Interim accounts as at 30 June 2016

Company report

Interim accounts as at 30 June 2016

Report by the Board of Directors on the Mid-year report as at June 30, 2016

Dear Ladies and Gentlemen

Phoenix Mecano, the specialist in enclosures and industrial components, saw its sales increase in all three divisions in the first half of the year. The operating result and net result both recorded disproportionately high growth. Incoming orders were largely stable but down compared with the same period in 2015, when a round of price increases prompted by currency turbulence led to a surge in orders. The current geopolitical uncertainties also had an impact on investment behaviour in key sales regions, including parts of Europe, Russia, Brazil and some sectors in China and the USA. Efforts to tap new sales markets in the ELCOM/EMS division are being vigorously pursued. The acquisition of ismet GmbH, reported in June and now complete, has strengthened the division.

Consolidated gross sales rose by 3.8% in the first half of 2016, from €281.6 million to €292.4 million. Corrected for negative currency effects, sales were up by 5.6%. Excluding effects from changes to the scope of consolidation, growth was 2.6%. Net sales totalled €289.7 million (previous year: €279.0 million). Incoming orders fell by 3.4% from €299.5 million to €289.5 million, corresponding to a book-to-bill ratio of 99%.

Operating cash flow (EBITDA) rose by 11.7%, from €29.0 million to €32.4 million, while operating result (EBIT) was up by 25.0%, from €16.5 million to €20.6 million. Looking at the second quarter alone, the operating result increased by 38%. This includes a one-off accounting profit of €1.8 million from the sale of a building in Italy and a provision of €1.4 million for a site closure at existing subsidiary Platthaus GmbH. The decision to close the site was taken in June 2016, in connection with the acquisition of ismet GmbH.

The result of the period after taxes was €13.7 million, up 35.1% on the previous year (€10.1 million). Regarding this substantial increase, it should be noted that the financial result improved by €0.9 million year-on-year, driven mainly by lower exchange rate losses. The first half of 2015 was negatively impacted by the scrapping of the minimum exchange rate between the euro and the Swiss franc. In the first half of 2016, the weakening of the British pound led to exchange rate losses of €0.4 million. The tax rate in the reporting period was 28.6%, compared with 28.4% the previous year.

Net indebtedness increased to €39.3 million (30 June 2015: €34.3 million) due to growth-related expansion of the balance sheet and the dividend payment in the second quarter as well as acquisition activity. This corresponds to 15.2% of equity. Combined with the still high equity ratio of 57.7%, this gives the Group sufficient scope for further strategic development.

Development of the Group's divisions

The **Enclosures** division increased its gross sales by 0.5% to €89.4 million. The operating result fell by 4.7%, with a corresponding decline in operating margin from 12.3% to 11.6%. While sales grew in southern Europe and the Benelux countries, there were reductions in other individual European markets, most notably the UK and Russia. Slower momentum in the US industrial and energy sector was offset by rising demand in Asia, where the development and production of special enclosures for customised operating and display devices and project business in explosion-proof applications offer attractive growth opportunities. Implementation of the new production concept for input systems at subsidiary Kundisch had a negative impact on the result.

The **Mechanical Components** division saw its gross sales rise by 4.6% to €142.4 million. The operating result rose by a disproportionately high 19.5%. The margin stood at 8.9%, compared with 7.8% the previous year. In the European industrial segment, in which Rose & Krieger operates, customers are pressing ahead with investments in modernisation and automation projects, while the growth trend in workplace ergonomics continues. In the DewertOkin arm, there is still strong growth momentum in comfort and reclining furniture in China as a production location for the US end market. However, demand in Japan continued to fall and sales were slightly down in Europe.

The **ELCOM/EMS** division increased its gross sales by 7.2% to €60.6 million. Adjusted for acquisitions, growth was 1.2%. The operating result was -€3.0 million (previous year: -€3.3 million). This includes the above-mentioned special item of €1.4 million relating to site closure costs at Platthaus (D). The Power Quality business area is key to achieving the division's earnings targets. Within this business area, the integration of various recently acquired or newly established entities is proceeding to plan. The focus remains on expanding sales and production structures for the marketing and industrial manufacture of newly developed and certified products. Positive feedback from target customers, audit approvals, initial listings and orders confirm that the right product/market strategy has been adopted. The initial costs associated with these activities are reflected in the H1 figures.

Outlook

The outcome of the Brexit vote, the impending US presidential elections, considerable volatility on the financial markets and geopolitical risks in relation to Syria, Russia and Turkey led to increased uncertainty in our main sales markets for capital goods in the first half of 2016.

The concerted efforts of the major central banks to stimulate investment confidence continue to have a positive impact, even if their potential long-term effects are a cause for concern. In the global industrial segment and in our application-specific target markets, we anticipate continued stable demand in the second half of the year due to our new product developments and investments in production and sales capacity.

In our largest product area, namely electrical drive solutions for the comfort furniture and care industry (DewertOkin, Mechanical Components division), we see further growth opportunities driven by technological and demographic developments.

The realignment of the ELCOM/EMS division remains a central focus for the Board of Directors and management. The turnaround measures, now in their final stage of implementation, combined with steadily filling order books form the basis for the desired positive long-term earnings trend. Based on the current situation and excluding the special item for the integration of Platthaus into ismet, we continue to maintain the challenging target of a breakeven in the ELCOM/EMS division across the year as a whole.

Barring extraordinary events and assuming stable economic conditions, we still anticipate an operating result for the whole Group in the region of €34 to €40 million.

Kind regards

Benedikt Goldkamp	Dr. Rochus Kobler
Executive Chairman	CEO

Information for shareholders

Phoenix Mecano AG bearer shares are traded on main stock exchange in Zurich.

Ticker-Symbols

Valoren-No.	Inh. 218781
Reuters	PM.S
Bloomberg	PM SW Equity
Telekurs/Telerate	PM
ISIN	CH0002187810

Share indicators

		30.06.2016	**30.06.2015**
Share capital (bearer shares at nominal CHF 1.00)	Number	960‘500	960‘500
Entitled to dividend (as of 30 June)	Number	958‘200	960‘406
Entitled to dividend (on average)	Number	958‘735	960‘232
Earning before interest and tax per share	EUR	21.5	17.2
Net result per share	EUR	14.2	10.4
Shareholders’ equity (incl. Minority interest) per share	EUR	269.9	265.9

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Consolidated balance sheet (unaudited)

Assets

(in EUR million)	**30.06.2016**	**31.12.2015**
Fixed assets		
Goodwill	13.9	14.5
Other intangible assets	21.5	23.5
Investment properties	1.1	0.3
Tangible assets	119.5	120.5
Investment in associated companies	4.2	4.3
Other financial assets	2.5	1.9
Deferred tax assets	5.2	5.3
Total fixed assets	**167.9**	**170.3**
Inventories	126.5	122.8
Trade receivables	83.4	70.7
Derivative financial instruments	0.2	0.3
Income tax receivables	7.2	6.8
Other receivables	8.5	8.2
Current securities	4.2	4.1
Cash and cash equivalents	46.8	42.0
Deferred charges and prepaid expenses	2.8	1.5
Total current assets	**279.6**	**256.4**
Total assets	**447.5**	**426.7**

Consolidated balance sheet (unaudited)

Equity and liabilities (in EUR million)	**30.06.2016**	**31.12.2015**
Equity		
Share capital	0.6	0.6
Treasury shares	-0.9	-0.2
Retained earnings	248.7	250.3
Profits/Losses from IAS 39	0.1	0.1
Translation differences	7.9	10.0
Equity attributable to shareholders of the parent company	**256.4**	**260.8**
Minority interests	1.8	1.8
Total equity	**258.2**	**262.6**
Liabilities		
Liabilities from financial leasing	0.1	0.1
Long-term financial liabilities	34.5	28.8
Long-term provisions	5.4	4.8
Long-term pension obligations	16.2	13.6
Deferred tax liabilities	3.4	4.2
Long-term liabilities	**59.6**	**51.5**
Trade liabilities	35.0	32.2
Short-term financial liabilities	54.3	41.7
Derivative financial instruments	0.3	0.5
Short-term provisions	11.4	12.2
Short-term pension obligations	0.2	0.2
Income tax liabilities	2.6	2.7
Other liabilities	22.6	19.9
Deferred income	3.3	3.2
Short-term liabilities	**129.7**	**112.6**
Total liabilities	**189.3**	**164.1**
Total equity and liabilities	**447.5**	**426.7**

Consolidated statement of income (unaudited)

(in EUR million)	1st half 2016	1st half 2015
Net sales	**289.7**	**279.0**
Changes in inventories	0.9	-1.5
Own work capitalised	0.6	0.6
Other operating income	3.6	1.7
Cost of materials	-134.3	-128.2
Personnel expenses	-91.6	-88.2
Amortisation of intangible assets	-3.2	-3.9
Depreciation on tangible assets	-8.5	-8.6
Other operating expenses	-36.6	-34.4
Results before interest and tax (operating result)	**20.6**	**16.5**
Result from associated companies	-0.2	0.0
Financial income	1.3	3.0
Financial expenses	-2.6	-5.4
Financial result	-1.5	-2.4
Result before tax	**19.1**	**14.1**
Income tax	-5.4	-4.0
Result of the period	**13.7**	**10.1**
of which		
Shareholders in the parent company	13.6	10.1
Minority interests	0.1	0.0
Earnings per share		
Earnings per share - undiluted (in EUR)	14.2	10.4
Earnings per share - diluted (in EUR)	14.2	10.4

Consolidated statement of comprehensive income (unaudited)

(in EUR million)	1st half 2016	1st half 2015
Result of the period	**13.7**	**10.1**
Items that may be reclassified subsequently to profit or loss		
Fluctuations in fair value of financial assets	0.0	0.0
Translation differences	-2.1	5.1
Deferred taxes	0.0	0.0
Items that may not be reclassified to profit or loss		
Revaluation of pension obligations	-2.7	-0.5
Deferred taxes	0.5	0.1
Other comprehensive income (after taxes)	**-4.3**	**4.7**
Total comprehensive income	**9.4**	**14.8**
of which		
Shareholders in the parent company	9.3	14.7
Minority interests	0.1	0.1

Consolidated statement of cash flow (unaudited)

(in EUR million)	1st half 2016	1st half 2015
Result of the period	13.7	10.1
Income tax	5.4	4.0
Result before tax	**19.1**	**14.1**
Amortisation of intangible assets	3.2	3.9
Depreciation on tangible assets	8.5	8.6
Losses/(gains) from the disposal of intangible and tangible assets	-2.0	-0.1
Impairment losses/(reversal of impairment losses) on intangible and tangible assets	0.0	0.0
Losses and value adjustments on inventories	1.2	0.9
Losses / (gains) from associated companies	0.2	0.0
Other non-cash expenses/(income)	1.0	1.6
Increase/(decrease) in long-term provisions	0.6	0.2
Net interest expenses/(income)	0.6	0.5
Interest paid	-0.6	-0.6
Income tax paid	-6.1	-6.1
Operating cash flow before changing in working capital	**25.7**	**23.0**
(Increase)/decrease in inventories	-5.7	-5.9
(Increase)/decrease in trade receivables	-13.8	-15.7
(Increase)/decrease in other receivables, deferred charges and prepaid expenses	-1.8	-1.3
Decrease/(increase) in trade payables	3.6	5.7
Decrease/(increase) in short-term provisions	-0.8	-3.8
Decrease/(increase) in other liabilities and deferred income	3.1	5.3
Cash flow from operating activites	**10.3**	**7.3**
Capital expenditure		
Intangible assets	-1.8	-1.3
Tangible assets	-10.8	-10.7
Financial assets	-0.6	-3.1
Current securities	-0.7	0.0
Disinvestments		
Intangible assets	0.0	0.0
Tangible assets	3.4	0.2
Financial assets	0.0	0.0
Current securities	0.6	0.2
Interest received	0.3	0.3
Dividendes received	0.2	0.0
Cash used in investing activities	**-9.4**	**-14.4**
Dividends paid (including minority interest)	-13.1	-11.0
Purchase of own shares	-0.8	0.0
Sale of own shares	0.1	0.4
Issue of financial liabilities	24.2	15.7
Repayment of financial liabilities	-5.9	-5.7
Cash flow from financing activities	**4.5**	**-0.6**
Translation differences in cash and cash equivalents	-0.6	1.3
Change in cash and cash equivalents	**4.8**	**-6.4**
Cash and cash equivalents as at 1 January	42.0	44.2
Cash and cash equivalents as at 30 June	46.8	37.8
Change in cash and cash equivalents	**4.8**	**-6.4**

Consolidated statement of changes in equity (unaudited)

(in EUR million)	Share capital	Own shares	Retained earnings	Profits / (losses) financial assets from IAS 39	Translation differences	Equity attri-butable to shareholders in the parent company	Minority interests	Total equity
Equity as at 31 December 2014	**0.6**	**-0.6**	**258.7**	**0.1**	**6.8**	**265.6**	**1.9**	**267.5**
Items that may be reclassified subsequently to profit or loss								
Fluctuations in fair value of financial assets						0.0		0.0
Realised results of financial assets						0.0		0.0
Translation differences					5.0	5.0	0.1	5.1
Deferred taxes not affecting net income						0.0		0.0
Items that may not be reclassified to profit or loss								
Revaluation of pension obligations			-0.5			-0.5		-0.5
Deferred taxes			0.1			0.1		0.1
Total other comprehensive income (after taxes)	**0.0**	**0.0**	**-0.4**	**0.0**	**5.0**	**4.6**	**0.1**	**4.7**
Result of the period		**0.0**	**10.1**			**10.1**	**0.0**	**10.1**
Total comprehensive income	**0.0**	**0.0**	**9.7**	**0.0**	**5.0**	**14.7**	**0.1**	**14.8**
Change in treasury shares		0.6	-0.2			0.4		0.4
Dividends paid			-14.0			-14.0	-0.2	-14.2
Total equity-transactions with owners	**0.0**	**0.6**	**-14.2**	**0.0**	**0.0**	**-13.6**	**-0.2**	**-13.8**
Equity as at 30 June 2015	**0.6**	**0.0**	**254.2**	**0.1**	**11.8**	**266.7**	**1.8**	**268.5**
Equity as at 31 December 2015	**0.6**	**-0.2**	**250.3**	**0.1**	**10.0**	**260.8**	**1.8**	**262.6**
Items that may be reclassified subsequently to profit or loss								
Fluctuations in fair value of financial assets				0.0		0.0		0.0
Realised results of financial assets						0.0		0.0
Translation differences					-2.1	-2.1	0.0	-2.1
Deferred taxes not affecting net income						0.0		0.0
Items that may not be reclassified to profit or loss								
Revaluation of pension obligations			-2.7			-2.7		-2.7
Deferred taxes			0.5			0.5		0.5
Total other comprehensive income (after taxes)	**0.0**	**0.0**	**-2.2**	**0.0**	**-2.1**	**-4.3**	**0.0**	**-4.3**
Result of the period			**13.6**			**13.6**	**0.1**	**13.7**
Total comprehensive income	**0.0**	**0.0**	**11.4**	**0.0**	**-2.1**	**9.3**	**0.1**	**9.4**
Change in treasury shares		-0.7	0.0			-0.7		-0.7
Dividends paid			-13.0			-13.0	-0.1	-13.1
Total equity-transactions with owners	**0.0**	**-0.7**	**-13.0**	**0.0**	**0.0**	**-13.7**	**-0.1**	**-13.8**
Equity as at 30 June 2016	**0.6**	**-0.9**	**248.7**	**0.1**	**7.9**	**256.4**	**1.8**	**258.2**

Consolidated segment information (unaudited)

by division
(in EUR million)

	Enclosures		Mechanical Components		ELCOM/EMS		Total Segment		Reconciliation*		Total Group	
	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015	1st half 2016	1st half 2015
Gross sales to third parties	**89.4**	**89.0**	**142.4**	**136.1**	**60.6**	**56.5**	**292.4**	**281.6**	**0.0**	**0.0**	**292.4**	**281.6**
Gross sales between divisions	0.1	0.1	0.0	0.0	2.2	2.3	2.3	2.4	-2.3	-2.4	0.0	0.0
Revenue reductions											-2.7	-2.6
Net sales											**289.7**	**279.0**
Amortisation of intangible assets and depreciation on tangible assets	-3.2	-3.0	-4.3	-4.7	-3.8	-4.4	-11.3	-12.1	-0.4	-0.4	-11.7	-12.5
Result before interest and tax (operating result)	**10.4**	**10.9**	**12.7**	**10.7**	**-3.0**	**-3.3**	**20.1**	**18.3**	**0.5**	**-1.8**	**20.6**	**16.5**
Financial result											-1.5	-2.4
Result before tax											**19.1**	**14.1**
Income tax											-5.4	-4.0
Result of the period											**13.7**	**10.1**
Segment assets	94.9	94.9	177.3	175.9	98.8	107.6	371.0	378.4			371.0	378.4
Cash and cash equivalents									46.8	37.8	46.8	37.8
Other assets									29.7	27.3	29.7	27.3
Total assets	**94.9**	**94.9**	**177.3**	**175.9**	**98.8**	**107.6**	**371.0**	**378.4**	**76.5**	**65.1**	**447.5**	**443.5**
Segment liabilities	27.4	25.9	41.8	37.9	17.6	15.7	86.8	79.5			86.8	79.5
Interest-bearing liabilities									88.9	76.3	88.9	76.3
Other liabilities									13.6	19.2	13.6	19.2
Total liabilities	**27.4**	**25.9**	**41.8**	**37.9**	**17.6**	**15.7**	**86.8**	**79.5**	**102.5**	**95.5**	**189.3**	**175.0**
Net assets	**67.5**	**69.0**	**135.5**	**138.0**	**81.2**	**91.9**	**284.2**	**298.9**	**-26.0**	**-30.4**	**258.2**	**268.5**

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

Annex to the interim financial statements as at 30 June 2016

Consolidation and valuation principles

Principles underlying the interim financial statements

These unaudited interim financial statements for the Phoenix Mecano Group were drawn up in accordance with International Accounting Standard 34 (IAS 34) on “Interim Financial Reporting”. The consolidated half-yearly accounts do not cover all the information set out in the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2015.

The accounting and valuation principles used for the half-yearly accounts correspond to those applied for the consolidated financial statements as at 31 December 2015, with the exception of the revised IFRS/IAS standards (Amendments to IFRS 11, Amendments to IAS 16 and IAS 38, Annual improvements to IFRS 2012 – 2014 and Amendments to IAS 1) applied for the first time as at 1 January 2016. Applying these revised standards had no impact on the consolidated interim financial statements as at 30 June 2016.

Scope of consolidation

No changes in the scope of consolidation occurred in H1 2016, except for the merger between Group companies PTR Messtechnik GmbH + Co. KG and PTR Messtechnik Verwaltungs-GmbH.

In H1 2015, the scope of consolidation altered to include on February 3, 2015 founded PM America Latina S.A., Uruguay and in addition, Sekure Ident GmbH, Germany, was founded on March 25, 2015. Both companies are wholly-owned subsidiaries.

Assumptions and estimations

The preparation of the half-yearly accounts necessitates various assumptions and estimations. These are based on the management’s assessments, which are regularly verified and amended as and when fresh information or findings necessitate changes.

Notes on the interim financial statements

Seasonality

The sectors in which the Phoenix Mecano Group is active are subject to seasonal fluctuations. Typically, the latter half of the year generates lower sales and is disproportionately weaker in terms of results.

Goodwill

The EUR 0.6 million reduction in the Group's goodwill is due to currency differences that did not affect net income.

Investment properties

The increase in investment properties from EUR 0.3 million to EUR 1.1 million is owing to the renting-out of a property in India which was no longer used by the Group. The property has been reclassified accordingly.

Financial liabilities

The increase in long-term and short-term financial liabilities (bank loans) is in preparation for the purchase price payment relating to the acquisition of the ismet group on 1 July 2016 (see Events after the balance sheet date).

Categories of financial instruments

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

	30.06.2016 in EUR million	31.12.2015 in EUR million	Hierarchy
Financial assets measured at market value			
Current securities	4.2	4.1	Level 1
Derivative financial instruments	0.2	0.3	Level 2
Contingent variable purchase price payment on acquisitions	1.6	1.6	Level 3
Total	**6.0**	**6.0**	
Financial liabilities measured at market value			
Derivative financial instruments	-0.3	-0.5	Level 2
Residual purchase price liabilities from acquisitions	-3.6	-3.9	Level 3
Total	**-3.9**	**-4.4**	

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

	2016 in EUR million	2015 in EUR million
Balance as at 1 January / 1 January	**3.9**	**3.8**
Currency differences	-0.2	0.3
Usage	-0.5	-0.4
Allocation (Financial expenses)	0.3	0.0
Interest expenses	0.1	0.2
Balance as at 30 June / 31 December	**3.6**	**3.9**

Level 2 financial instruments consist solely of interest rate swaps and forward exchange transactions. The fair value corresponds to the present value of estimated future cash flows based on the terms and maturities of each individual contract, discounted at a current market interest rate at the measurement date.
The fair value of the residual purchase price liabilities (Level 3) is dependent on results (i.e. earnings) benchmarks, which are based partly on target figures (for the next 2 years). The residual purchase price liabilities may alter owing to a change in exchange rates, a change in the interest rate or a change in the parameters for determining the residual purchase price. If the relevant future results were 10% greater, the residual purchase price liability would increase by EUR 0.2 million, assuming all other variables remained constant. All expenses and income relate to residual purchase price liabilities outstanding at 30 June 2016.

Other operating income
The rise in other operating income is mainly due to the accounting profit arising from the sale of a property in Italy.

Personnel expenses / Other operating expenses
Expenses of EUR 0.6 million have been recorded under Personnel expenses and EUR 0.8 million under other operating expenses in connection with the decision to close the Platthaus GmbH site.

Financial result
The EUR 0.9 million improvement in financial result is largely attributable to the improvement in currency result compared with the previous year. The previous year's financial result was negatively impacted by the scrapping of the 1.20 minimum exchange rate by the Swiss National Bank in January 2015 and the resulting need for devaluations of euro-denominated assets and receivables at Group companies that report in CHF in the previous year. In H1 2016, Brexit led to currency losses of EUR 0.4 million.

Dividend payment
Pursuant to the decision taken by the Shareholders' General Meeting held on 20 May 2016, in May 2016 shareholders were paid a dividend of CHF 15.00 per share. The withholding tax payable on the dividend in the previous year was paid in July.

Events after the balance sheet date
On 1 July 2016, the Phoenix Mecano Group acquired all of the shares in ismet GmbH, based in Villingen-Schwenningen, Germany, as well as its subsidiary in the Czech Republic.

The ismet group is well-positioned in the European transformer and choke market and serves a broad customer base in Germany, Austria and Switzerland. The profitable business generated consolidated sales of around 14 million EUR in 2015 and employs 140 people at two sites in Germany and the Czech Republic. The group's products and systems, most of which are customised, are used for voltage transformation and to stabilise power networks. Industrial applications cover a wide power range in the fields of mechanical engineering, transport (railway technology and marine equipment), building technology and renewable energy.

The acquired assets and assumed liabilities can provisionally be summed up as follows:

	Fair value in EUR million
Non-current assets	21.6
Current assets	7.1
Liabilities	-9.3
Net assets acquired	**19.4**
Purchase price paid in cash and cash equivalents	**19.4**
Provisional goodwill	**0.0**

The investment-related acquisition costs of EUR 19.4 million relate to the purchase price of EUR 17.6 million paid in cash and cash equivalents on 1 July and the expected contingent purchase price payment of EUR 1.8 million, dependent on the 2016 and 2017 operating result and payable on 15 May 2018.

Between 30 June 2016 and 12 August 2016, no other events occurred that would alter the book values of the Group’s assets and liabilities as at 30 June 2016 or that should be disclosed here.

Adoption of the condensed interim financial statements

The Board of Directors of Phoenix Mecano AG released this half-yearly report for publication on 12 August 2016.