax liabilities	20	3 092	4 318
Long-term liabilities		95 350	90 810
Trade payables		45 737	45 560
Short-term financial liabilities	16	15 413	25 332
Derivative financial instruments	17	460	376
Short-term provisions	18	12 294	11 429
Short-term pension obligations	19	255	236
Income tax liabilities		4 178	4 797
Other liabilities	21	21 540	21 158
Deferred income		1 903	2 448
Short-term liabilities		101 780	111 336
Total liabilities		197 130	202 146
Total equity and liabilities		**482 137**	**471 848**

Consolidated statement of income 2018

in 1 000 EUR	Note No.	2018	2017
Sales revenue	29	645 015	621 663
Changes in inventories		2 991	1 479
Own work capitalised		2 490	2 609
Other operating income	30	6 313	3 959
Cost of materials	31	–308 589	–296 208
Personnel expenses	32	–195 852	–193 869
Amortisation of intangible assets		–9 192	–8 578
Depreciation on tangible assets		–18 661	–19 382
Impairment and reversal of impairment losses on intangible and tangible assets		–880	–1 065
Other operating expenses	33	–77 823	–79 897
Operating result		45 812	30 711
Result from associated companies	6	–714	–578
Financial income	34	4 934	6 960
Financial expenses	35	–7 330	–6 856
Financial result		–3 110	–474
Result before tax		42 702	30 237
Income tax	36	–10 434	–8 308
Result of the period		**32 268**	**21 929**
of which			
Shareholders in the parent company		32 423	21 826
Minority shareholders		–155	103
EARNINGS PER SHARE			
Earnings per share – undiluted (in EUR)	37	33.79	22.75
Earnings per share – diluted (in EUR)	37	33.79	22.75

Consolidated statement of comprehensive income 2018

in 1 000 EUR	Note No.	2018	2017
Result of the period		**32 268**	**21 929**
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Fluctuations in fair value of financial assets		–15	–10
Translation differences attributable to the parent company		–1 788	–8 620
Translation differences attributable to minority interest		–200	–33
Total		–2 003	–8 663
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of pension obligations	19	–1 090	1 288
Deferred tax	20	–105	–646
Total		–1 195	642
Other comprehensive income (after tax)		–3 198	–8 021
Comprehensive income		**29 070**	**13 908**
of which			
Shareholders in the parent company		29 425	13 838
Minority shareholders		–355	70

Consolidated statement of cash flow 2018

in 1 000 EUR	Note No.	2018	2017
Result of the period		32 268	21 929
Income tax	36	10 434	8 308
Result before tax		42 702	30 237
Amortisation of intangible assets	4	9 192	8 578
Depreciation on tangible assets	5	18 661	19 382
Losses/(gains) from the disposal of intangible and tangible assets	30, 33	–2	55
Impairment (Reversal of impairment losses) of intangible and tangible assets	3, 4, 5	880	1 065
Losses and value adjustments on inventories	8	2 931	4 458
Result from associated companies	6	714	578
Gain on the disposal of Group companies	41	–2 818	0
Other non-cash expenses/(income)		2 092	–2 387
Increase/(decrease) in long-term provisions and pension obligations		–159	316
Net interest expense/(income)	34, 35	1 154	1 022
Interest paid		–1 516	–1 097
Income tax paid		–12 370	–11 875
Operating cash flow before changes in working capital		**61 461**	**50 332**
(Increase)/decrease in inventories		–21 083	–13 145
(Increase)/decrease in trade receivables		–4 333	–9 405
(Increase)/decrease in other receivables, deferred charges and prepaid expenses		–325	–1 355
(Decrease)/increase in trade payables		884	9 337
(Decrease)/increase in short-term provisions and pension obligations		1 156	260
(Decrease)/increase in other liabilities and deferred income		168	1 038
Cash flow from operating activities		**37 928**	**37 062**

Table continued on page 71.

in 1 000 EUR	Note No.	2018	2017
CAPITAL EXPENDITURE			
Intangible assets	4	–3 215	–4 428
Tangible assets	5	–22 381	–21 569
Financial assets/Investments in associated companies		–790	–3 695
Current securities		–10	0
Acquisition of Group companies	40	0	–363
DISINVESTMENTS			
Intangible assets		0	48
Tangible assets	5, 30, 33	593	312
Financial assets/Investments in associated companies		1 398	6
Current securities		1 009	2 206
Disposal of Group companies	41	4 649	0
Interest received		605	611
Dividends received	6	150	243
Cash used in investing activities		**–17 992**	**–26 629**
Dividends paid (including minority interest)		–13 432	–13 678
Change in minority interests		0	130
Purchase of treasury shares		0	–90
Sale of treasury shares		0	293
Issue of financial liabilities		7 400	55 664
Repayment of financial liabilities		–13 941	–41 190
Cash flow from financing activities		**–19 973**	**1 129**
Translation differences in cash and cash equivalents		–228	–1 296
Change in cash and cash equivalents		**–265**	**10 266**
Cash and cash equivalents as at 1 January	12	53 509	43 243
Cash and cash equivalents as at 31 December	12	53 244	53 509
Change in cash and cash equivalents		**–265**	**10 266**

Consolidated statement of changes in equity 2017 and 2018

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**
Adjustment*			
Equity as at 1 January 2018		**594**	**–406**
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		
Dividends paid			
Total equity transactions with owners		0	0
Equity as at 31 December 2018		**594**	**–406**

* Adjustment due to IFRS 9, see explanation under “Principles of consolidation and valuation” in the consolidated financial statements.

Retained earnings	Profits/(losses) financial assets	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**
–333			–333		–333
266 482	**20**	**1 468**	**268 158**	**1 211**	**269 369**
	–15		–15		–15
		–1 788	–1 788	–200	–1 988
–1 090			–1 090		–1 090
–105			–105		–105
–1 195	–15	–1 788	–2 998	–200	–3 198
32 423			32 423	–155	32 268
31 228	–15	–1 788	29 425	–355	29 070
–756			–756	756	0
			0		0
–13 250			–13 250	–182	–13 432
–14 006	0	0	–14 006	574	–13 432
283 704	**5**	**–320**	**283 577**	**1 430**	**285 007**

Consolidated segment information 2018

By division	Enclosures		Mechanical Components	
in 1 000 EUR	**2018**	2017	**2018**	2017
Gross sales to third parties	186 611	183 753	327 855	310 401
Gross sales between divisions	711	457	133	162
Revenue reductions				
Sales revenue				
Reversal of impairment losses/(Impairment) of intangible and tangible assets	–47		–833	–272
Amortisation of intangible assets and depreciation on tangible assets	–6 958	–6 822	–9 770	–8 852
Operating result	22 186	24 328	23 889	26 129
Financial result				
Result before tax				
Income tax				
Result of the period				
Purchases of intangible and tangible assets	9 393	7 105	7 300	11 035
Segment assets	100 532	94 615	187 465	184 256
Cash and cash equivalents				
Other assets				
Total assets	100 532	94 615	187 465	184 256
Segment liabilities	25 662	23 451	47 937	50 113
Interest-bearing liabilities				
Other liabilities				
Total liabilities	25 662	23 451	47 937	50 113
Net assets	**74 870**	**71 164**	**139 528**	**134 143**
GROSS SALES TO THIRD PARTIES BY REGION				
Europe	143 763	139 556	142 951	145 343
North and South America	15 140	14 332	41 388	42 680
Middle and Far East	27 708	29 865	143 516	122 378
Gross sales to third parties	**186 611**	**183 753**	**327 855**	**310 401**

* 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	
2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
136 318	133 446	650 784	627 600	0	0	650 784	627 600
3 788	3 779	4 632	4 398	– 4 632	– 4 398	0	0
						– 5 769	– 5 937
						645 015	621 663
0	– 793	– 880	– 1 065	0	0	– 880	– 1 065
– 10 226	– 11 367	– 26 954	– 27 041	– 899	– 919	– 27 853	– 27 960
2 986	– 16 407	49 061	34 050	– 3 249	– 3 339	45 812	30 711
						– 3 110	– 474
						42 702	30 237
						– 10 434	– 8 308
						32 268	21 929
8 096	7 157	24 789	25 297	807	700	25 596	25 997
126 153	121 278	414 150	400 149	2 707	3 050	416 857	403 199
				53 244	53 509	53 244	53 509
				12 036	15 140	12 036	15 140
126 153	121 278	414 150	400 149	67 987	71 699	482 137	471 848
19 650	19 642	93 249	93 206	7 950	5 867	101 199	99 073
				87 823	93 251	87 823	93 251
				8 108	9 822	8 108	9 822
19 650	19 642	93 249	93 206	103 881	108 940	197 130	202 146
106 503	**101 636**	**320 901**	**306 943**	**– 35 894**	**– 37 241**	**285 007**	**269 702**
103 333	103 980	390 047	388 879			390 047	388 879
14 483	10 554	71 011	67 566			71 011	67 566
18 502	18 912	189 726	171 155			189 726	171 155
136 318	**133 446**	**650 784**	**627 600**	**0**	**0**	**650 784**	**627 600**

Consolidated segment information 2018

Sales revenue in 1 000 EUR	2018	2017
BY REGION		
Switzerland	21 362	21 955
Germany	215 944	209 899
UK	15 843	15 255
France	16 178	19 619
Italy	14 844	13 419
The Netherlands	16 278	18 086
Rest of Europe	89 598	90 646
North and South America	71 011	67 566
Middle and Far East	189 726	171 155
Gross sales	650 784	627 600
Revenue reductions	–5 769	–5 937
Sales revenue	**645 015**	**621 663**
BY PRODUCT GROUP		
Industrial enclosures	174 056	172 106
Input systems	12 555	11 647
Enclosures	186 611	183 753
Industrial assembly systems	50 577	51 433
Linear adjustment and positioning systems	277 278	258 968
Mechanical Components	327 855	310 401
Electro-mechanical Components	63 973	65 411*
Power Quality	25 399	26 237*
Electronic Manufacturing and Packaging	46 946	41 798
ELCOM/EMS	136 318	133 446
Gross sales	650 784	627 600
Revenue reductions	–5 769	–5 937
Sales revenue	**645 015**	**621 663**

* In 2017, a reclassification of EUR 14.9 million was made from the Power Quality product group to Electro-mechanical Components.

Long-term assets (tangible assets, intangible assets and investments in associated companies) in 1 000 EUR	**2018**	**2017**
BY REGION		
Switzerland	6 978	7 171
Germany	56 179	58 248
UK	908	2 208
France	389	363
Italy	286	249
The Netherlands	2 440	5 743
Rest of Europe	37 690	40 926
North and South America	10 742	9 505
Middle and Far East	54 095	51 561
Total	**169 707**	**175 974**

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 2018, 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, securities, investments < 20%, receivables and liabilities from derivative financial instruments 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 new IFRS/IAS standards and interpretations were applied for the first time from 1 January 2018:

- IFRS 15: Revenue from Contracts with Customers
- IFRS 9: Financial Instruments
- IFRIC 22: Foreign Currency Transactions
- Annual Improvements to IFRS 2014–2016
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property

With the exception of IFRS 15 and IFRS 9, 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.

Impact of amendments to IFRS 15 and IFRS 9
IFRS 15 states that revenue from contracts with customers 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. Phoenix Mecano's analysis has shown that revenue recognition for all significant Group sales transactions under IFRS 15, as under IAS 18, continues to occur at one point in time and that this timing has not changed. Analysis of the other aspects of IFRS 15 also found no need for adjustment. Consequently, there is no impact in the consolidated financial statements as at 31 December 2018, except for additional disclosures in the notes.

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. Impairment is now recognised on the basis of expected losses rather than incurred losses. Phoenix Mecano has analysed its financial assets and liabilities. There was an increase of EUR 0.4 million in the value adjustments on trade receivables as a result of the new calculation model. The related deferred tax liabilities decreased by EUR 0.1 million. The table below shows the impact on equity as at 1 January 2018, which decreased by EUR 0.3 million due to the first-time application of IFRS 9. The previous year's figures have not been adjusted.

in 1 000 EUR	01.01.2018
ADJUSTMENT OF THE CONSOLIDATED BALANCE SHEET	
Trade receivables (before IFRS 9)	88 869
Adjustment for IFRS 9	– 444
Trade receivables (adjusted)	**88 425**
Deferred tax liabilities (before IFRS 9)	4 318
Adjustment for IFRS 9	– 101
Deferred tax liabilities (adjusted)	**4 217**
Equity (before IFRS 9)	269 702
Adjustment for IFRS 9	– 333
Equity (adjusted)	**269 369**

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 assets and liabilities 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).

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 16, 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 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.	1 Jan. 2019	Financial year 2019	1
IFRIC 23	Uncertainty over Income Tax Treatments	1 Jan. 2019	Financial year 2019	2
REVISIONS AND AMENDMENTS OF STANDARDS AND INTERPRETATIONS				
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 Jan. 2019	Financial year 2019	2
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 Jan. 2019	Financial year 2019	2
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	1 Jan. 2019	Financial year 2019	2
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 Jan. 2019	Financial year 2019	2
Amendments to References to the Conceptual Framework in IFRS Standards		1 Jan. 2020	Financial year 2020	3
Amendments to IFRS 3	Definition of a Business	1 Jan. 2020	Financial year 2020	3
Amendments to IAS 1 und IAS 8	Definition of Material	1 Jan. 2020	Financial year 2020	3

1 Phoenix Mecano's analysis has identified an impact on the balance sheet and statement of income, requiring additional disclosures in the notes. Based on the lease situation at the end of 2018 and the end-of-year figures for 2018, total assets/capital will increase by around 2% and operating cash flow by around 3%.

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

3 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 or impairment.

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 a 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, customised industrial computer systems, power supplies as well as circuit board equipment and the development of customised electronic applications right down to complete subsystems)

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

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

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

Goodwill

Goodwill (see above under Capital consolidation) is tested for impairment annually and, if there are any indications of a reduction in value, it is also tested during the period. Any resulting impairment losses are recognised in income. No reversal of impairment losses is performed.

Other intangible assets

Capitalised development costs

Development costs for new products, which satisfy the criteria for capitalisation specified by IAS 38 (in particular there must be the prospect of a net income), are capitalised at acquisition or manufacturing cost and written off over the respective useful life, which must not exceed five years. Otherwise, research and development costs are debited directly to the statement of income.

Concessions, licences, similar rights and assets

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

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

Investment properties

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

Tangible assets

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

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

The useful lives of assets are estimated as follows:

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

Leased assets

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

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

Impairment losses

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

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

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

Investments in associated companies

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

Other financial assets

Long-term loans to associated companies and third parties contained in Other financial assets are posted at their fair value upon initial recognition and at amortised cost in subsequent periods, taking account of any reductions in value (impairment) through corresponding devaluations which affect net income.

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 initially recognised at transaction price. Phoenix Mecano holds receivables with the aim of collecting the contractual cash flows and subsequently measures the receivables 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 based on expected bad debt losses for the group of receivables in question. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, in bank and in postal accounts. They also include fixed deposits with a term not exceeding three months from the date of acquisition. Cash and cash equivalents are covered by the provisions of IFRS 9 on value adjustments for expected losses.

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. 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. They also include anticipated warranty claims arising from service provision.

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 IFRS 9, 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 IFRS 9 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 IFRS 9. 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 measured at the amount to which Phoenix Mecano expects to be entitled. They include the sale of goods and, to a limited extent, services in the course of the Group's ordinary activities. Gross and net sales are recognised net of value added tax and credit notes, as well as of discounts and rebates in the case of net sales. Sales of products and services are recognised following the transfer of control to the customer (usually upon the transfer of significant risks and rewards). This is determined by the specific contract terms (Incoterms). Phoenix Mecano normally fulfils its performance obligation upon delivery.

Value adjustments on recognised receivables are not recognised as adjustments to sales but as other operating expenses.

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 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 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 2018

1 Currency exchange rates

	Balance sheet		Statements of income and cash flow	
Euro for	**2018**	2017	**2018**	2017
1 CHF	0.887	0.853	0.866	0.901
1 GBP	1.118	1.124	1.130	1.142
1 USD	0.873	0.829	0.847	0.887
100 HUF	0.312	0.324	0.314	0.323
1 RON	0.214	0.215	0.215	0.219
1 TND	0.294	0.340	0.324	0.371
1 CNY	0.127	0.128	0.128	0.131
1 INR	0.013	0.013	0.012	0.014

2 Scope of consolidation

In 2018 and 2017 the scope of consolidation changed as follows:

Date	Company	Change	Division
2018			
19.09.18	Phoenix Mecano Saudi Arabia LLC	Foundation	Enclosures
31.05.18	Wijdeven Inductive Solutions B.V.	Sale	ELCOM/EMS
31.05.18	Wijdeven Power Holding B.V.	Sale	ELCOM/EMS
01.01.18	Aton Lichttechnik GmbH	Merger with Phoenix Mecano Digital Elektronik GmbH	ELCOM/EMS
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

The following companies were fully consolidated as at 31 December 2018:

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	Wessling, Germany
Hartmann Codier GmbH	Baiersdorf, Germany
PTR Hartmann GmbH	Werne, Germany
Redur GmbH + Co. KG (former Phoenix Mecano Power Quality GmbH + Co. KG)	Niederzier, 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
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	Niederzier, Germany
Kundisch Beteiligungs-GmbH	Villingen-Schwenningen, Germany
Phoenix Mecano S.à.r.l.	Fontenay-sous-Bois, Cedex, France
Phoenix Mecano Ltd.	Aylesbury, UK
Integrated Furniture Technologies Ltd.	Aylesbury, UK
Phoenix Mecano Finance Ltd.	St. Helier, Channel Islands, GB
Phoenix Mecano AB	Ingelstad, Sweden
Phoenix Mecano ApS	Odense, Denmark
Phoenix Mecano S.r.l.	Inzago, Milano, Italy
Sistemas Phoenix Mecano España S.A.	Zaragoza, Spain
PM Komponenten B.V.	Doetinchem, The Netherlands
PM Special Measuring Systems B.V.	Enschede, The Netherlands

Activity	Currency	Registered capital in 1 000	2018 Stake in %	2017 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	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	100	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

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
Phoenix Mecano Saudi Arabia LLC	Dammam, Saudi Arabia
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	2018 Stake in %	2017 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	90
Production / Sales	USD	300	51	51
Sales	BRL	10 176	100	100
Finance	BRL	1 062	100	100
Sales	UYU	200	100	100
Sales	SGD	1 000	100	100
Sales	KRW	370 000	100	100
Production / Sales	INR	299 452	100	100
Sales	SAR	1 000	100	–
Production / Sales	USD	3 925	100	100
Production / Sales	CNY	30 000	100	100
Production / Sales	CNY	100 000	100	100
Production / Sales	USD	5 000	100	55
Production / Sales	USD	10 000	100	100
Finance / Sales	EUR	10 000	100	100
Finance	HKD	500	100	100
Production / Sales	HKD	58 000	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	MAD	34 000	100	100

3 Goodwill

in 1 000 EUR	Note No.	2018	2017
Acquisition costs 1 January		20 697	21 311
Additions of companies included in consolidation	40	0	440
Translation differences		– 80	– 1 054
Acquisition costs 31 December		20 617	20 697
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		**13 512**	**14 126**
Net values 31 December		**13 432**	**13 512**

The book values for goodwill of EUR 13.4 million (previous year EUR 13.5 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 12.7 million (previous year EUR 12.8 million); and Orion Technologies LLC in the US (ELCOM/EMS division), EUR 0.4 million (previous year EUR 0.4 million).

The change in goodwill in 2018 is due to currency effects relating to the goodwill of Okin Refined Electric Technology Co. Ltd. All goodwill was tested for impairment based on five-year plans for the relevant cash-generating units (CGUs). To determine the present value (value in use), a pre-tax discount rate (WACC) of 10.0% (previous year 9.0%) was used to measure the goodwill of the Bopla product area and Orion Technologies LLC, and of 10.7% (previous year 9.7%) to measure the goodwill from the acquisition of Okin Refined in China. Growth of 1.5% for Bopla and Orion and 2% for Okin Refined was assumed after the projection period. Impairment was also tested using sensitivity analyses.

Impairment tests on Bopla, Okin Refined and Orion

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

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 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 1 January 2017		**2 461**	**27 952**	**791**	**31 204**
Net values 31 December 2017		**2 013**	**27 738**	**1 645**	**31 396**
Acquisition costs 31 December 2017		12 588	79 126	1 645	93 359
Disposals of companies included in consolidation	41		–1 715		–1 715
Translation differences		28	259		287
Additions		534	1 593	1 088	3 215
Disposals		–1 394	–6 440	–27	–7 861
Reclassification		776		–776	0
Acquisition costs 31 December 2018		**12 532**	**72 823**	**1 930**	**87 285**
Accumulated amortisation 31 December 2017		10 575	51 388	0	61 963
Disposals of companies included in consolidation	41		–877		–877
Translation differences		6	–4		2
Amortisation		1 280	7 912		9 192
Impairment losses		106	511		617
Reversal of impairment losses					0
Disposals		–1 394	–6 440		–7 834
Reclassification					0
Accumulated amortisation 31 December 2018		10 573	52 490	0	63 063
Net values 31 December 2018		**1 959**	**20 333**	**1 930**	**24 222**

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 0.1 million (previous year EUR 0.2 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 0.5 million were performed on industrial property rights (recoverable amount EUR 0.8 million) and of EUR 0.1 million on capitalised development projects in the Mechanical Components division, because these business activities had not developed as originally planned. A pre-tax discount rate (WACC) of 10.0% (previous year 9.0%) was applied to determine the present value (value in use).

In the previous year, 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.

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 0.6 million (previous year EUR 1.0 million) 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 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 1 January 2017		**1 107**	**67 071**	**51 384**	**9 139**	**128 701**
Net values 31 December 2017		**273**	**72 077**	**51 054**	**4 210**	**127 614**
Acquisition costs 31 December 2017		431	135 841	229 261	4 210	369 743
Disposals of companies included in consolidation	41		–109	–299		–408
Translation differences		–48	441	2	–22	373
Additions			2 133	13 868	6 380	22 381
Disposals			–1 295	–9 985	–205	–11 485
Reclassification			339	3 076	–3 415	0
Acquisition costs 31 December 2018		383	137 350	235 923	6 948	380 604
Accumulated depreciation 31 December 2017		158	63 764	178 207	0	242 129
Disposals of companies included in consolidation	41		–42	–175		–217
Translation differences		–18	431	151		564
Depreciation		8	4 013	14 640		18 661
Impairment losses				263		263
Disposals			–1 236	–9 685		–10 921
Reclassification			39	–39		0
Accumulated depreciation 31 December 2018		148	66 969	183 362	0	250 479
Net values 31 December 2018		**235**	**70 381**	**52 561**	**6 948**	**130 125**

Land and buildings is divided into developed and undeveloped land and land use rights in China with a book value of EUR 13.4 million (previous year EUR 13.1 million) and factory and administration buildings with a balance sheet value of EUR 57.0 million (previous year EUR 59.0 million).

The fire insurance value of the tangible assets amounted to EUR 356.9 million on the balance sheet date, compared with EUR 346.0 million the previous year.

Land and buildings with a book value of EUR 8.8 million (previous year EUR 9.5 million) were mortgaged to cover debts. The amount of the corresponding credit taken up totalled EUR 5.7 million (previous year EUR 6.1 million).

Tangible assets with a balance sheet value of EUR 0.002 million (previous year EUR 0.02 million) were subject to reservation of title on the balance sheet date.

Write-downs of machinery and tools (previous year land and buildings) were performed in the reporting year within the framework of the impairment tests on CGUs and assets at the balance sheet date. For these machinery and tools, the present value (value in use) was used as a basis for the valuation. In the previous year, the fair value was used as a basis for the valuation of land and buildings.

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 0.3 million (previous year EUR 0.1 million) are included under Impairment of intangible and tangible assets.

The fair value of the investment property in Brazil is EUR 0.9 million (previous year EUR 1.0 million). The reduction is the result of translation differences. 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 0.03 million and their direct operating expenses are EUR 0.01 million.

6 Investments in associated companies

in 1 000 EUR	Investment in %	2018	2017
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		**3 452**	**5 382**
Capital increases		250	0
Disposals		0	–475
Result		–714	–578
Impairment loss		–760	0
Dividends paid		–150	–243
Translation differences		–150	–634
As at 31 December		**1 928**	**3 452**

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

Electroshield-C (RU) manufactures and sells instrument transformers. In addition to its 20% stake, the Phoenix Mecano Group also had a call option to acquire the remaining shares with an option period until the end of March 2018, which it did not exercise. The vendors how have the right, until the end of March 2019, to buy back the Phoenix Mecano Group's 20% stake for a fixed amount, or the Phoenix Mecano Group has the right to transfer the stake back to the vendors. Given the uncertainties surrounding this potential transaction, a write-down of EUR 0.8 million was performed on this investment (see note 35).

Tefelen Preissinger GmbH (D) develops, manufactures and sells busbars. At the balance sheet date, there was a loan from a Group company to Tefelen Preissinger GmbH for a gross amount of EUR 1.0 million in the reporting year (previous year EUR 0.5 million).

Total purchases of goods from Group companies amounted to EUR 3.9 million (previous year EUR 3.3 million) for all investments in associated companies and sales of goods to Group companies totalled EUR 0.02 million (previous year EUR 0.3 million).

The result of the period and the comprehensive income for all investments in associated companies in 2018 totalled EUR –0.7 million (previous year EUR –1.3 million). Orion Technologies LLC (USA) and Jiaxing Yinuo Electronic Technology Co. Ltd. (CN) are also included in these earnings figures for the previous year, in accordance with the holding period (see note 2).

7 Other financial assets

in 1 000 EUR	Note No.	2018	2017
Other loans		1 014	1 099
Investments (under 20%)		12	12
Balance sheet value		**1 026**	**1 111**
INTEREST RATES (LOANS)			
EUR		2.9%	3.9%
CNY		4.0%	4.0%
UPDATE OF VALUE ADJUSTMENT ON OTHER FINANCIAL ASSETS			
As at 1 January		432	432
Release of value adjustment (inflow of funds)	34	–129	0
Release of value adjustment (disposal)		–303	0
Allocation of value adjustment	35	260	0
As at 31 December		**260**	**432**

The EUR 0.3 million allocation of value adjustment concerns the loan to Tefelen Preissinger GmbH (D) (see note 6).

The loans are fixed rate.

8 Inventories

in 1 000 EUR	2018	2017
Raw and ancillary materials	98 081	85 313
Work in progress	6 860	5 943
Finished goods and merchandise for resale	62 575	58 556
Value adjustments	– 19 003	– 17 980
Balance sheet value	**148 513**	**131 832**

The value adjustments were determined based on marketability and range of the stocks. Changes in value adjustments and losses on inventories totalling EUR 2.9 million (previous year EUR 4.5 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 2018 and 2017.

9 Trade receivables

in 1 000 EUR	2018	2017
Trade receivables	94 921	92 024
Receivables due from associated companies	175	183
Value adjustments	– 4 216	– 3 338
Balance sheet value	**90 880**	**88 869**
REGIONAL BREAKDOWN OF TRADE RECEIVABLES		
Switzerland	2 014	1 799
Germany	13 162	13 395
UK	1 915	2 216
France	2 928	3 671
Italy	3 670	3 276
The Netherlands	2 148	2 379
Rest of Europe	11 807	12 124
North and South America	9 768	8 861
Middle and Far East	43 468	41 148
Balance sheet value	**90 880**	**88 869**

in 1 000 EUR	**2018**	**2017**
UPDATE OF VALUE ADJUSTMENT ON TRADE RECEIVABLES		
Individual value adjustments		
As at 1 January	1 016	984
Change	–182	32
As at 31 December	834	1 016
Flat-rate value adjustments		
As at 1 January	2 322	1 897
Change	1 060	425
As at 31 December	3 382	2 322
Total	**4 216**	**3 338**

Trade receivables totalling EUR 0.6 million (previous year EUR 0.2 million) have been derecognised.

	2018		**2017**	
in 1 000 EUR	Gross	Value adjustments	Gross	Value adjustments
AGING ANALYSIS OF TRADE RECEIVABLES NOT SUBJECT TO INDIVIDUAL VALUE ADJUSTMENTS				
Gross values	95 096		92 207	
Gross value of receivables subject to individual value adjustments	–855		–1 056	
Total	**94 241**		**91 151**	
of which:				
Not due	72 466	265	68 065	
Overdue for 1–30 days	15 185	165	15 295	
Overdue for 31–60 days	1 592	77	4 277	
Overdue for 61–90 days	607	63	775	219
Overdue for 91–180 days	958	587	1 012	376
Overdue for more than 180 days	3 433	2 225	1 727	1 727
Total	**94 241**	**3 382**	**91 151**	**2 322**

In accordance with IFRS 9, from 2018 impairment is determined on the basis of expected credit losses corresponding to the present value of the defaults expected over the anticipated remaining life of the financial assets. As well as historical customer default rates, Phoenix Mecano also draws on forward-looking information and classifies groups of receivables by region. Securities and potential offsetting against liabilities totalling around EUR 1.1 million are taken into account. In the previous year, the value adjustment for trade receivables was determined according to the incurred loss model.

The individual value-adjusted receivables relate mainly to debtors who are involved in bankruptcy proceedings or have been directed to a collection agency.

The largest single receivable from a customer as at the balance sheet date of 31 December 2018 was EUR 13.2 million (previous year EUR 12.7 million). It is not due.

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

The average payment term was 58 days (previous year 54 days).

10 Other receivables

in 1 000 EUR	2018	2017
Tax receivables from VAT and other taxes	4 475	5 158
Current portion of long-term financial assets	677	1 556
Financial receivables	534	79
Advanced payments for inventories, intangible and tangible assets	1 870	1 356
Other	1 754	1 595
Balance sheet value	**9 310**	**9 744**

11 Current securities

The current securities include bonds.

12 Cash and cash equivalents

in 1 000 EUR	2018	2017
MEANS OF PAYMENT		
Cash at bank and in postal accounts	47 722	47 301
Cash on hand	149	186
Total	**47 871**	**47 487**
OTHER CASH AND CASH EQUIVALENTS		
Fixed-term deposits (up to 3 months)	5 373	6 022
Balance sheet value	**53 244**	**53 509**
BY CURRENCY		
CHF	0.0%	0.0%
EUR	0.0%	0.0%
USD	0.1%	0.2%
HUF	0.0%	0.0%
CNY	0.4%	0.3%

As the expected losses are immaterial, no value adjustment has been made.

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	2018	2017
Planalto AG	Luxembourg, Luxembourg	34.6[1]	34.6[1]
Tweedy, Browne Company LLC, Stamford, USA[2]	Stamford, USA	8.5[1]	8.5
Tweedy, Browne Global Value Fund[3] (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	*Stamford, USA*	*7.2[1]*	*7.2*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9[1]	4.9[1]
Credit Suisse Funds AG	Zurich, Switzerland	3.06	< 3.0

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

14 Treasury shares

	Number of shares		Acquisition costs	
Number/in 1 000 EUR	2018	2017	2018	2017
As at 1 January	1 000	1 420	406	562
Share purchases	0	90	0	39
Share sales	0	–510	0	–195
As at 31 December	**1 000**	**1 000**	**406**	**406**

15 Minority interest

The minority interests are: in %	2018	2017
Tefelen LLC	49	49
Phoenix Mecano Australia Pty. Ltd.	30	30
Sistemas Phoenix Mecano España S.A.	10	10
Orion Technologies LLC	10	10
Phoenix Mecano Mazaka A.S.	9	9
I2 Mechanical and Electrical Co. Ltd.	0	45
Integrated Furniture Technologies Ltd.	0	15

The remaining 15% of shares in Integrated Furniture Technologies Ltd. were acquired on 1 April 2018 at a price of EUR 1. The remaining 45% of shares in I2 Mechanical and Electrical Co. Ltd. were acquired on 10 April 2018 at a price of EUR 1. The differences between the purchase price and the existing minority interest were charged to equity attributable to shareholders of the parent company.

Tefelen LLC was founded in 2017. The Phoenix Mecano Group owns 51% of Tefelen LLC and has committed to contribute USD 3 million to the company's capital reserves by mid-2021. Contributions of EUR 1.5 million had been made by the end of 2018.

The Phoenix Mecano Group acquired the majority of the capital in Orion Technologies LLC in 2017 (see note 40). Accordingly, this company was fully consolidated for the first time in the previous year and has since been listed under minority interest.

In 2017, a purchase agreement was concluded to acquire the minority interests in Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd. An equivalent liability was set aside for the expected purchase price (see notes 16 and 22). The difference between the expected purchase price and the existing minority interest at that time was charged to equity attributable to shareholders of the parent company in the previous year.

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

	2018			2017		
in 1 000 EUR	Short-term	Long-term	Total	Short-term	Long-term	Total
Liabilities to financial institutions	15 282	21 178	36 460	22 538	17 151	39 689
Promissory note loans		46 786	46 786		46 192	46 192
Purchase price liabilities from acquisitions		1 369	1 369	2 628	1 490	4 118
Other financial liabilities	88	3 077	3 165	108	3 049	3 157
Present value of leasing commitments	43		43	58	37	95
Balance sheet value	**15 413**	**72 410**	**87 823**	**25 332**	**67 919**	**93 251**
BY MATURITY						
in < 1 year	15 413		15 413	25 332		25 332
in 1 – 2 years		10 195	10 195		4 903	4 903
in 2 – 3 years		9 414	9 414		6 047	6 047
in 3 – 4 years		48 744	48 744		4 627	4 627
in 4 – 5 years		4 013	4 013		50 603	50 603
in > 5 years		44	44		1 739	1 739
Balance sheet value	**15 413**	**72 410**	**87 823**	**25 332**	**67 919**	**93 251**

	2018			2017		
	in 1 000 EUR	in %	Interest rate in %	in 1 000 EUR	in %	Interest rate in %
BY CURRENCY						
CHF	11 310	12.9	1.1	14 289	15.3	1.2
EUR	52 378	59.6	0.9	56 057	60.1	0.9
USD	21 716	24.7	3.9	20 712	22.2	3.0
CNY	2 206	2.5	5.2	2 012	2.2	3.5
Other currencies	213	0.3	8.7	181	0.2	6.4
Balance sheet value	**87 823**	**100**	**–**	**93 251**	**100**	**–**

	2017	Cash items	Non-cash items		2018
RECONCILIATION OF FINANCIAL LIABILITIES 2018			Currency differences	Change in fair value	
Long-term liabilities to financial institutions	17 151	3 473	554		21 178
Short-term liabilities to financial institutions	22 538	–7 577	321		15 282
Promissory note loans	46 192		594		46 786
Purchase price liabilities from acquisitions	4 118	–2 372	30	–407	1 369
Other financial liabilities	3 157	–12	20		3 165
Present value of leasing commitments	95	–53	1		43
Balance sheet value	**93 251**	**–6 541**	**1 520**	**–407**	**87 823**

	2016	Cash items	Non-cash items				2017
RECONCILIATION OF FINANCIAL LIABILITIES 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**

For Okin Refined Electric Technology Co., Ltd. (CN), there was a purchase commitment as at 1 January 2017 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 3 November 2017, a purchase agreement was signed for the acquisition of the remaining 25% interests in Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd. An equivalent purchase price liability was set aside for the expected purchase price in the previous year. In 2018, the payment of the first tranche took place and the residual purchase price liability was adjusted to the fair value (see notes 15 and 22).

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

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.

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 2018	Contract values 2017	Receivables due from derivative financial instruments 2018	Receivables due from derivative financial instruments 2017	Liabilities from derivative financial instruments 2018	Liabilities from derivative financial instruments 2017
FORWARD EXCHANGE CONTRACTS BY CURRENCY						
CHF		5 971				241
USD	900					
HUF	22 680	22 200	21	129	264	18
RON	6 000	4 500		88	138	
Total	**29 580**	**32 671**	**21**	**217**	**402**	**259**
FORWARD EXCHANGE CONTRACTS BY MATURITY						
in 1 year			21	217	402	259
Total			**21**	**217**	**402**	**259**
INTEREST RATE CHANGE CONTRACTS BY CURRENCY						
USD	8 730	8 283			58	117
Total	**8 730**	**8 283**	**0**	**0**	**58**	**117**
INTEREST RATE CHANGE CONTRACTS BY MATURITY						
in 1 year					58	117
Total			**0**	**0**	**58**	**117**
NET BALANCE SHEET VALUE BY MATURITY						
Total short-term			21	217	460	376
Net balance sheet value			**21**	**217**	**460**	**376**

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 USD/EUR forward exchange contract was concluded for the purposes of short-term liquidity management.

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.

As at 31 December 2018 and 31 December 2017, the Phoenix Mecano Group did not apply hedge accounting under IFRS 9.

18 Provisions

in 1 000 EUR	Provisions for long-term employee benefits	Guarantee provisions	Other provisions	Total 2018	Total 2017
Provisions as at 1 January	4 057	2 858	9 551	16 466	17 461
Change in scope of consolidation	– 27		– 275	– 302	0
Translation differences	– 6		28	22	– 292
Usage	– 544	– 824	– 6 681	– 8 049	– 9 838
Releases	– 166	– 336	– 1 134	– 1 636	– 2 407
Allocation	803	1 367	8 311	10 481	11 542
Provisions as at 31 December	**4 117**	**3 065**	**9 800**	**16 982**	**16 466**
Due within 1 year	645	3 029	8 620	12 294	11 429
Due after 1 year	3 472	36	1 180	4 688	5 037

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.

Other provisions include provisions for short-term payments to employees (primarily salary bonuses but also indemnities) totalling EUR 6.6 million (previous year EUR 5.6 million) and provisions of EUR 1.2 million (previous year EUR 1.4 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). The Group switched to a different collective foundation from 1 January 2018, but the benefits for employees remained the same. Since this change, only the insurance risks are reinsured and the investment risks are borne by the insured (semi-autonomous pension solution). In 2017, both the insurance risks and the investment risks were reinsured.

The senior management body 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 Aargau.

Pension payments are based on retirement savings, to which annual retirement credits and interest are added (negative interest is not possible). Upon retirement, the legal framework provides for the payment of an annuity, with the option of a lump-sum payment. The annuity is calculated by multiplying the retirement savings by the current conversion rate. In addition to retirement benefits, pension benefits also include disability pensions and, in the event of death, partner's and orphan's pensions and, where applicable, a lump-sum death benefit. 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 and the employee contributions to the risks are determined by the Administrative Board consisting of employer and employee representatives. The employer makes at least 50% of the necessary total 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 2018 it was 1% (2017: 1%).

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. The latter two are reinsured by a life insurance company.

From 2018, the pension assets are invested by the collective foundation itself, in accordance with its investment policy and within the legal framework. Until 2017, the pension plan assets consisted solely of a receivable due from the insurance company. The breakdown by investment asset class can be found in the table at the end of this note.

In the event of underfunding, the collective foundation must take appropriate measures, which could include restructuring contributions from employers and employees.

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 2018 and 2017 in 1 000 EUR	**Switzerland**	**Germany**	**2018 Total**	Switzerland	Germany	**2017 Total**
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS						
As at 1 January	28 129	7 656	35 785	28 857	8 194	37 051
Service costs	1 154	36	1 190	1 249	39	1 288
Employee contributions	761		761	753		753
Interest expense	184	143	327	139	121	260
Capital	1 375		1 375	907		907
Pension payments	–2 593	–250	–2 843	–2 190	–231	–2 421
Actuarial (gains)/losses	1 289	–293	996	87	–467	–380
Plan amendments			0	953		953
Translation differences	1 141		1 141	–2 626		–2 626
As at 31 December	31 440	7 292	38 732	28 129	7 656	35 785
FAIR VALUE OF PLAN ASSETS						
As at 1 January	20 228	1 785	22 013	20 788	1 765	22 553
Interest income	133		133	100		100
Employer contributions	921		921	895		895
Employee contributions	761		761	753		753
Capital	1 375		1 375	907		907
Pension payments	–2 593		–2 593	–2 190		–2 190
Income from plan assets excluding interest income	–103	9	–94	888	20	908
Administration costs	–16		–16	–40		–40
Translation differences	817		817	–1 873		–1 873
As at 31 December	21 523	1 794	23 317	20 228	1 785	22 013
NET BALANCE SHEET VALUE OF PENSION OBLIGATIONS (SWITZERLAND AND GERMANY)						
Present value of defined benefit obligations			–38 732			–35 785
Fair value of plan assets			23 317			22 013
Balance sheet value			**–15 415**			**–13 772**

Table continued on page 114.

Financial position of defined benefit pension plans as at 31 December 2018 and 2017 in 1 000 EUR	**2018 Total**	**2017 Total**
THE NET PENSION OBLIGATION HAS DEVELOPED AS FOLLOWS (SWITZERLAND AND GERMANY)		
As at 1 January	–13 772	–14 498
Total expenses recognised in the statement of income	–1 400	–2 441
Total expenses recognised in other comprehensive income	–1 090	1 288
Pension payments	250	231
Employer contributions	921	895
Translation differences	–324	753
As at 31 December	**–15 415**	**–13 772**
Weighted average duration of pension obligations (in years)	17.8	16.9
PENSION EXPENSE (SWITZERLAND AND GERMANY)		
Service costs	1 190	1 288
Net interest expenses	194	160
Administration costs	16	40
Plan amendments	0	953
Pension expense for defined benefit plans	1 400	2 441
Pension expense for defined contribution plans	811	789
Pension expense	2 211	3 230
THE EXPENSES RECOGNISED IN OTHER COMPREHENSIVE INCOME BREAK DOWN AS FOLLOWS (SWITZERLAND AND GERMANY)		
(Gains)/losses from changed financial assumptions	–1 759	–2 068
(Gains)/losses from changed demographic assumptions	49	0
Experience (gains)/losses	2 706	1 688
Income from plan assets excluding amounts contained in interest income	94	–908
(Income)/expenses in other comprehensive income	**1 090**	**–1 288**

Actuarial assumptions in %	**2018 Total**	**2017 Total**
Discount rate Switzerland	0.77	0.65
Discount rate Germany	1.90	1.90
Interest rate payable on retirement savings in Switzerland	1.00	1.00
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 2019 is EUR 0.8 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 2018 in %	**2018** **+0.25% effect on DBO**	**2018** **−0.25% effect on DBO**
Discount rate Switzerland	−4.4	4.7
Discount rate Germany	−3.6	3.8
Interest rate payable on retirement savings in Switzerland	4.4	4.7
Future salary increases Switzerland	0.7	−0.6
Future pension increase Germany	3.1	−2.9
Increase in life expectancy Switzerland (+/−1 year)	1.6	−1.6

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

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.

The assets are divided into the following investment asset classes (Switzerland): in %	**2018**	2017
Insurance policy surrender value	9.7	100.0
Shares	27.1	
Bonds	34.3	
Real estate + mortgages	22.6	
Cash and cash equivalents	1.8	
Other investments	4.5	
Total	**100.0**	**100.0**

20 Deferred tax

in 1 000 EUR	2018	2017
DEFERRED TAX ASSETS		
Non-current assets	803	998
Inventories	2 951	2 781
Receivables	563	399
Provisions / Pension obligations	3 182	3 196
Other	596	653
Deferred tax assets	8 095	8 027
Deferred tax on losses carried forward	1 605	1 661
Total deferred tax assets	9 700	9 688
Netting with deferred tax liabilities	–4 378	–4 481
Balance sheet value	5 322	5 207
DEFERRED TAX LIABILITIES		
Non-current assets	–6 961	–8 376
Inventories	–273	–215
Receivables	–112	–102
Provisions / Pension obligations	–42	–63
Other	–82	–43
Total deferred tax liabilities	–7 470	–8 799
Netting with deferred tax assets	4 378	4 481
Balance sheet value	–3 092	–4 318
Net position deferred tax	**2 230**	**889**
TREND OF DEFERRED TAX		
As at 1 January	889	–1 320
Changes of tax rate recognised in the statement of income	–8	173
Translation differences	–50	–129
Change in scope of consolidation	188	–2 026
Reduction / (increase) in value adjustments on actuarial gains and losses from IAS 19, not affecting income	–105	–646
Reduction in deferred tax liabilities due to the introduction of IFRS 9	101	0
Change in temporary differences recognised in the statement of income	1 215	4 837
As at 31 December	**2 230**	**889**

in 1 000 EUR	2018	2017
EXPIRY OF NON-CAPITALISED TAX LOSSES CARRIED FORWARD		
Up to 1 year	1 124	455
1–2 years	1 093	1 513
2–3 years	1 655	1 462
3–4 years	2 859	2 741
4–5 years	2 177	2 165
Over 5 years	42 256	37 551
Total	**51 164**	**45 887**
VALUATION DIFFERENCES ON WHICH NO DEFERRED TAXES WERE CAPITALISED		
Non-current assets	1 114	1 912
Inventories	520	188
Receivables	0	16
Provisions	4 323	2 620
Other	100	440
Total	**6 057**	**5 176**

Due to uncertainties regarding the usability of tax losses carried forward totalling EUR 51.2 million (previous year EUR 45.9 million), no deferred tax assets were recorded on this amount. Of the tax losses carried forward which expire after five years, EUR 25.6 million (previous year EUR 22.1 million) expire within 20 years. The remaining losses can be carried forward for an indefinite period.

21 Other liabilities

in 1 000 EUR	2018	2017
Social security liabilities	1 894	1 886
Liabilities to employees	8 784	8 815
Liabilities arising from VAT and other taxes	5 552	5 015
Advance payments on orders (contract liabilities)	2 883	3 370
Other	2 427	2 072
Balance sheet value	**21 540**	**21 158**

The advance payments relate to contract liabilities for advance payments received from customers. Advance payments are reclassified to trade receivables when the rights become unconditional. This usually happens when the Phoenix Mecano Group issues an invoice to the customer for the products supplied. The amount of EUR 3.4 million shown in advance payments at the start of the reporting period was recognised as sales revenue in financial year 2018.

22 Categories of financial instruments

As at 31 December 2018 and 31 December 2017, 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 0.7 million (previous year EUR 0.2 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.	2018	2017
Other financial assets (excluding investments)	7	1 014	1 099
Trade receivables	9	90 880	88 869
Other receivables (excluding VAT and other taxes and advance payments for inventories, intangible and tangible assets)	10	2 965	3 230
Cash and cash equivalents (excluding cash on hand)	12	53 095	53 323
Assets at amortised cost in the previous year: loans and receivables		**147 954**	**146 521**
Current securities	11	636	1 667
Financial assets at fair value outside profit or loss in the previous year: available-for-sale financial assets		**636**	**1 667**
Derivative financial instruments (not used for hedging)	17	21	217
Financial assets at fair value through profit or loss		**21**	**217**
Liabilities from financial leasing	16	–43	–95
Financial liabilities (excluding purchase price liabilities)	16	–86 411	–89 038
Trade payables		–45 737	–45 560
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	21	–2 427	–2 072
Liabilities at amortised cost		**–134 618**	**–136 765**
Derivative financial instruments (not used for hedging)	17	–460	–376
Purchase price liabilities from acquisitions	16	–1 369	–4 118
Financial liabilities at fair value through profit or loss		**–1 829**	**–4 494**

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.	2018	2017	Hierarchy
FINANCIAL ASSETS MEASURED AT MARKET VALUE				
Current securities	11	636	1 667	Level 1
Derivative financial instruments	17	21	217	Level 2
Total		**657**	**1 884**	
FINANCIAL LIABILITIES MEASURED AT MARKET VALUE				
Derivative financial instruments	17	– 460	– 376	Level 2
Purchase price liabilities from acquisitions	16	– 1 369	– 4 118	Level 3
Total		**– 1 829**	**– 4 494**	

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.	2018	2017
As at 1 January		**4 118**	**4 312**
Currency differences		30	– 306
Usage		– 2 372	– 3 172
Releases (Other financial income)	34	– 407	– 590
Allocation (via equity)		0	3 771
Interest expense		0	103
Balance as at 31 December		**1 369**	**4 118**

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 0.1 million), assuming all other variables remained constant.

In 2018, the usage of EUR 2.4 million relates to payments under the existing purchase price liability from the remaining 25% interests in Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd. (see notes 15 and 16). The purchase price liability was adjusted to the fair value in 2018.

In 2017, the usage of EUR 3.2 million related to payments under the existing purchase price liability (call and put agreement on existing minority interest) from the 2010 acquisition of Okin Refined Electric Technology Co., Ltd. (CN). In the previous year, these shares were acquired early and the existing residual purchase price liability of EUR 0.6 million was released to income (see note 34). The allocation via equity of EUR 3.8 million is connected to the purchase agreement, signed on 3 November 2017, for the acquisition of the remaining 25% interests in Phoenix Mecano S.E. Asia Pte. Ltd. and Phoenix Mecano Korea Co. Ltd.

Given the below-target earnings performance in 2016 of Orion Technologies LLC (USA), the Phoenix Mecano Group was entitled, in 2017, to receive additional shares in the company from a capital increase and thus to acquire a majority of the capital. 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. This purchase price liability was measured at a fair value of zero at the end of 2018 and at the end of 2017.

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

in 1 000 EUR	Note No.	2018	2017
As at 1 January		**0**	**1 625**
Change in scope of consolidation	40	0	– 1 625
Currency differences		0	0
As at 31 December		**0**	**0**

The change in the scope of consolidation in the previous year relates to the acquisition of the majority of the capital in Orion Technologies LLC (see note 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. 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 on an ongoing basis 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. For incurred and expected losses on receivables, value adjustments are recognised on the basis of an expected credit loss model in accordance with IFRS 9 (see note 9). In the past, actual losses have not exceeded the management's expectations. 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 2018, unused credit lines with major banks totalled EUR 103.6 million (previous year EUR 96.4 million).

Maturity analysis

Maturity analysis as at 31 December 2018 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	45 737	– 45 737	– 45 717	– 13	– 7		
Other liabilities (excluding social security, employees, VAT and other taxes and advance payments on orders)	2 427	– 2 427	– 2 427				
Financial liabilities (excluding financial leasing)	87 780	– 91 463	– 10 209	– 3 581	– 2 825	– 74 804	– 44
Liabilities from financial leasing (long- and short-term)	43	– 46	– 13	– 13	– 20		
Total	**135 987**	**– 139 673**	**– 58 366**	**– 3 607**	**– 2 852**	**– 74 804**	**– 44**
DERIVATIVE FINANCIAL INSTRUMENTS							
Interest rate swap	58	– 58	– 58				
Forward exchange transaction	381						
Outflow of funds		– 29 580	– 29 580				
Inflow of funds		29 199	29 199				
Total	**136 426**	**– 140 112**	**– 58 805**	**– 3 607**	**– 2 852**	**– 74 804**	**– 44**

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**

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 45%) 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 usually recorded by Group companies in the relevant functional currency. Exceptions to this are USD and EUR financing arrangements and a purchase price liability from an acquisition in EUR at a company with CHF as its functional currency, EUR financing arrangements at a company with INR as its functional currency and a financial liability in CNY at a company 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 2018 in 1 000 EUR	EUR	CHF	USD	HUF	CNY
NON-DERIVATIVE FINANCIAL INSTRUMENTS					
Trade receivables	2 641		5 425	64	
Cash and cash equivalents	1 239	60	11 056	1 660	3
Trade payables	–449	–5	–2 326	–340	
Derivatives			8 730		
Financial liabilities	–7 319		–11 786		
Net risk	**–3 888**	**55**	**11 099**	**1 384**	**3**

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**

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 2018 in 1 000 EUR	CHF/EUR	CHF/USD	EUR/USD	EUR/HUF	EUR/CNY	USD/CNY	EUR/RON	EUR/INR
Change in result of the period (+/–)	561	304	539	2 406	6	958	609	116

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

The increase in the EUR/HUF and EUR/RON currency pairs is attributable to the increased volume of forward exchange contracts at the balance sheet date. The increase in the CHF/EUR currency pair is attributable to financing arrangements entered into in EUR by a company with CHF as its functional currency.

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

Interest rate risk

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

Sensitivity analyses as at 31 December 2018 and 2017:
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 2018 and 31 December 2017 was as follows:

in 1 000 EUR	Note No.	2018	2017
Liabilities from financial leasing	16	43	95
Long-term financial liabilities	16	72 410	67 882
Short-term financial liabilities	16	15 370	25 274
Interest-bearing liabilities		87 823	93 251
less current securities	11	636	1 667
less cash and cash equivalents	12	53 244	53 509
Net indebtedness		**33 943**	**38 075**
Equity		285 007	269 702
Gearing		**11.9%**	**14.1%**

26 Contingent liabilities

in 1 000 EUR	2018	2017
Sureties and guarantees	1 642	1 310
Commitments from bills of exchange	341	255
Total	**1 983**	**1 565**

27 Commitments to purchase tangible and intangible assets

Purchase commitments as at 31 December 2018 were EUR 9.4 million for tangible assets (previous year EUR 4.7 million) and EUR 0.0 million for intangible assets (previous year EUR 0.0 million).

28 Operating leases, rent and leasehold rent

in 1 000 EUR	2018	2017
Minimum commitments due within 1 year	3 324	3 280
Minimum commitments due within 1 – 5 years	6 156	7 218
Minimum commitments due after 5 years	4 875	5 293
Minimum operating leasing, rent and leasehold rent commitments	**14 355**	**15 791**
Minimum claims due within 1 year	164	59
Minimum claims due within 1 – 5 years	249	75
Minimum claims from rent / leasehold rent	**413**	**134**

The operating leasing, rent and leasehold rent commitments consist almost exclusively of commitments for leased premises and floor space (long-term lease). The increase in claims from rent is due to new lease agreements concluded in 2018.

29 Sales revenue

in 1 000 EUR	2018	2017
Gross sales	650 784	627 600
Revenue reductions	– 5 769	– 5 937
Sales revenue (net sales) from contracts with cutomers	**645 015**	**621 663**

Gross sales rose by 3.7% compared with the previous year (previous year 7.6%). Differences in foreign exchange rates and changes to the scope of consolidation affected gross sales by – 2.0% and + 0.3% respectively (previous year – 1.3% and + 1.4% respectively).

The Phoenix Mecano Group is a globally active component manufacturer with a broad product range and a very diversified customer structure, with few large customers. Most customers are served on the basis of customer orders. As a rule, these orders contain only the products ordered, at a fixed price per unit. Manufacturing lead times are generally short. Invoicing and revenue recognition take place immediately after delivery (according to industry-standard Incoterms), as soon as control over the good has been transferred to a customer. Usual payment terms range from 30 to 60 days and contain neither a financing component nor a variable consideration. A provision is recognised for the Phoenix Mecano Group's obligation to repair or replace faulty products under standard warranty terms (see note 18).

The following table shows the total amount of the performance obligations not yet fulfilled at the balance sheet date:

in 1 000 EUR	2018
Expected fulfilment in < 1 year	157 052
Expected fulfilment in > 1 year	11 649
Total	**168 701**

30 Other operating income

in 1 000 EUR	2018	2017
Reimbursement from insurance	70	190
Gains on the disposal of intangible and tangible assets	288	286
Gains on the disposal of Group companies	2 818	0
Government subsidies	1 225	1 016
Other	1 912	2 467
Total	**6 313**	**3 959**

The gain on the disposal of Group companies is due to the sale of interests in Wijdeven Inductive Solutions B.V. and Wijdeven Power Holding B.V. (see note 41).

31 Cost of materials

in 1 000 EUR	2018	2017
Cost of raw and ancillary materials, merchandise for resale and external services	298 957	287 773
Incidental acquisition costs	9 632	8 435
Total	**308 589**	**296 208**

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

32 Personnel expenses

in 1 000 EUR	2018	2017
Wages and salaries	157 055	153 504
Social costs	29 391	30 451
Supplementary staff costs	9 406	9 914
Total	**195 852**	**193 869**

33 Other operating expenses

in 1 000 EUR	Note No.	2018	2017
External development costs		1 469	1 546
Establishment expenses		26 020	26 018
Rent, leasehold rent, leases		3 881	4 854
Administration expenses		9 696	8 376
Advertising expenses		5 240	4 914
Sales expenses		20 239	20 109
Losses from the disposal of intangible and tangible assets		286	342
Losses and value adjustments on inventories	8	2 931	4 458
Losses and value adjustments on receivables	9	1 110	795
Capital and other taxes		1 800	1 719
Other		5 151	6 766
Total		**77 823**	**79 897**

Total research and development costs, including internal costs, amounted to EUR 15.3 million (previous year EUR 13.9 million).

34 Financial income

in 1 000 EUR	Note No.	2018	2017
Interest income from third parties		565	492
Gain from financial instruments at fair value through profit or loss (trading derivative)	17	307	199
Exchange rate gains		3 503	4 759
Other financial income		559	1 510
Total		**4 934**	**6 960**

Other financial expense includes the adjustment (recognised in the statement of income) of residual purchase price liabilities from acquisitions totalling EUR 0.4 million in 2018 and EUR 0.6 million in 2017 (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 up acquisitions (see note 40) totalling EUR 0.9 million.

35 Financial expenses

in 1 000 EUR	Note No.	2018	2017
Interest expense		1 719	1 514
Loss from financial instruments at fair value through profit or loss (trading derivative)	17	587	543
Exchange rate losses		3 752	4 468
Other financial expense		1 272	331
Total		**7 330**	**6 856**

Other financial income in 2018 includes value adjustments on investments in associated companies and other financial assets totalling EUR 1.1 million (see notes 6 and 7).

36 Income tax

in 1 000 EUR	2018	2017
Current income tax	11 641	13 318
Deferred tax	–1 207	–5 010
Income tax	10 434	8 308
RECONCILIATION FROM THEORETICAL TO EFFECTIVE INCOME TAX		
Result before tax	42 702	30 237
Theoretical income tax	10 072	7 049
Weighted income tax rate	23,6	23,3
Changes of tax rate deferred tax	8	–173
Tax-free income	–1 644	–906
Non-deductible expenses	1 141	1 727
Tax effect on losses in the reporting year	1 085	1 325
Tax effect of losses carried forward from previous years	–259	–1 078
Income tax relating to other periods	–527	–240
Other	558	604
Effective income tax	**10 434**	**8 308**
Effective income tax rate	24.4%	27.5%

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

The increase in tax-free income in 2018 is primarily due to the tax-free income resulting from the gain on the disposal of the Group companies Wijdeven Inductive Solutions B.V. and Wijdeven Power Holding B.V. (see note 41).

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

37 Earnings per share

in 1 000 EUR	2018	2017
Result of the period attributable to shareholders of the parent company	32 423	21 826

Number		
NUMBER OF SHARES		
Shares issued on 1 January	960 500	960 500
Treasury shares (annual average)	– 1 000	– 1 052
Shares outstanding	**959 500**	**959 448**
Basis for diluted earnings per share	959 500	959 448
Basis for undiluted earnings per share	959 500	959 448
EARNINGS PER SHARE		
Earnings per share – undiluted (in EUR)	33.79	22.75
Earnings per share – diluted (in EUR)	33.79	22.75

38 Operating cash flow

in 1 000 EUR	2018	2017
Operating result	45 812	30 711
Amortisation of intangible assets	9 192	8 578
Depreciation on tangible assets	18 661	19 382
Impairment/(reversal of impairment losses) on intangible and tangible assets	880	1 065
Operating cash flow	**74 545**	**59 736**

39 Free cash flow

in 1 000 EUR	Note No.	2018	2017
Cash flow from operating activities		37 928	37 062
Purchases of intangible assets	4	–3 215	–4 428
Purchases of tangible assets	5	–22 381	–21 569
Disinvestments in intangible assets		0	48
Disinvestments in tangible assets		593	312
Free cash flow (before financial investments)		**12 925**	**11 425**

40 Acquisition of Group companies

The acquired assets and assumed liabilities break down as follows:

in 1 000 EUR	Fair value 2018	Fair value 2017
Other intangible assets	0	6 335
Tangible assets	0	378
Inventories	0	2 073
Trade receivables	0	2 900
Other current assets	0	200
Cash and cash equivalents	0	387
Deferred tax	0	–2 026
Other liabilities	0	–7 051
Identifiable net assets	0	3 196
Minority interest	0	–193
Goodwill from acquisitions	0	440
Purchase price	**0**	**–3 443**
Purchase price liability	0	0
Fair value of previously held shares	0	2 693
Cash and cash equivalents acquired	0	387
Change in funds	**0**	**–363**

Given the below-target earnings performance in 2016 of Orion Technologies LLC, the Phoenix Mecano Group was entitled, in the previous year, to receive additional shares in the company from a capital increase in 2015 and thus to acquire a majority of the capital. 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%. The acquired receivables of EUR 2.1 million were paid in full, as expected at the time of acquisition. The EUR 0.4 million goodwill from the acquisition is based on synergy effects and staff skills.

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. The acquired receivables of EUR 0.8 million were paid in full, as expected 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 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.

41 Disposals of Group companies

in 1 000 EUR	Fair value 2018	Fair value 2017
Other intangible assets	838	0
Tangible assets	191	0
Other current assets	2 497	0
Cash and cash equivalents	360	0
Other liabilities	– 1 682	0
Net assets	2 204	0
Gain on the disposal of Group companies	2 818	0
Sales price	**5 022**	**0**
Outflow of cash and cash equivalents	– 373	0
Change in funds	**4 649**	**0**

On 31 May 2018, 100% of the shares in Wijdeven Inductive Solutions B.V. and Wijdeven Power Holding B.V. (both based in the Netherlands and forming part of the ELCOM/EMS division) were sold to an industrial buyer for a sale price of EUR 5.0 million. This transaction resulted in a pre-tax accounting profit of EUR 2.8 million.

42 Transactions with related parties

in 1 000 EUR	2018	2017
Benedikt A. Goldkamp, Chairman of the Board of Directors	894	789
Ulrich Hocker, Independent Lead Director	222	231
Other members of the Board of Directors	166	173
Remuneration of the Board of Directors	1 282	1 193
Remuneration of the management	1 176	1 059
Remuneration of the Board of Directors and management	2 458	2 252
Social security contributions	200	185
Pension obligations	231	146
Total remuneration of the Board of Directors and management	**2 889**	**2 583**

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 152 and 153 (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 2018 or 2017.

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

43 Events after the balance sheet date

The Phoenix Mecano Group plans to acquire a majority stake in China-based Mei Hui Machinery Co., Ltd. The transaction is expected to close in the second quarter of 2019, subject to regulatory approvals. Phoenix Mecano intends to acquire 80% of the Chinese metalworking specialist, with a call/put option for the remaining 20%, as part of its strategy to boost local value added in growth regions. Its plan is to manufacture functional parts and complete assemblies from sheet steel for the Mechanical Components division at the company's qualified production facility in Zhejiang Province. The company generated sales of around EUR 37 million in 2018.

No further events occurred between 31 December 2018 and 26 March 2019 that would alter the book values of assets and liabilities or should be disclosed under this heading.

44 Approval of the consolidated financial statements

At its meeting on 26 March 2019, the Board of Directors of Phoenix Mecano AG released the 2018 consolidated financial statements for publication. They will be submitted to the Shareholders' General Meeting on 17 May 2019 with a recommendation for their approval.

45 Dividend

The Board of Directors recommends to the Shareholders' General Meeting of 17 May 2019 that a dividend of CHF 17.00 per share (CHF is the statutory currency of Phoenix Mecano AG) be paid out (see Proposal for the appropriation of retained earnings on page 155). The total outflow of funds is expected to be CHF 16.3 million. The dividend paid out in 2018 was CHF 16.00 per share (previous year CHF 15.00). The outflow of funds in 2018 was CHF 15.4 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, 2018, 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 66 to 135) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, 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, 2018, Phoenix Mecano AG balance sheet included goodwill and other intangible assets amounting to (in TEUR):

• Goodwill	13 432
• Other intangible assets	24 222

Other intangible assets mainly contain concessions, licences, similar rights and assets such as know-how, customer base and patents amounting to TEUR 20 333.

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 78
– Note 3 to the consolidated financial statements, page 96
– Note 4 to the consolidated financial statements, page 97

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 26, 2019

Five-year overview

in 1 000 EUR	2018	2017	2016	2015	2014
CONSOLIDATED BALANCE SHEET					
Total assets	482 137	471 848	452 361	426 720	414 007
Non-current assets	176 055	182 292	185 027	170 330	171 348
in % of total assets	36.5	38.6	40.9	39.9	41.4
Tangible assets	130 125	127 614	128 701	120 777	116 110
Current assets	306 082	289 556	267 334	256 390	242 659
in % of total assets	63.5	61.4	59.1	60.1	58.6
Inventories	148 513	131 832	125 037	122 838	117 844
Cash and cash equivalents	53 244	53 509	43 243	41 951	44 185
Equity	285 007	269 702	272 757	262 626	267 470
in % of total assets	59.1	57.2	60.3	61.5	64.6
Liabilities	197 130	202 146	179 604	164 094	146 537
in % of total assets	40.9	42.8	39.7	38.5	35.4
Net indebtedness	33 943	38 075	30 466	24 455	12 488
in % of equity	11.9	14.1	11.2	9.3	4.7
CONSOLIDATED STATEMENT OF INCOME					
Gross sales	650 784	627 600	583 229	559 806	505 621
Sales revenue (net sales)	645 015	621 663	577 481	554 462	500 349
Total operating performance	656 809	629 710	585 780	560 367	504 419
Personnel expenses	195 852	193 869	181 512	176 506	161 128
Amortisation of intangible assets	9 192	8 578	7 381	8 344	7 109
Depreciation on tangible assets	18 661	19 382	17 729	17 801	16 326
Operating result	45 812	30 711	34 454	14 991	29 483
Financial result	–3 110	–474	–2 280	–2 173	–452
Result before tax	42 702	30 237	32 174	12 818	29 031
Income tax	10 434	8 308	9 168	6 133	9 043
Result of the period	32 268	21 929	23 006	6 685	19 988
in % of gross sales	5.0	3.5	3.9	1.2	4.0
in % of equity	11.3	8.1	8.4	2.5	7.5
CONSOLIDATED STATEMENT OF CASH FLOW					
Cash flow from operating activities	37 928	37 062	48 659	38 952	38 808
Cash used in investing activities	–17 992	–26 629	–36 824	–33 285	–38 814
Purchases of tangible and intangible assets	25 596	25 997	23 869	26 674	24 039
Cash flow from financing activities	–19 973	1 129	–10 184	–8 970	–17 636
Free cash flow	12 925	11 425	29 630	13 614	15 437

Phoenix Mecano AG

FINANCIAL STATEMENTS 2018

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Balance sheet as at 31 December 2018

in CHF	Note No.	2018	2017
Assets			
CURRENT ASSETS			
Cash and cash equivalents		346 006	459 284
Other short-term receivables			
due from investments	2.1	1 420 693	11 215 682
due from third parties		6 017	6 018
Deferred charges and prepaid expenses		69 725	72 942
Total current assets		1 842 441	11 753 926
NON-CURRENT ASSETS			
Financial assets			
Loans to investments	2.2	29 618 340	11 624 300
Investments			
Investments	2.3	205 881 848	183 395 812
Value adjustment on investments		–3 721 499	–3 500 000
Total non-current assets		231 778 689	191 520 112
Total assets		**233 621 130**	**203 274 038**

in CHF	Note No.	2018	2017
Equity and liabilities			
SHORT-TERM LIABILITIES			
Other short-term liabilities			
Bank liabilities	2.4	1 250 000	6 500 000
to investments	2.5	1 886 229	637
to third parties		7 757	33 564
to shareholders		468	416
Short-term provisions	2.6	596 000	950 000
Deferred income		542 776	500 921
Total short-term liabilities		4 283 230	7 985 538
LONG-TERM LIABILITIES			
Long-term interest-bearing liabilities	2.4	25 360 000	18 858 500
Total long-term liabilities		25 360 000	18 858 500
Total liabilities		29 643 230	26 844 038
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		67 491 728	50 813 290
– Net profit for the year		42 899 899	32 030 437
Treasury shares	2.9	–433 951	–433 951
Total equity		203 977 900	176 430 000
Total equity and liabilities		**233 621 130**	**203 274 038**

Statement of income 2018

in CHF	Note No.	2018	2017
Dividend income	2.10	45 616 877	36 063 914
Other financial income	2.11	1 810 549	3 076 245
Other operating income		1 919	78 448
Total income		47 429 345	39 218 607
Financial expenses	2.12	– 1 706 308	– 992 015
Administration expenses		– 1 980 857	– 1 304 795
Other operating expenses	2.13	– 15 000	– 4 843 098
Losses on investments	2.14	– 787 428	0
Direct taxes		– 39 853	– 48 262
Total expenses		– 4 529 446	– 7 188 170
Net profit for the year		**42 899 899**	**32 030 437**

Notes to the financial statements 2018

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	Vienna, 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 Saudi Arabia LLC	Dammam, Saudi Arabia	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

The change in the balance sheet value compared with the previous year, of just under CHF 22.5 million, is due to two minority interest purchases and the payment of a capital contribution linked to the establishment of a company in Saudi Arabia.

An overview of all directly and indirectly held investments is given on pages 92 – 95.

Currency	Registered capital in 1 000	2018 Investment in %	2017 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	90	75
INR	299 452	100	100
USD	3 925	100	100
CNY	30 000	100	100
EUR	10 000	100	100
TRY	430	2	2
BRL	10 176	100	100
BRL	1 062	1	1
UYU	200	100	100
GBP	1	100	85
USD	10 000	100	100
MAD	34 000	100	100
RUB	777	20	20
RUB	21 300	100	100
SAR	1 000	100	0
TND	1 200	25	25
TND	2 500	20	20
TND	100	20	20

2.4 Bank loans / Bank liabilities

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

in 1 000 CHF	2018	2017
BY CURRENCY		
CHF	8 250	12 250
EUR	5 073	0
USD	13 287	13 108
Balance sheet value	**26 610**	**25 358**
BY MATURITY		
in 1 year	1 250	6 500
in 2 years	4 755	1 250
in 3 years	5 318	0
in 4 years	15 287	2 500
in 5 years	0	15 108
Balance sheet value	**26 610**	**25 358**

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 0.1 million (previous year CHF 0.4 million), used for structuring of external debts or for currency management purposes.

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 2018 closed with a net profit for the year of CHF 42 899 899. The retained earnings brought forward from the previous year totalled CHF 67 491 728. The ordinary Shareholders' General Meeting of 17 May 2019 therefore has at its disposal retained earnings totalling CHF 110 391 626. For the Board of Directors' proposal regarding the appropriation of retained earnings, see page 155.

2.9 Treasury shares

At the balance sheet date, the company owned a total of 1 000 treasury shares (previous year 1 000), which are booked according to the strict lower-of-cost-or-market principle. These shares represent 0.1% of the overall share portfolio. No shares were bought or sold in the reporting year.

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, the release of a provision for risks from derivative financial instruments and, in the previous year, 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).

2.12 Financial expense
This item comprises interest and securities expenses, expenses for derivative financial instruments, and net exchange rate losses totalling CHF 0.95 million (exchange rate losses of CHF 2.69 million minus exchange rate gains of CHF 1.74 million).

2.13 Other operating expenses
In the previous year, other operating expenses included a waiver of receivables due from a subsidiary totalling CHF 3.8 million and a value adjustment on receivables due from a subsidiary totalling CHF 1.0 million.

2.14 Loss on investments
The loss on investments in the reporting year relates to the liquidation of Phoenix Mecano Hartu S.à.r.l. in Tunisia in the amount of CHF 0.79 million.

2.15 Net release of hidden reserves
In the reporting year, the statement of income contains a net release of hidden reserves totalling CHF 0.17 million. In the previous year, CHF 0.4 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	2018	2017
Guarantees and letters of comfort	**209 517**	**223 104**

Contingent liabilities are given for subsidiaries, predominantly in favour of financial institutions. The actual book value of Group company liabilities was CHF 64.0 million (previous year CHF 71.7 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 in 2017 a share purchase agreement with the minority shareholder of Phoenix Mecano S.E. Asia Pte Ltd. to acquire the latter’s remaining shares in 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	2018	2017
Planalto AG	Luxembourg, Luxembourg	34.6[1]	34.6[1]
Tweedy, Browne Company LLC, Stamford, USA[2]	Stamford, USA	8.5[1]	8.5
Tweedy, Browne Global Value Fund[3] (A subdivision of Tweedy, Browne Fund Inc., New York, USA)	*New York, USA*	*7.2[1]*	*7.2*
J. Safra Sarasin Investmentfonds AG (formerly Sarasin Investmentfonds AG)	Basel, Switzerland	4.9[1]	4.9[1]
Credit Suisse Funds AG	Zurich, Switzerland	3.06	<3.0

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

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 2018:

Name in 1 000 CHF	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration 2018
Benedikt A. Goldkamp	Chairman of the Board of Directors	704	328	163	1 195
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		1 152	328	194	1 674
Remuneration of the management		996	362	225	1 583
Remuneration of the Board of Directors and management		**2 148**	**690**	**419**	**3 257**
Highest individual management salary: Dr Rochus Kobler	CEO	592	258	138	988

The following compensation was paid by the Phoenix Mecano Group to serving corporate officers in 2017:

Name	Position	Fixed remuneration	Variable remuneration	Social security and pension	Total remuneration
in 1 000 CHF					**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

All compensation is short term in nature.

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 2018 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	Number 31.12.2018	Number 31.12.2017
Benedikt A. Goldkamp	Chairman	2 844	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		**12 252**	**11 273**
Dr Rochus Kobler	Member/CEO	400	200
René Schäffeler	Member/CFO	300	200
Shares held by the management		**700**	**400**

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 2018 and 26 March 2019 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 2018	42 899 899
Retained earnings brought forward 2017	67 491 728
Release of reserve for treasury shares	0
Retained earnings	**110 391 627**

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

in CHF	
Dividend of CHF 17.00 per share *	16 328 500
Carried forward to new account	94 063 127
Total	**110 391 627**

* 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.

KPMG

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, 2018, 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 144 to 154) for the year ended December 31, 2018 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 26, 2019

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FINANCIAL CALENDAR

14 February 2019 7.00 a.m.	**Media release** Preliminary full-year results 2018	
24 April 2019 7.00 a.m.	**Media release** Results 2018 Q1 results 2019	Publication of Annual Report 2018
24 April 2019 9.30 a.m.	**Media conference** Results 2018 Q1 results 2019	Widder Hotel, Rennweg 7, Zurich
24 April 2019 11.30 a.m.	**Financial analysts' conference** Results 2018 Q1 results 2019	Widder Hotel, Rennweg 7, Zurich
17 May 2019 3.00 p.m.	**Shareholders' General Meeting**	Hotel acrona LIVING, Schaffhausen
15 August 2019 7.00 a.m.	**Media release** Half-yearly results 2019	Semi-annual report 2019
29 October 2019 7.00 a.m.	**Media release** Q3 results 2019	

Further information

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STRONG BRANDS

STRONG BRANDS

Enclosures

1

2

3

Mechanical Components

4

5

6

ELCOM / EMS

7

8

9

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

1 Bocube Alu enclosure for:
– Data loggers
– System control units
– (Industrial) measuring devices
– Operator terminals

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

3 Ex d (flameproof) enclosure for:
– Process industry
– Measurement and control technology

4 DUOMAT 9 double drive with integrated synchronous control for:
– Nursing beds
– Hospital beds

5 Lifting column
– Height-adjustable desks

6 Vertical or cantilever axis for handling systems
– Packaging machines
– Machine tools

7 High-frequency test probe (Mini-Fakra) for the automotive industry:
– Autonomous driving
– Driver assistance systems
– Infotainment systems

8 AC / DC current transformer for:
– E-mobility
– Residual current detection
– Harmonic monitoring

9 MARATON multi-channel power supply for areas with ionising radiation and high magnetic fields

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