dormakaba Holding AG

Group Management Report

Financial Year

2017/18

dormakaba

Table of Content

1. Introduction

dormakaba Group was formed from the merger between two previously unaffiliated companies, Dorma and Kaba, on 1 September 2015.

The former Kaba Holding AG, Rümlang (Switzerland), operating as dormakaba Holding AG since 24 October 2016, brought its group companies into today's dormakaba Holding GmbH + Co KGaA (Ennepetal, Germany), which was henceforth jointly owned. dormakaba Holding AG owns 52.5% of this holding company and Familie Mankel Industriebeteiligung GmbH + Co KGaA 47.5%. The acquiring company was therefore dormakaba Holding AG (Rümlang, Switzerland). dormakaba Holding GmbH + Co. KGaA is fully consolidated in dormakaba Group's consolidated financial statements, which the parent company, dormakaba Holding AG, prepared as at 30 June 2018. Minority interests are shown separately as part of equity capital. dormakaba Holding AG's headquarters is in Rümlang (Switzerland). dormakaba Holding AG has prepared its consolidated financial statements in Swiss Franc (CHF) and in accordance with Swiss GAAP FER, which is an internationally well accepted accounting standard for small and medium-sized organizations and groups of organizations with a presence in Switzerland, to the end of the financial year that runs from 1 July 2017 to 30 June 2018. dormakaba Holding AG is listed on the SIX Swiss Exchange.

In addition to the provisions of Swiss GAAP FER, dormakaba Holding AG voluntarily produces a Group Management Report that meets the requirements of the Schweizer Obligationenrecht (OR, Swiss Code of Obligations), particularly Art. 961c, and of the Deutsches Handelsgesetzbuch (HGB, German Commercial Code) § 315 HGB, and of Deutsche Rechnungslegungsstandard (DRS 20, German Accounting Standard).

2. Fundamental information about dormakaba

2.1. Business model

dormakaba Group ("dormakaba") is a global company operating in the market for security and access solutions. With strong brands such as Dorma and Kaba in its portfolio, dormakaba offers its customers products, solutions and services for access to buildings and rooms from a single source. The portfolio includes locking systems – from cylinders, keys and locks right through to fully networked electronic access solutions – but also physical access systems and automatic door systems, as well as a comprehensive range of door hinges and fittings, door closers and doorstoppers. These are augmented by products for time and enterprise data recording, high-security locks, horizontal and vertical sliding walls and movable partitions. The business is also a market leader for key blanks, key-cutting machines and products for the automotive industry, such as transponder keys and programmers.[1)]

dormakaba is active in over 130 countries and has a presence in all relevant markets through production sites and/or distribution and service offices as well as through collaborations with local partners.

dormakaba has a long tradition of innovation and engineering skills. On the way to its strategic objective of innovation leadership within the industry, dormakaba links customer requirements to technological trends and continuously develops state-of-the-art solutions that create added value for customers and users.

dormakaba's business is divided globally into five segments. These segments are based on geographical markets and products, and are aligned to the implemented management structure.

A detailed description of the segments can be found in the Notes to the consolidated Financial Statements for financial year 2017/18 at the following web address: www.report.dormakaba.com.

1) Under § 290 of the Deutsches Handelsgesetzbuch (HGB, German Commercial Code), dormakaba Holding GmbH + Co KGaA is obliged to prepare consolidated financial statements, and under § 315 HGB it is obliged to prepare a Group Management Report. However, under § 292 HGB dormakaba Holding GmbH + Co KGaA is exempt from these obligations if consolidated financial statements and a Group Management Report are produced and published at the level of the parent company in Switzerland. dormakaba Holding GmbH + Co KGaA's single-company financial statements were produced in accordance with the relevant provisions of HGB.

2.2. Goals and strategies

As a capital market-focused company, dormakaba pursues the overall objective of increasing its enterprise value on a lasting basis, i.e. across industry cycles and economic ups and downs. In addition to increasing its enterprise value, dormakaba's strategy takes into account the interests of other stakeholder groups. Above all, this includes satisfied customers and successful positioning of the company's products and services in its target markets.

Corporate strategy is based on global brand power and sustainability, and is made up of six pillars, each with its own operational goals. These strategic pillars are:

- Providing a superior offering of products, along with services to meet the needs of customers and their installations along the entire life cycle
- Extending presence in existing markets, vertical extension of these markets, and expansion into new markets
- Achieving enterprise excellence by improving processes and driving efficiency and competitiveness along the entire value chain
- Leadership in innovation
- Active management of the portfolio of business activities and disciplined pursuit of options for corporate transactions (acquisitions, divestments, joint ventures)
- Efficient deployment of employees: "the right people in the right roles"

2.3. Internal management system

dormakaba is led strategically by the Board of Directors. The tasks and responsibilities of the Board of Directors are set out in the Swiss Code of Obligations. These tasks include formulating corporate strategy and monitoring the achievement of targets. As at 30 June 2018, the Board of Directors has 10 members, who are organized into various committees such as an Audit Committee, a Nomination Committee and a Compensation Committee. At the same date, 30% of the Board of Directors was made up of women.

The Executive Committee is responsible for the operational management of dormakaba. Its responsibilities are divided up according to, among other things, segment and Group functions. Delegation of authority is implemented in such a way, that decisions can be made as quickly as possible, e.g. on the basis of information from local markets.

Management of the Group is based on budgetary and medium-term planning, which is formulated every year. The budget covers a period of one year, which represents the first year of a three-year planning timeframe. This planning serves to put the corporate strategy into operational practice, and to implement the defined goals. The plans take account of how markets, and especially segments, are developing. Forecasts about these developments form the basis for forecasting incoming orders and thus for setting sales and earnings targets. These then allow the Group to make further plans, e.g. about human resources, investments and funding.

The operational implementation of management objectives, which are focused on the overriding goal of a sustainable increase in enterprise value, requires a management system. This management system is used throughout all the relevant individual companies within the Group. It includes internal Group rules on compliance and risk management, and is based on financial and non-financial key figures. The financial key figures are based on Swiss GAAP FER rules, which are used across the whole Group.

Individual companies use a so-called Management Information System software to report the relevant information on defined dates each month, quarter, half-year and year. This information is consolidated at segment and Group level and compared to the prior year and to the budget.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) report each month to the Board of Directors about the extent to which financial targets have been met. Monthly performance reviews are also held with the segment heads, the Chief Operating Officers (COO), where significant deviations from the budget and the previous year are discussed and any necessary measures formulated.

The following benchmark figures have been defined to operationalize the financial targets and manage dormakaba on a continuous basis:
• Sales revenues, in particular organic sales growth
• EBITDA and EBITDA margin
Organic sales growth is understood to mean the positive trend in sales revenues, excluding any changes attributable to corporate transactions or currency translation effects.

dormakaba defines EBITDA in the industry-standard way as operational earnings before interest, taxes, depreciation and amortization. The EBITDA margin benchmark is expressed as the ratio in percent between EBITDA and sales. EBITDA and EBITDA margin are both shown in the consolidated financial statements as benchmark figures.

2.4. Basic elements of the compensation system for Board of Directors and Executive Committee

The principles for compensating the Board of Directors and Executive Committee are set out in the Articles of Incorporation. The term "Executive Committee" refers to the members of the Executive Committee. The relevant regulations are published via Internet on the homepage of the company[2)]. The following regulations are particularly important:

• Basic principles of compensation for the Board of Directors (Article 23)
• Basic principles of compensation for the Executive Committee (Article 24)
• Binding vote by the General Meeting (Article 22)
• Maximum additional amount of compensation for new Executive Committee members (Article 25)
• Loans (Article 28)

a) Compensation of the Board of Directors

Members of the Board of Directors only receive a fixed compensation based on the responsibilities and time requirement of their function, without any entitlement to performance related compensation. This ensures that the Board of Directors remains independent while exercising its supervisory duties towards the Executive Committee. The amount of compensation for each function of the Board of Directors is determined annually considering the market compensation trends and comparisons with other listed Swiss industrial companies which operate internationally. The compensation system and levels are documented in a compensation directive.

b) Compensation of the Executive Committee

The compensation awarded to the Executive Committee is primarily driven by the success of the company.

In addition to a competitive fixed compensation there is a performance-related component that rewards for performance and allows members of the Executive Committee to participate in the company's long-term value creation. The overall compensation consists of the following elements:
• Annual base salary
• Benefits (such as retirement benefits, insurances and perquisites)
• Short-term incentive (cash-based)
• Long-term incentive (share-based)

To ensure consistency across the organization, roles within the organization have been evaluated using the job grading methodology of Korn Ferry Hay Group. The grading system is the basis for compensation activities such as benchmarking and determination of compensation structure and levels.

b1) Annual base salary

Members of the Executive Committee receive an annual base salary for fulfilling their functional role. Its size is based on the following factors:
• Content, responsibilities and complexity of the function
• External market value of the respective role: amount paid for comparable positions in the industrial sector in the country where the member works
• Individual profile in terms of skill set, experience and seniority

2) The Compensation Report, with further details of the 2017/18 financial year, can be found at the following web address: www.report.dormakaba.com

b2) Benefits

As the Executive Committee is international in its composition, the members participate in the benefit plans available in their country of employment. Benefits consist mainly of retirement, insurance and health care plans that are designed to provide a reasonable level of protection for the participants and their dependents in respect to the events of retirement, disability, death, and illness/accident. Members of the Executive Committee are also provided with certain executive perquisites such as company cars or car allowances, representation allowances and other benefits in kind according to competitive market practices in their country of employment.

b3) Variable compensation

• Short-term incentive (cash-based)

The short-term incentive is defined annually as a cash payment and aims to motivate the participants to meet and exceed the company's measurable financial objectives, which are defined in line with the Group's strategy. Pursuant to the article of incorporation 24 the short-term incentive may not exceed 150% of the individual annual base salary for the members of the Executive Committee (cap).

Following the "We are ONE company" principle, the individual short-term incentive paid to the members of the Executive Committee is strictly based on Group and segment financial objectives and not on individual goals. The business results are compared to the previous year's results (and not with negotiated budget targets) to drive a continuous improvement of the business achievements, year after year.

• Long-term incentive (share-based)

The purpose of the long-term incentive is to give the Executive Committee an ownership interest in dormakaba and a participation in the long-term performance of the company and thus to align their interests to those of the shareholders. Pursuant to the article of incorporation 24 the fair value of the LTI may not exceed 150% of the individual annual base salary for the members of the Executive Committee (cap).

The long-term incentive award is split into two components: two-thirds are granted in form of restricted shares of dormakaba subject to a three-year blocking period. This component of the award is designed to provide participants an ownership interest in the long-term value creation of the company by making them shareholders. The remaining third of the award is granted in form of performance share units of dormakaba subject to a three-year performance-based vesting period. This component of the award is designed to reward participants for the future performance of the earnings per share (EPS) of the company over the three-year performance period.

The long-term incentive plan has been thoroughly reviewed during the reporting year and will be refined starting with the grants in September 2018 for financial year 2018/19. In a first step (for the award in financial year 2018/19 that will be granted in September 2018), the grant size will be determined as a monetary amount rather than a number of shares. Further, the performance measurement will include relative total shareholder return (TSR) and EPS growth over the three-year vesting period. TSR will be measured relatively to companies of the Swiss Market Index Mid (SMIM) and will provide for a full vesting for median performance. The EPS growth target will be fully aligned with dormakaba's communicated strategy of organic sales growth, which is to outperform weighted GDP growth by 2% points. In a second step (as of grant in September 2019), the mix between restricted shares and performance share units will be shifted towards more performance share units to further align to market practice: half of the grant in September 2019 will be awarded in form of performance share units and half of the grant will be awarded in form of restricted shares.

2.5. Environmental protection and sustainability reporting

dormakaba has defined sustainability as a foundation of its strategic pillars. The company is committed to foster a sustainable development along the entire value chain in line with its economic, environmental and social responsibilities toward current and future generations.

dormakaba seeks an open and transparent dialogue with its stakeholders to define strategies and actions based on clear targets and continuous improvement, and it actively reports on its progress in its annual Sustainability Report. dormakaba is a member of the UN Global Compact and publishes its annual “Communication on Progress” on the UN Global Compact website.

dormakaba also reports to the Carbon Disclosure Project annually.

In the 2017/18 financial year, dormakaba invested in a comprehensive materiality reassessment to be aligned to the GRI Standards. As part of the materiality process, the company focused its efforts on a study-based impact assessment of sustainability topics along the value chain. The analysis included dormakaba data from procurement, sales, production and human resources and was overlaid with over 50 risk indicators from social hotspot databases, the World Bank and the OECD.

The approach provided a structured qualitative analysis of environmental, social and economic indicators for the countries and industries dormakaba is involved in throughout the value chain. Seventeen sustainability topics have been defined as material until the year 2021.

dormakaba’s environmental management focuses mainly on the energy and emissions-intensive processes of electroplating and surface finishing, painting, melting and zinc and aluminum die casting. Measures are taken to reduce energy consumption, and to monitor and reduce CO_2 emissions, water consumption, waste water and general waste. Currently approximately one third of the production sites covered in the scope of its sustainability reporting are certified to an environmental management system such as ISO 14001.

More information can be found in the dormakaba Sustainability Report 2017/18 at the following web address: www.report.dormakaba.com.

2.6. Research and development

dormakaba’s innovative strength plays a crucial role, and the development of new products, solutions and services is key to its sustainable, profitable growth. To make the company even more competitive globally, dormakaba has increased the pace of innovation and accelerated product development and the time-to-market of new products. The aim is to invest 4–5% of consolidated sales in innovation and product development every financial year. Research and development activities are coordinated across all segments. In financial 2017/18, digitization continued to be important in research and development work. The digitization of processes and products creates opportunities for new business models and value streams.

In recent years, dormakaba’s product portfolio has increasingly embraced electronics and connectivity. For example, the company has achieved strong growth supported by its Mobile Access Solutions, which allow e.g. hotel guests to open their doors with their smartphones. This technology is now expanded into Exos 9300, the flexible and scalable access management solution, and into Matrix Professional Access solution, which meets individual requirements with regard to access control, time recording and time management.

Exivo, another web-based access solution, enables small and mid-sized enterprises to individually plan, configure, customize, and install access systems with both electronic and wireless components, and dynamically assign access rights. With this network solution, dormakaba is operating as a service provider with a forward-looking business model, known as “Access as a Service”.

dormakaba also wants to continue to expand its market leadership in mechanical solutions with innovations. For example, it produces high performance, high-quality products to meet the growing demand for cost-effective solutions in Asia. In Europe and in America another goal is to extend services as a strong part of its solutions. The products launched in the 2017/18 financial year included:

- A new solution for automated fire doors: dormakaba swing door operators ED 100 / ED250 are now available with integrated smoke detector.
- KTV Atrium Flex introduced in Segment APAC - Automatic full-glass revolving door with KT Flex Direct operator under ceiling instead of conventional underfloor operator.
- New generation of Orthos PIL-M02 Exit Lane Breach Control used primarily as automated exit lanes in airports to provide for a secure 1-way pattern of pedestrian egress.
- In the USA, dormakaba has changed the entire range of swing door operators to the ED 100/250 systems. For this purpose, the housings in the USA were adapted to the requirements of the American market and it is now the first modular drive system for reliable opening and closing of swing doors in the USA with a uniform design.

• The new Quantum Pixel Lock brings a minimum hardware exposure to every hotel door while supports RFID and Bluetooth operation for the guests.
• The new dormakaba jay cloud provides direct integration of dormakaba products with SAP Success Factors for access control and time management allocated to the roles of employees within a company. This is the first tailormade solution that is fully integrated in the SAP Hana cloud platform and ensures that access rights are always up to date, thus increasing control and security.

dormakaba will continue to invest substantially in the development of new and existing products, of services and platforms as part of its solutions, as well as in modernizing its production facilities and developing its information technology systems.

3. Presentation of the course of business and economic position

3.1. Macroeconomic and sector-specific conditions

The overall economic environment during the 2017/18 financial year was similiar to the previous year.

According to an analysis of the World Bank, the global growth in the second half of 2017/18 was solid. Main contributors were: Global capital spending, exports and industrial production. As a result, and despite substantial political uncertainty, global growth is projected to stay stable at 3.1% in 2018 (2017: 3.1%) (Source: World Bank Group, Global Monthly, June 2018).

dormakaba as a global operating company is active in very heterogenous regional markets. The company discloses information about the economic developments in each of its geographical segments (see Annual Report 2017/18 at the following web address: www.report.dormakaba.com) which illustrates how heterogeneous developments in the global markets influenced dormakaba's economic success during the year under review.

In the 2017/18 financial year, dormakaba operated in a market environment characterized by a growing global demand for security. Four further trends also point to a positive performance in future. Prosperity is increasing globally, especially in growth markets with growing middle classes, and this is fueling the desire for additional protection. At the same time, average life expectancy is rising steadily, which means that institutions and private homes increasingly need barrier-free solutions that allow senior citizens to move easily from room to room.

Around the world, urbanization is creating more conurbations and more cities with over a million inhabitants, requiring ever more complex infrastructure solutions. Buildings and land have to be secured, while flows of people have to be managed in ways that ensure optimum efficiency and convenience. Last but not least, technology influences practically every aspect of the access and security market, from digitization to distribution channels to the networking of products in the "Internet of Things".

All of these factors are contributing to a growing demand for secure, intelligent access solutions. With its comprehensive service portfolio and global presence, dormakaba is playing a significant role in this fast-growing market.

3.2. Course of business and position at the end of the financial year

Overall, results for the 2017/18 financial year were solid, but did not meet dormakaba's expectations. After a very successful 2016/17, these expectations centered on further integration progress in the third year since Dorma and Kaba merged to dormakaba, further improvements in existing business, and growth from acquired companies. The integration process was largely completed in almost all countries by the end of the 2017/18 financial year, though there were some delays, particularly in Germany and the USA. Sales and EBITDA increased, organic sales growth and EBITDA margin however remained below expectations. Operating cash flow and net profit was up on the previous year as well.

The average number of full-time equivalent employees in the 2017/18 financial year was 16,432 (previous year 16,250 full-time equivalent employees).

dormakaba's financial performance in the financial year 2017/18 is to be rated rather solid.

3.3. dormakaba's earnings, financial and asset position

dormakaba generated solid results in the financial year 2017/18. Consolidated net sales grew by 12.7% (CHF 320.9 million), and reached CHF 2,841.0 million compared to CHF 2,520.1 million in the previous year. Acquisitions and divestments contributed 8.2% (CHF 207.5 million) to growth, while organic sales growth accounted for 2.6% (CHF 65.5 million). The foreign exchanges rates had a positive impact on reported sales growth of 1.9% (CHF 47.9 million), mainly due to the weaker Swiss Franc against the Euro.

3.3.1. Profitability

EBITDA for the reporting period increased by 11.3% (CHF 43.7 million) and came to CHF 431.0 million compared to CHF 387.3 million in the previous year. The EBITDA margin reached 15.2%, which was slightly below the previous year level of 15.4%. Acquisitions and divestments had a positive net impact on EBITDA in an amount of CHF 52.1 million. EBITDA was also positively impacted by currency translation in an amount of CHF 9.7 million. Within the organic business EBITDA came in lower than previous year due to weaker business performance especially in the US and Germany (CHF -18.1 million). The positive impacts on the Group's EBITDA margin from the contributions of higher volumes, acquisitions and merger related cost savings were more than offset by integration-related IT costs, unfavorable product mix effects and a delay in efficiency gains in Germany. EBIT increased by 11.4% to CHF 364.3 million (previous year CHF 327.0 million) and the EBIT margin was at 12.8% (previous year 13.0%).

3.3.2. Financial result, profit before taxes and income taxes

The net financial result was CHF -48.6 million in the financial year 2017/18. Key driver was the full-year effect of the interest charges arising from the financing of the acquisitions executed in the reporting period and the year before. In the previous year acquisition related interest charges started to occur only as a result of the acquisitions of Mesker (December 2016) and Best Access (February 2017). Profit before taxes came to CHF 315.7 million (previous year CHF 295.2 million). Income tax amounted to CHF 77.0 million, resulting in an income tax rate of 24.4%. As expected, the US tax reforms that came into force at the start of 2018 had and will continue to have a positive impact on the weighted applicable tax rate, which was further reinforced by some other one-off tax factors. Previous year's effective tax rate was significantly lowered by positive merger related one-off tax effects. Consequently, the effective tax rate for financial year 2017/18 was only slightly higher than the previous year's 23.9%.

3.3.3. Net profit

dormakaba closed the financial year 2017/18 with a higher net profit of CHF 238.7 million (previous year CHF 224.6 million). This increase of 6.3% is mainly attributable to earnings growth through acquisitions; profit margins remained relatively stable. Consequently, net profit after minority interests rose by 6.4% to CHF 123.8 million from CHF 116.4 million in the previous year, and earnings per share (diluted) came to CHF 29.5 (previous year CHF 27.7).

3.3.4 Cash flow and balance sheet

Cash flow from operations amounted to CHF 367.2 million, and free cash flow increased to CHF 37.1 million (previous year CHF 354.7 million and CHF -699.2 million, respectively, due to acquisitions). This higher operational cash flow resulted primarily from the contribution from acquired businesses, but was partly compensated by significant expenses for merger related restructuring. Cash flow from investing activities includes CHF 115.3 million for capital expenditures, as well as CHF 141.5 million for acquisitions. Cash flow from financing activities includes the refinancing of previous short-term financial debt through the placement of two bonds in a total value of CHF 680 million in October 2017[3)]. As a result, on the balance sheet date of 30 June 2018, net financial debt stood at CHF 701.2 million (previous year as at 30 June 2017: net debt of CHF 627.6 million). The net debt ratio to EBITDA remained stable at 1.6 times.

3) dormakaba successfully launched two bonds at the Swiss debt capital market in October 2017 worth CHF 680 million with maturities in October 2021 (CHF 360 million; coupon of 0.375% p.a.) and October 2025 (CHF 320 million; coupon of 1.00% p.a.). The issuer dormakaba Finance AG, Ruemlang, Switzerland, is rated BBB- with a stable outlook by UBS as well as ZKB; the bonds are guaranteed by dormakaba Holding AG. As a result of the bond financing, the five-year CHF 500 million syndicated credit facility, agreed during financial year 2015/16 with a consortium of banks, was set back from CHF 1,150 million to its original amount of CHF 500 million on 13 October 2017. The options for prolongation of two additional years and increase of up to CHF 200 million of the syndicated credit facility are reinforced as a result of the bond financing.

As at 30 June 2018, total assets were at CHF 1,982.3 million. Within current assets, cash and cash equivalents amounted to CHF 145.3 million; inventories stood at CHF 432.3 million (21.8% of total assets; previous year 21.5%), and trade receivables at CHF 502.1 million (25.3% of total assets; previous year 24.2%). Non-current assets consisted mainly of property, plant and equipment worth CHF 458.6 million (23.1% of total assets; previous year 21.6%). Total liabilities were at CHF 1,795.3 million (90.6% of total assets; previous year 90.4%), of which CHF 680.5 million reflects the two bonds due in 2021 and 2025.

In the financial year 2017/18, the company's equity increased from CHF 183.1 million to CHF 187.0 million, with an equity ratio of 9.4% (9.6% as at 30 June 2017). The change in equity is mainly due to goodwill from acquisitions executed during financial year 2017/18 in the amount of CHF 145.0 million, which was fully and directly offset against equity, dividend payments to shareholders in an amount of CHF 113.3 million and the net profit contribution of CHF 238.7 million.

3.3.5 Currency effects

In summary, currency translation had a positive effect on sales, profitability, cash flows and equity in financial year 2017/18. This was driven by the Euro against the Swiss Franc compared to the previous year, which strengthened by 7.2% from CHF 1.080 to CHF 1.158. Slightly compensating was the stronger Swiss Franc against the US Dollar, where the average exchange rate of the US dollar fell by 2.1% from CHF 0.991 to CHF 0.971.

3.4. Non-financial performance indicators

dormakaba continuously tracks non-financial performance indicators. These indicators have a strategic focus resp. objective, however dormakaba is not being operated by them. The main non-financial performance indicators are the following:

• Customers and products

One of the things that the "dormakaba" brand stands for is high-quality products. Product quality and customer satisfaction are, therefore, crucial and must remain a focus at all stages of the value chain. Customer satisfaction is measured regularly through customer dialog as well as through local online surveys. Customers consider the expanded offering from a single source usually as a benefit.

• Human Resources

Employees are crucial to the success of dormakaba. Therefore, the company strives to shape a work environment which enables professional growth and engagement.

In the 2017/18 financial year, dormakaba launched its first Group-wide employee survey after the merger. The aim of the survey was to gauge employee engagement and performance enablement. The latter focuses on, for example, whether employees have the required skills, tools and information to do their jobs adequately. The anonymous survey focused on topics such as change management, work environment, management (including the direct supervisor), strategy and values. 72% of dormakaba employees in 52 countries participated in the survey, which was available in 18 languages. Managers on all levels discussed the results in team workshops and started to define and implement measures.

dormakaba offers various trainings and development programs to continuously develop and engage its employees, for instance courses on sales skills, project management, intercultural awareness or leadership. More information on Human Resources can be found in the dormakaba Sustainability Report at the following web address: www.report.dormakaba.com.

• Compliance and human rights

When conducting its business, it is essential for dormakaba to comply with local laws and internal company rules at all its locations. This applies to internal processes as well as to relations with external partners, including customers, authorities and suppliers. To live up to its responsibilities in these areas, dormakaba has developed measures and processes to ensure its responsibilities are met and to prevent abuse. These measures and processes are continuously developed further and improved. The company sets binding rules in its Group-wide Code of Conduct which was made available to employees on an internal platform on 1 July 2016. The Code and additional directives form an important foundation for dormakaba's sustained economic success all over the world. Employees are given specific training in the Code of Conduct and its individual elements.

dormakaba acknowledges its responsibility to respect human rights as outlined in the UN Guiding Principles on Business and Human Rights (UNGP), the UN Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the EU Conflict Minerals Regulation and the UK Modern Slavery Act 2015.

In the financial year 2017/18, the company has started working with external human rights and business experts to outline the practical application of the UNGP within the business.

• Environment
dormakaba uses resources in the manufacture of its products, and generates waste and emissions (see also 2.5). Environmental issues are therefore a key aspect of sustainability, and are relevant along the whole value chain. A detailed overview of dormakaba's sustainability work and the most important benchmarks, including greenhouse gas emissions, energy consumption, water consumption and waste management can be found in the dormakaba Sustainability Report at the following web address: www.report.dormakaba.com.

• Supply chain
dormakaba pursues a comprehensive and consistent procurement policy. Based on a detailed analysis of all expenditures, goods and services are grouped into material categories according to their characteristics. By means of this analysis, all products and quantities as well as the complete supplier portfolio are identified and then classified into either global, regional or local material groups.

The process to approve a supplier is in accordance to DIN and ISO requirements, as are the supplier evaluation and assessment processes. Audits are performed on demand, for example, for new suppliers or covering quality issues. In addition, the dormakaba Supplier Code of Conduct (SCoC) outlines minimal requirements with regards to human rights, fair working conditions, environmental responsibility and business ethics, among others.

4. Forecast, opportunity and risk report

4.1. Opportunity and risk report

4.1.1 Opportunities

• Opportunities arising from market position and synergy effects
The merger to dormakaba on 1 September 2015 has opened up numerous opportunities for the Group. dormakaba is one of the global leaders in the fragmented market for security and access solutions, and can offer its customers high quality products, solutions and services for access to buildings and rooms from a single source. dormakaba is expanding its competitive position based on Dorma's and Kaba's complementary product portfolios, combined geographical presence and optimized value chains.

• Opportunities arising from the “dormakaba” brand
The two well-known brands Dorma and Kaba are being continued under “dormakaba” following the merger. Both brands and their sub-brands are well known in the relevant customer groups as representing high quality, innovative products. By combining the two brands to one brand for Access Solutions (AS), opportunities are being created by complementary strengths, firstly through the cross-selling potential, and secondly through the ability to offer customers a comprehensive product portfolio from a single source.

• Opportunities arising from industry consolidation
Opportunities also arise from the ongoing and anticipated consolidation of the industry. Despite the consolidation that has already occurred, the market for security and access solutions remains highly fragmented. The three biggest companies in the industry together account for only about 25% of market share. dormakaba wants to build up its market position substantially and thus continue to play an active role in industry consolidation. The focus for any acquisition activity is to strengthen the Group's global presence, and to secure targeted improvements in technologies and/or the product portfolio, innovations and services, while at the same time maintaining a solid financial profile.

• Opportunities through innovation
The market for security and access solutions is in upheaval. Megatrends, such as the rising need for security, urbanization, demographic change, technology and increasing prosperity in emerging economies, are driving the demand, but also require new technological approaches. In the coming

years, dormakaba plans to invest 4–5% of sales annually in innovation and product development to exploit the growth opportunities brought by these megatrends, and to achieve its desired innovation leadership (see also the statements on research and development under 2.6).

4.1.2 Risk policy, risk management and risks at dormakaba

• Risk policy

dormakaba is a globally active business. All its business activities are conducted with the aim of securing economic success. However, these activities can also bring risks. The overriding goal of the Executive Committee's risk policy is to secure the future development of dormakaba, to achieve sustainable profitable growth and thus to increase shareholder value[4)]. Opportunities are therefore taken in the course of the Group's business activities; the associated risks are identified early, actively monitored and reassessed on a continuous basis.

dormakaba always takes strategic and operational decisions on the basis of a systematic analysis and evaluation of the opportunities and risks relating to its asset, financial and earnings position. It never enters into incalculable, unreasonably high or existential risks.

Opportunities, as understood in the Group's opportunity and risk policy, are chances to use events, developments or active operations to achieve or exceed planned quantitative and qualitative objectives. Risks, as understood in dormakaba's risk policy, are all those internal and external events and developments that could have a negative effect on the Group's planned economic success. In addition to direct, quantitatively measurable risks, qualitative risks, such as reputational risks, are also taken into account.

• Risk management

dormakaba's overriding aim is to sustainably increase its enterprise value (see also 2.2). Active risk management helps the company's management to achieve this goal. Opportunities and risks should be identified at an early stage and actively controlled. To do this, dormakaba has implemented a comprehensive risk management system.

a) Internal control system based on Group accounting

dormakaba has implemented an internal control system (ICS) based on the (Group) accounting[5)] as defined in Art. 728a of the Swiss Code of Obligations. With respect to accounting, the ICS ensures that business activities are correctly recorded, analyzed, evaluated and transmitted to the external accounts.

The essential characteristics of dormakaba's ICS with respect to accounting are:
- A clear organizational, business, controlling and monitoring structure.
- Computer systems used for accounting are protected against unauthorized access.
- Internal regulations about the specific requirements are developed, implemented and communicated.
- The departments and persons involved in accounting meet the requirements in terms of quantity and quality.
- The ICS, as it relates to accounting, and the internal reporting systems ensure and continuously check the correctness and completeness of data in the accounting system. The internal audit department regularly conducts spot checks of the implemented processes and controls.
- The two-pairs-of-eyes principle has to be applied to all processes relevant to accounting, and the separation of functions has to be respected, both to the extent organizationally possible, which is subject to special audits.
- The Board of Directors regularly deals with the main topics relevant to accounting, risk management, Internal audit, the external audit mandate and external audit priorities.

4) In the course of its business activities, dormakaba is exposed to the general risks inherent in any entrepreneurial operation, and these may impede or prevent the achievement of its goals. Consequently, it is sometimes necessary to take certain calculable and controllable risks to exploit the opportunities this risk-taking creates.

5) The following section talks about "accounting", by which is meant consolidated Group accounting

In addition, statutory and specific internal corporate guidelines and directives are used to ensure that accounting is consistent and proper. The application of clear and consistent accounting rules and a consistent consolidation software ensures consistent accounting throughout the Group in line with legal and statutory requirements.

Further information can be found in the dormakaba Corporate Governance Report 2017/18 at the following web address: www.report.dormakaba.com.

b) Risk management system

Risk management is integrated into the regular business and decision-making processes, codified in internal rules and regulations, and made binding to all Group companies. It includes an impact-focused assessment of risks, implementation of appropriate risk control measures, regular review of identified risks and measures, and transparent reporting of the risk situation. Responsibility for the definition and monitoring of risk management ("risk governance") lies with the Board of Directors, while the Audit Committee monitors implementation. Responsibility for implementing and applying the risk management system rests with the Executive Committee and with line managers throughout the hierarchy.

Risk management distinguishes between operational and strategic risks:

- Within dormakaba's risk management system, operational risks are future events that could hurt the efficiency or effectiveness of business processes, or that could compromise compliance with regulations or reporting requirements in day-to-day business. Responsibility for identifying and controlling these risks lies with segment heads.
- Strategic risks are future events that may compromise the long-term development of dormakaba and prevent it from reaching its strategic objectives. Reports about strategic risks from the segments and Group functions are consolidated at Group level into risk maps that show likelihood of occurrence and potential amount of damage, with both dimensions divided into four evaluation categories. Strategic risks are discussed within the medium-term planning process and consolidated by the Executive Committee into a "Group Risk Assessment" that is presented for approval to the Board of Directors through its Audit Committee. The Executive Committee reviews the risk situation every half year. Additionally, the risk situation is scheduled for discussion and review during the segments' Monthly Performance Review meetings every quarter.

The Group Internal Audit function is responsible for internal audits at dormakaba. Internal Audit reports directly to the Audit Committee, though in functional terms it reports to the CFO. Group Internal Audit performed audits approved by the Audit Committee in 2017/18.

Risks faced by dormakaba

• Risks arising from the merger to dormakaba

The merger to dormakaba on 1 September 2015 placed particular requirements on the new company with regard to the design of its organizational and process structure, harmonization of processes, maintaining performance levels, stability of the new operating model, and the merging of business cultures. To ensure these processes are comprehensively managed with adequate resources, an Integration Management Office (IMO) was set up, led by the Chief Integration Officer (CIO) whose job was to plan, monitor and control all the integration projects. All the integration tasks associated with the merger to dormakaba were controlled by the CIO until end of June 2018. At that time and in line with plans, the CIO left the company and the IMO was dissolved. As of 1 July 2018, the COOs are generally responsible for the remaining integration tasks with the CFO ensuring the corresponding progress reporting.

• Risks arising from business transactions

The planned growth strategy is also implemented by means of acquisitions. This creates risks in the evaluation, transaction and integration of the corresponding entities and assets. To minimize these risks, dormakaba manages the acquisition projects rigorously using well-trained specialist employees and professional support from outside the Group.

• Opportunities and risks arising from the business model

In recent years, dormakaba has continued to extend its product portfolio on electronic and cloud-based solutions. Its products are very frequently used in security-relevant applications such as access control systems; increasingly often these are connected. dormakaba is therefore more exposed to the risk that hackers will gain unauthorized access and thus cause damage to the Group's assets and its reputation. dormakaba counters the increasing significance of such cyber-crime scenarios during the product development process by using the latest methods to identify points that could be attacked, and then closing these known vulnerabilities in the hardware and software before new products are launched on the market. Equally important, existing products (mechanical, electronic and cloud-based) are subject to continuous testing to keep them robust against new threats. Additionally, dormakaba has taken out insurance to be protected against cyber threats to the extent possible.

The trend toward “Industry 4.0” is progressing rapidly, and it is essential to dormakaba’s success that it keeps pace with this development. This applies to the Group’s products and their connectivity, but also to operational processes. Sudden, disruptive developments are not rare these days, and there is a risk that competitors could use such disruptive leaps to create significant advantages for themselves. dormakaba’s innovation management team systematically observes and analyses the relevant technologies. As part of medium-term planning, targeted analysis of information relating to the state of the market and the competition is conducted to ensure that local peculiarities are also taken into consideration.

For dormakaba, as a manufacturer and supplier of high quality access solutions in the upper market segment, the growing pressure on prices in relevant markets and specific product areas also represents a risk. It counters this risk through the targeted development of new products that offer customers a broader range of services, and thus help to secure the Group’s market position.

A significant risk in product manufacturing is the possibility of a lengthy interruption to operations at one or several of the Group’s worldwide production sites, for example because of fire. Supplier failure and poor quality raw materials and components also constitute a risk. Alongside the essential insurance protection, a central goal of the loss prevention programs is in place at all manufacturing sites to minimize the risk of fire. Through these programs, the measures in place to prevent fire are regularly updated, formulated and implemented. This is a recurring process that includes regular site visits and systematic risk grading analyses, conducted by dormakaba’s global insurance provider who also organizes feedback loops and supports in improvement projects.

Manufacturing processes create the risk of air and water pollution. To minimize this risk, dormakaba invests continuously in environmental protection measures. dormakaba has ISO 14001 certification for 14 of its sites worldwide.

As a globally active company, dormakaba is exposed to risks created by the political situation in individual countries and regions, which it is scarcely able to influence. dormakaba carefully monitors such situations and tries to implement prompt and appropriate risk control measures. Its top priority is always to protect its own employees.

• Personnel risks

Committed employees and managers are crucial to the sustainable business success of dormakaba and to the implementation of its strategies. Alongside the current integration risks and the uncertainties these may cause for employees, the most common personnel risks evaluated by the Group are those relating to succession planning, fluctuation and competences. There is a risk that vacant positions cannot be filled properly, and that competent employees could be lost. In the wake of various personnel initiatives, and with the aim of fostering long-term employee retention, these risks are addressed in the segments with the help of employee surveys, talent and succession management, and through individual, targeted employee development. The company has also developed various change management measures aimed at supporting employees in phases of uncertainty during the integration, and thus contributing to the development of a new corporate culture.

• IT risks

dormakaba’s main business processes and customer solutions are supported by IT systems. The failure of these systems and the permanent loss of data through operating or program error, or as a result of increasingly prevalent external influences (e.g. cybercrime) represent a risk. To limit the risk of critical systems failing, dormakaba’s IT strategy uses standards such as Client Security, Access and Access Control Management, Network Security Management, Network and Infrastructure Management (e.g. redundant network connections) and Data Center Management (e.g. provision of redundant data and systems). Information security efforts are coordinated in an implementation project for an Information Security Management System (ISMS) according to ISO 27001. In financial year 2017/18, a new position and a steering committee were created to lead and monitor this process.

Successful and timely execution of the global IT strategy (standardization of applications and infrastructure), which has been defined following the merger, is vital for dormakaba's future success. Failure could result in delay of integration projects and underperformance of important business or Group-wide processes, including financial damage. dormakaba manages such risks by an IT governance model, which involves all relevant stakeholders including operational business.

• Legal and tax risks

As a globally active group of companies, dormakaba is exposed to the risk of legal disputes. These legal disputes can concern e.g. product liability, competition and antitrust law, trademark rights or patent rights. Risks are minimized with the aid of Group-wide standards. The internal Legal department and/or external lawyers are brought in for legal matters associated with specific risks. Such risks are not currently expected to have any significant effect on dormakaba Group's asset, financial or earnings position.

As well as legal risks, international business activities can also give rise to tax risks, e.g. changes in the law that influence transfer pricing rules within the Group. Changes can have an impact on tax exposure and can lead to higher tax payments. These risks are addressed through constant monitoring of statutory regulations by the internal tax department, and through changes to Group-specific rules where these become necessary.

• Compliance risks

The goal of dormakaba's Compliance Management System is to prevent damage to the company and its employees arising from breaches of the applicable law and internal directives. Prevention is the priority: the implemented system is intended to avoid infringements, and employees are trained and advised.

In wake of the merger to dormakaba, the merged company initiated a harmonization of the entire Compliance Management System rules. On 1 July 2016, the new Code of Conduct entered into force and meanwhile the vast majority of internal rules and regulations on Group Directive level is harmonized. Transitional regulations were in place until 30 June 2018.

Such a system can only work if employees are sensitized to the whole subject of compliance, so dormakaba managers are regularly trained in the subject. During fiscal year 2017/18, more than 80 % of all dormakaba employees participated in dormakaba Code of Conduct trainings. The implemented compliance mechanisms are adjusted to changing circumstances where necessary.

Compliance risks arise as a result of a business model involving worldwide production and sales units, a growth strategy in emerging countries and increasingly internationalized procurement. Risks also result from the wide variety of distribution channels, from participation in tendering processes, from the use of products in public spaces and private buildings, and from active work within trade associations. Significant compliance risks include bribery and corruption, infringements of antitrust and competition law, fraud, preferential treatment of business partners from personal motives, violation of intellectual property protection rights, and shortages or improper installation of products. These risks can result in financial, liability and reputational damage.

• Other risks

dormakaba's business model could also give rise to other risks not mentioned so far. These could be, for instance, liability risks resulting from local laws that are not known at Group level. dormakaba counters these risks by keeping the quality of its products and services consistently high, by engaging legal experts when the risk of a legal dispute is identified, and by taking out appropriate insurance cover. Currently no other risks have been identified that could significantly affect the asset, financial or earnings position of dormakaba.

• Financial risks

dormakaba is exposed to various financial risks on account of its international activities. As well as the risk of default on claims, e.g. trade receivables, liquidity and credit risks, these include market price risks in particular (interest rate, currency and other price risks).

Trade receivables are settled by customers on the basis of previously agreed payment terms. To minimize the risk of non-payment, a strict credit management system is applied, and creditworthiness is checked against internal rules. Individual overdue receivables are written down in the accounts in accordance with the relevant rules. The Group's risk policy is risk-avoidance by using as much natural hedges as possible on the income statement and on the balance sheet.

The financial risks incurred by entering into financial instruments are managed and monitored centrally by the Group Treasury department on the basis of a financial directive. Significant risk positions are reported using a standardized procedure based on currency-differentiated planning and/or average historical values. Group Treasury analyses and evaluates the risks and decides centrally whether to use hedging instruments.

Default risks are associated with financial investments, bank credit balances and positive market values of financial derivatives. These risks are countered by selecting highly creditworthy banks and defining maximum amounts for each bank used. Counterparty risk is checked by analyzing the creditworthiness of the financing partners every month. Where necessary, the amount of business done with each partner is adjusted as appropriate.

The Group's global focus results in currency risks. Exchange rate fluctuations cause transaction risk on future foreign currency payments, so these risks are limited by means of a worldwide intercompany netting system. Foreign currency risk is hedged on the basis of transactions that are extremely likely to occur, so called anticipatory hedging relationships. The hedging instruments used are foreign exchange spot and forward transactions, plain-vanilla currency options and non-deliverable forwards. The intra-Group loans made as part of the central financing strategy are hedged by signing forward exchange contracts against exchange rate fluctuations. This risk hedging is not disclosed in the financial statements in the form of valuation units, nor is hedge accounting used in the financial statements.

Interest rate risks are managed and monitored centrally. Interest risk for mid and long-term funding was mitigated by issuing bonds with fixed coupons for maturity 2021 and 2025. Owing to the current interest rate environment and market expectations, no interest rate hedges were used for short-term borrowings in the 2017/18 financial year.

The granting of financial assurances (guarantees, letters of comfort) to Group companies is also centrally controlled by Group Treasury.

Since 1 April 2014, the "European Market Infrastructure Regulation" (EMIR), the EU initiative to regulate OTC trade in derivatives, has imposed an audit duty. During the annual audit under § 20 para. 1 of the German Securities Trading Act for the audit period from 1 July 2016 to 30 June 2017, it was confirmed that dormakaba has an overall and in all respects appropriate and effective system for ensuring compliance with the statutory requirements.

Most of the funding for dormakaba's companies is managed centrally. The five-year syndicated credit facility, agreed for dormakaba during financial year 2015/16 with a consortium of banks, was set back from CHF 1'150 million to its original amount of CHF 500 million on 13 October 2017. The reduction of this bridge financing for the acquisition of Best Access Solutions was funded with the issuance of two bonds worth CHF 680 million with maturities in the years 2021 and 2025. These funds created further financial flexibility and helped to refinance dormakaba's lines of credit. There are also agreements with various banks for bilateral credit facilities. dormakaba thus has sufficient liquidity reserves to ensure that even unexpected events do not have a significant effect on its liquidity position. Currently there is no evidence of any liquidity risks.

4.2. Assessment of overall risk and opportunity situation

In conclusion, dormakaba's opportunity and risk situation can be rated as moderate. Existing risks are identified, continuously monitored through the risk management system, and where necessary hedged using appropriate counter-measures. With the merger to dormakaba, with the created organizational and process structure, and with the existing innovation structures and approaches, the prospects of further profitable growth for dormakaba remain promising.

Beyond the actions required to finalize the integration following the merger, there is no expectation of a significant change in the risk situation, and certainly not a worsening of risk, compared with the previous year. There is no sign of any risks that would endanger the continued existence of dormakaba. A material deterioration in the future asset, financial and earnings position is not expected given the current risk situation.

4.3. Future prospects (forward-looking report)

According to forecasts from the World Bank, the world economy will grow by 3.1% in 2018 and by 3.0% in 2019 (Source: World Bank Group, Global Monthly, June 2018).

According to an IMF report, risks around the global growth forecast have shifted further towards to the downside, including in the short term. On the downside, rising oil prices, higher yields in the US, pressures on the currencies of some economies with weaker fundamentals and especially escalating trade tensions raise the likelihood of a market correction, which could dampen growth and confidence. Continuing monetary policy normalization in some advanced economies, notably the United States, could trigger a faster-than-anticipated tightening in global financial conditions. And other risks including a turn toward inward-looking policies and geopolitical risks, remain salient (Source: World Economic Outlook, July 2018, IMF).

dormakaba's Executive Committee believes that the global macroeconomic and geopolitical environment remains volatile and that there are several threats like the trade tensions which could substantially impact the macroeconomic environment and could lead to a downturn. Under the assumption that there will be no further trade tensions between the US, Canada, Europe and China, dormakaba expects the market environment to be good in North America and the most countries in Asia Pacific and to be largely moderate in Europe, while still very demanding in the Middle East, Africa and Latin America as well as in South East Asia, where further deterioration of the economic environment might negatively impact growth expectations. The Middle East, however, could benefit from rising oil prices what would improve the forecasted outlook from the International Monetary Fund (source: World Economic Outlook, July 2018, IMF).
In addition, dormakaba expects further consolidation in the access and security solutions industry in coming years, firstly because the sector is still very fragmented, and secondly because technological advances in the industry – from mechanical solutions to electronic and cloud-based solutions – will present some of its smaller and more local competitors

dormakaba's strategic focus is on sustainable profitable growth. Innovative new products and the strength of the combined product portfolio should allow dormakaba from the financial year 2020/21 to grow 200 basis points faster than the weighted GDP of the markets relevant to the company.

Thanks to higher purchase volumes, optimized infrastructure costs and efficiency gains, the company expects annual cost synergies from the merger of CHF 70 million per year. These savings are partly included in the financial year 2017/18 (about 70% resp. CHF 50 million, previous year about 55% resp. CHF 40 million) and should be fully effective from financial year 2019/20.

For the 2018/19 financial year, dormakaba aims to substantially increase its investments in Information Technology to advance the digitization of the company. In addition, with a view to strengthening innovation, the company aims to continue to invest around 4-5% of sales in research and development, which corresponds to over CHF 100 million. As a result, dormakaba expects an EBITDA margin in the range of 16.0% – 16.5% for financial year 2018/19. In terms of sales, the company expects to see organic growth in line with the previous year.

In light of the results for the 2017/18 financial year, dormakaba is adjusting the timeline for achieving its medium-term financial targets. In line with its strategy, dormakaba will continue to invest significantly in innovation as well as allocate substantial additional funds to its digital transformation in the coming years. Provided the business environment is stable, dormakaba aims to achieve an EBITDA margin of 18% at the latest by 2020/21 instead of the 2018/2019 financial year as previously announced. Also by the 2020/21 financial year, organic sales growth should be 200 basis points above the GDP growth in dormakaba's relevant markets.

4.4. Capital Structure

dormakaba Holding AG's share capital as at 30 June 2018 came to CHF 420,002.60, divided into 4,200,026 fully paid-up registered shares with a nominal value of CHF 0.10 each. Each share carries the right to one vote. Conditional capital stood at CHF 42,438 and authorized capital at CHF 42,000 on 30 June 2018.

Further information can be found in the dormakaba Corporate Governance Report 2017/18 at the following web address: www.report.dormakaba.com.

5. Disclaimer

The dormakaba Group Management Report contains forward-looking statements on expected developments. These statements are based on current estimates and are by their nature subject to risks and uncertainties. Actual events may deviate from those predicted in these statements. We cannot therefore assume any liability for the correctness and completeness of the statements or for the actual occurrence of the predicted events.

Rümlang/Switzerland, 7 September 2018

Consolidated financial statements

Consolidated income statement

in CHF million except per share amounts	Note	Financial year ended 30.06.2018	in %	Financial year ended 30.06.2017	in %
Net sales	**5**	**2,841.0**	**100.0**	**2,520.1**	**100.0**
Cost of goods sold		–1,647.3	–58.0	–1,445.0	–57.3
Gross margin		**1,193.7**	**42.0**	**1,075.1**	**42.7**
Other operating income, net	6	12.4	0.4	11.5	0.5
Sales and marketing		–446.8	–15.7	–402.6	–16.0
General administration		–286.3	–10.1	–259.4	–10.3
Research and development		–108.7	–3.8	–97.6	–3.9
Operating profit (EBIT)		**364.3**	**12.8**	**327.0**	**13.0**
Result from associates	16	2.5	0.1	2.7	0.1
Financial expenses	8	–53.5	–1.9	–37.6	–1.5
Financial income	9	2.4	0.1	3.1	0.1
Profit before taxes		**315.7**	**11.1**	**295.2**	**11.7**
Income taxes	10	–77.0	–2.7	–70.6	–2.8
Net profit		**238.7**	**8.4**	**224.6**	**8.9**
Net profit attributable to minority interests		114.9		108.2	
Net profit attributable to the owners of the parent		123.8		116.4	
Basic earnings per share (in CHF)	3	29.6		27.8	
Diluted earnings per share (in CHF)	3	29.5		27.7	
Operating profit before depreciation and amortization (EBITDA)	**27**	**431.0**	**15.2**	**387.3**	**15.4**

Consolidated balance sheet

Assets

in CHF million	Note	Financial year ended 30.06.2018	in %	Financial year ended 30.06.2017	in %
Current assets					
Cash and cash equivalents		145.3	7.3	188.3	9.9
Trade receivables	11	502.1	25.3	461.4	24.2
Inventories	12	432.3	21.8	411.4	21.5
Current income tax assets		49.9	2.6	36.1	1.9
Other current assets	13	59.6	3.0	82.5	4.3
Total current assets		**1,189.2**	**60.0**	**1,179.7**	**61.8**
Non-current assets					
Property, plant and equipment	14	458.6	23.1	412.8	21.6
Intangible assets	14	51.5	2.6	38.4	2.0
Investments in associates	16	40.6	2.0	36.0	1.9
Non-current financial assets	17	38.9	2.0	37.9	2.0
Deferred income tax assets	23	203.5	10.3	204.2	10.7
Total non-current assets		**793.1**	**40.0**	**729.3**	**38.2**
Total assets		**1,982.3**	**100.0**	**1,909.0**	**100.0**

Liabilities and equity

in CHF million	Note	Financial year ended 30.06.2018	in %	Financial year ended 30.06.2017	in %
Current liabilities					
Current borrowings	18	156.5	7.9	814.6	42.7
Trade payables		166.5	8.4	151.8	8.0
Current income tax liabilities		51.3	2.6	38.7	2.0
Accrued and other current liabilities	19	338.1	17.0	328.4	17.2
Provisions	20	51.1	2.6	76.9	4.0
Total current liabilities		**763.5**	**38.5**	**1,410.4**	**73.9**
Non-current liabilities					
Non-current borrowings	18	685.2	34.6	1.3	0.1
Accrued pension costs and benefits	21	303.0	15.3	285.1	14.9
Deferred income tax liabilities	23	38.8	2.0	29.1	1.5
Other non-interest bearing liabilities	18	4.8	0.2	0.0	0.0
Total non-current liabilities		**1,031.8**	**52.1**	**315.5**	**16.5**
Total liabilities		**1,795.3**	**90.6**	**1,725.9**	**90.4**
Equity					
Share capital	3	0.4	0.0	0.4	0.0
Additional paid-in capital		811.3	40.9	811.3	42.5
Retained earnings		1,175.1	59.3	1,109.8	58.2
Goodwill offset against equity		–1,805.0	–91.1	–1,728.9	–90.6
Treasury stock		–10.3	–0.5	–17.9	–0.9
Translation exchange differences		2.1	0.1	–1.1	–0.1
Total equity owners of the parent		**173.6**	**8.7**	**173.6**	**9.1**
Minority interests		13.4	0.7	9.5	0.5
Total equity	**2.10, 15**	**187.0**	**9.4**	**183.1**	**9.6**
Total liabilities and equity		**1,982.3**	**100.0**	**1,909.0**	**100.0**

Consolidated cash flow statement

in CHF million	Note	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Net profit		**238.7**	**224.6**
Depreciation and amortization	14	66.7	60.3
Income tax expenses	10	77.0	70.6
Interest expenses	8	43.2	17.3
Interest income	9	–2.0	–1.8
(Gain) Loss on disposal of fixed assets, net		–1.0	–2.3
Adjustment for non-cash items		10.2	16.5
Change in trade receivables		–31.5	–28.9
Change in inventories		–12.4	–13.9
Change in other current assets		7.4	–16.4
Change in trade payables		11.8	13.5
Change in accrued pension cost		2.8	0.6
Change in accrued and other current liabilities		–43.7	14.6
Cash generated from operations		**367.2**	**354.7**
Income taxes paid		–59.8	–74.5
Interest paid		–40.5	–16.7
Interest received		2.0	1.8
Net cash from operating activities		**268.9**	**265.3**
Cash flows from investing activities			
Additions of property, plant and equipment	14	–91.7	–73.3
Proceeds from sale of property, plant and equipment	14	3.4	8.1
Acquisition of subsidiaries, net of cash acquired	4	–140.0	–884.9
Acquisition of associates and joint ventures		–1.5	–1.0
Sale of subsidiaries, net of cash sold		20.8	–0.3
Additions of intangible assets	14	–23.6	–11.4
Change in other non-current financial assets and prepaid transaction costs		0.8	–1.7
Net cash used in investing activities		**–231.8**	**–964.5**
Cash flows from financing activities			
Other proceeds from (repayment of) current borrowings, net	18	–694.6	756.7
Proceeds from (repayment of) non-current borrowings	18	–0.4	–8.4
Change in other non-current liabilities		–0.1	0.8
New bonds issued		680.5	0.0
Dividends paid to minority shareholders		–54.7	–27.5
(Purchase) Sale of treasury stock		–1.9	–20.8
New shares issued		0.0	3.7
Dividends paid to company's shareholders		–58.6	–50.4
Net cash flows from financing activities		**–129.8**	**654.1**
Translation exchange differences		49.7	20.2
Net increase (decrease) in cash and cash equivalents		**–43.0**	**–24.9**
Cash and cash equivalents at beginning of period		188.3	213.2
Cash and cash equivalents at end of period		145.3	188.3
Net increase (decrease) in cash and cash equivalents		**–43.0**	**–24.9**

Consolidated statement of changes in equity

in CHF million	Share capital	Additional paid-in capital	Retained earnings	Goodwill offset against equity [1]	Treasury stock	Cumul. translation adjustm.	Minority interests	Total equity
Financial year ended 30.06.2017								
Balance at 30.06.2016	**0.4**	**807.6**	**1,035.0**	**–1,382.8**	**–1.6**	**–15.8**	**237.7**	**680.5**
Net profit for the reporting period			116.4				108.2	224.6
Goodwill on acquisitions and divestments (see note 15)				–346.1			–313.2	–659.3
Currency translation adjustments						14.7	12.4	27.1
Dividend paid			–50.4				–27.5	–77.9
New shares issued		3.7						3.7
Shares awarded			0.7		5.1			5.8
Treasury stock (purchased) re-issued			8.1		–21.4		–8.1	–21.4
Balance at 30.06.2017	**0.4**	**811.3**	**1,109.8**	**–1,728.9**	**–17.9**	**–1.1**	**9.5**	**183.1**
Financial year ended 30.06.2018								
Balance at 30.06.2017	**0.4**	**811.3**	**1,109.8**	**–1,728.9**	**–17.9**	**–1.1**	**9.5**	**183.1**
Net profit for the reporting period			123.8				114.9	238.7
Goodwill on acquisitions and divestments (see note 15)				–76.1			–68.9	–145.0
Currency translation adjustments						3.2	12.6	15.8
Dividend paid			–58.6				–54.7	–113.3
Shares awarded			0.1		9.5		0.0	9.6
Treasury stock (purchased) re-issued					–1.9			–1.9
Balance at 30.06.2018	**0.4**	**811.3**	**1,175.1**	**–1,805.0**	**–10.3**	**2.1**	**13.4**	**187.0**

[1] Goodwill from acquisitions is no longer offset against retained earnings, but presented retroactively since 1 July 2016 as a separate item of equity.

Notes to the consolidated financial statements for financial year 2017/18

1. General information

Description of business

Strategy

dormakaba Group is one of the leading companies in the global security and access solutions market. With its excellent product and solutions portfolio along the entire value chain, the Group provides its customers with products, solutions and services for anything related to access to buildings and rooms from a single source. dormakaba has distribution channels and production facilities in all of the industries' key markets and will accelerate global expansion through the strengthened presence in Europe, the Americas and Asia Pacific. dormakaba is a growth-oriented company with a strong anchor shareholder group that will ensure its long-term oriented strategy. In order to grow profitably and to maximize the creation of value for all its stakeholders, dormakaba focuses on a clearly defined strategy with the following elements:

- Superior offering for needs along life cycle;
- Expanded presence in markets and verticals;
- Drive enterprise excellence along the value chain;
- Leadership in innovation for superior customer value;
- Optimized management of the business portfolio and disciplined M & A activities;
- Have the right people at the right place.

These strategic pillars are based on the two foundations of sustainability and enhancing the global brand power.

Operating model

dormakaba has divided the areas of business in which the company is globally active into five segments. Access Solutions (AS), which comprises four segments, is structured by region: AS AMER (North and South America), AS APAC (Asia Pacific), AS DACH (Germany, Austria, and Switzerland), and AS EMEA (Europe, Middle East, and Africa). The segment Key & Wall Solutions is globally positioned.

In order to meet customers' needs in the most effective way, dormakaba's operating model is based on a matrix structure and therefore all four Access Solutions segments have a dual responsibility. The global Access Solutions product portfolio is arranged into eight global Product Clusters, and is assigned to specific segments along with the relevant production facilities, regardless of the geographic location: Lodging Systems, Safe Locks, Door Hardware, Interior Glass Systems, Entrance Systems, Mechanical Key Systems, Services, and Electronic Access & Data. These global Product Clusters are complemented by local products in all Access Solutions segments. dormakaba operates in the following businesses on a worldwide basis:

- **Access Solutions AMER (AS AMER):** The AS AMER segment includes dormakaba Group's business activities for access solutions in North and South America. AS AMER also has overall responsibility across all segments for the global Product Clusters Services, Lodging Systems, and Safe Locks.
- **Access Solutions APAC (AS APAC):** This segment includes dormakaba Group's business activities for access solutions in the Asia-Pacific region.
- **Access Solutions DACH (AS DACH):** The AS DACH segment includes the dormakaba Group's business activities for access solutions in Germany, Austria, and Switzerland. AS DACH also has cross-segment responsibility for the following global Product Clusters: Door Hardware, Interior Glass Systems, and Entrance Systems, including the associated production facilities and competence centers, in particular in Singapore, Suzhou (China), Melaka (Malaysia), and Sofia (Bulgaria).

- **Access Solutions EMEA (AS EMEA):** This segment includes the dormakaba Group's business activities for access solutions in Europe (excluding DACH), the Middle East, and Africa. AS EMEA also has cross-segment responsibility for the global Product Clusters Mechanical Key Systems and Electronic Access & Data, including the associated production facilities and competence centers, in particular in Wetzikon and Rümlang (Switzerland), Herzogenburg and Eggenburg (Austria), and Villingen-Schwenningen (Germany).
- **Key & Wall Solutions:** On 20 November 2017, dormakaba combined the segments Key Systems and Movable Walls into one segment Key & Wall Solutions. Key Systems is a globally active business and includes the product categories Keys, Key Cutting Machines, and Automotive Solutions.
  Movable Walls has global activities in the space-dividing systems sector where it is specialized in acoustic movable partitions and in horizontal and vertical partitioning systems. The segment has production facilities in Europe, North and South America and Asia.
- **Other:** This segment contains business activities which do not fit into the basic segment structure and mainly consist of operations involving contactless identification systems and trusted services based on Legic SmartCard and Connect technologies.

Offering

dormakaba stands for security, sustainability, and reliability and aims to develop products, solutions, and services that make life for its customers more simple and secure. dormakaba offers an expanded, comprehensive portfolio of products, solutions, and services for access to buildings and rooms from a single source – in hotels, shops, sporting venues, airports, hospitals, in the home or at the office. The product offering includes:

- **For the Access Solutions segments:** The four AS segments AMER, APAC, DACH and EMEA include all hardware- and software-based components, products, and solutions for access solutions as well as relevant services. The offering includes the global Product Clusters Door Hardware, Entrance Systems, Electronic Access & Data, Interior Glass Systems, Lodging Systems, Mechanical Key Systems, Safe Locks and Services, as well as local products. The multifaceted portfolio ranges from door technology solutions, automatic door systems, a wide variety of fittings, door closers and stoppers, and locking systems – from cylinders, keys, and locks all the way up to fully networked electronic access solutions for companies, public facilities, hotels, and many other applications. The range also includes physical access systems, high-security locks, glass fittings, solutions for workforce management, as well as services for all these applications.
- **In segment Key & Wall Solutions** the globally active business units Key Systems and Movable Walls are combined. Key Systems offers a high-performance range of key blanks and mechanical, electronic and (semi-)industrial key-cutting and origination machines. In addition, the portfolio also covers solutions for the automotive industry, such as vehicle keys, transponders as well as key programming devices and duplication equipment. Movable Walls is specialized on acoustic movable partitions and on horizontal and vertical sliding walls. The business is globally active and offers partitions available from a manual application to fully automatic / electronic walls.

Parent company of the Group

The parent company of the Group is dormakaba Holding AG, which is a company limited by shares, incorporated and domiciled in Rümlang (Switzerland). The address of its registered office is: Hofwisenstrasse 24, 8153 Rümlang, Switzerland. The company is listed on the SIX Swiss Exchange (SIX).

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of dormakaba Group comply with Swiss law and have been prepared using the historical cost convention, except as disclosed in the accounting policies below, and in accordance with the entire existing guidelines of Swiss GAAP FER (Generally Accepted Accounting Principles FER/FER = Fachempfehlung zur Rechnungslegung). Furthermore, the accounting complies with the provisions of the listing rules of the SIX and the Swiss company law. The financial statements are presented in Swiss Francs (CHF).

The accounting policies have been applied consistently by Group companies. In the year under review, no changes to the Swiss GAAP FER standards have been announced or released. A summary of the significant accounting policies is provided below.

2.2 Basis of consolidation

The consolidated financial statements of dormakaba Group include the operations of dormakaba Holding AG and all direct and indirect subsidiaries. The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated accounts are based on the annual financial statements of the individual subsidiaries. All companies follow uniform measurement and reporting practices prescribed by the Group. Applying the full consolidation method, the assets, liabilities, income, and expenses of all subsidiaries are included in their entirety. Minority interests in equity and profit are disclosed separately. Subsidiaries are consolidated from the date on which control is acquired. The identifiable assets and liabilities are revalued and included according to the acquisition method. Any difference between the cost of acquisition and the fair value of the Group's share of net assets acquired constitutes goodwill. Subsidiaries sold are excluded from consolidation from the date on which control ceases. All intercompany balances, transactions and intercompany profits are eliminated on consolidation. Investments in associates and joint ventures where dormakaba Group exercises significant influence, but does not have control, normally with an interest between 20% and 50%, are accounted for using the equity method of accounting. Under the equity method, investments in associated companies and joint ventures are initially recognized at cost, and the carrying amount is increased or decreased to recognize dormakaba Group's share of the profit or loss of the investee after the date of acquisition. Profit and loss are attributed to the owners of the parent and to the minority interests even if this results in a deficit balance. Investments in which dormakaba does not have significant influence (usually in which dormakaba Group's interest is less than 20%) are recorded at cost.

Companies acquired or established or those in which the Group increases its interest and thereby obtains control during the year are consolidated from the date of formation or date on which control commences. Companies are deconsolidated from the date that control effectively ceases upon disposal or a reduction in ownership interest. This rule is applied to investments in associates likewise.

In the event that shares of a Group or associated companies are sold, the difference between the proceeds from the sale and the proportional book value of the net assets, including historical goodwill, is recognized as a gain or loss in the income statement.

The Group treats transactions with minority interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and minority interests to reflect their relative interests in the subsidiary.

2.3 Use of estimates

The preparation of financial statements in accordance with Swiss GAAP FER requires the use of estimates and assumptions which have an effect on the reported value of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and on the reported value of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions dormakaba Group may undertake in the future, actual results may ultimately differ from those estimates. Such estimates are applied to the following balance sheet positions, among others:

- Deferred tax assets are created for temporary differences provided that their utilization appears probable. The recoverable amount is therefore based on past performance and forecasts of the corresponding taxable entity over a period of several years. Deviations between actual and projected results can cause impairment losses. For information on carrying amounts see note 23.
- dormakaba operates pension plans in various countries. The calculation of pension provisions from plans without own assets is based on actuarial assumptions that may differ from actual results. For information on carrying amounts see note 21.
- When testing assets for impairment, the recoverable amount is determined on the basis of expected future cash flows. The main assumptions on which these cash flows are based include growth rates and expected useful life. The cash flows actually generated can differ considerably from the estimates.
- In the course of their ordinary operating activities, Group companies can face claims from third parties. Provisions for pending claims are measured on the basis of the information available and a realistic estimate of the expected outflow of resources. The outcome of these proceedings may result in claims against the Group that cannot be met at all or in full through provisions or insurance cover. For information on carrying amounts see note 20.
- A restructuring is a program that is planned and controlled by the Management and materially changes the manner in which the business is conducted. Restructuring provisions are created when detailed formal plans are established and decided. Significant judgment is required to determine the costs of restructuring plans.

2.4 Foreign currency translation

The consolidated financial statements are presented in Swiss Francs (CHF), which is dormakaba Group's presentation currency. Items included in the financial statements of each dormakaba Group company are measured using the currency of the primary economic environment in which that company operates (the functional currency).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the income statement.

Assets and liabilities of subsidiaries reporting in currencies other than CHF are translated at the rates of exchange prevailing at the balance sheet date. Income, expenses, cash flows, and other movement items are translated at average exchange rates for the period. All resulting exchange differences are recognized in equity. On consolidation, exchange differences arising from the translation of the net investment in foreign companies and from borrowings and other currency instruments designated as hedges of such investments are taken to equity. When a foreign operation is sold, exchange differences that were recorded in equity are recycled to the income statement as part of the gain or loss on sale.

Significant exchange rates are in the table below: rates in CHF for 1 foreign currency unit.

	Exchange rate at 30.06.2018	Exchange rate at 30.06.2017	Average rate 2017/18	Average rate 2016/17
AED	0.272	0.260	0.264	0.270
AUD	0.733	0.735	0.753	0.748
BRL	0.259	0.289	0.294	0.308
CAD	0.752	0.735	0.765	0.747
CNY	0.151	0.141	0.149	0.146
EUR	1.154	1.094	1.158	1.080
GBP	1.304	1.243	1.307	1.257
HKD	0.127	0.122	0.124	0.128
INR	0.015	0.015	0.015	0.015
NOK	0.122	0.114	0.121	0.118
SEK	0.111	0.113	0.117	0.112
SGD	0.729	0.693	0.723	0.712
USD	0.998	0.956	0.971	0.991

2.5 Cash and cash equivalents

Cash includes petty cash, cash at banks, and cash on deposit. Cash equivalents include term deposits with banks and short-term money market investments carried at market value, both with original maturity dates of three months or less.

2.6 Financial assets

Long-term held securities are recorded at fair value. All realized and unrealized gains and losses are recognized in the income statements. Other non-current financial assets are stated at amortized cost less valuation adjustments.

2.7 Trade receivables

Short-term accounts receivable are stated at nominal value less allowance for doubtful accounts. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows. It is assessed based on maturity structure and identifiable solvency risks.

2.8 Inventories

Inventories are valued at the lower of purchase/manufacturing cost and net realizable value. Cost is determined using the weighted average method. Manufacturing cost includes direct labor and material as well as a commensurate share of related overhead cost. Allowances are made for obsolete and slow-moving items. Cash discounts from suppliers are treated as purchase cost reductions.

2.9 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is computed using the straight-line method based on the following estimated useful lives:

- Buildings 20 – 50 years
- Machinery, equipment, installations, and tools 4 – 15 years
- Other tangible fixed assets 3 – 15 years

Land is not depreciated. Where an asset comprises various components having different useful lives, each component is depreciated separately. Items of minor value are charged directly to the income statement. All gains and losses on disposal of property, plant and equipment are recognized in the income statement.

2.10 Intangible assets

Intangible assets embodying future economic benefits, such as acquired licenses, patents and similar rights as well as qualifying development costs are capitalized at cost and amortized using the straight-line method over a period of 2 – 5 years. Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date book value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Only intangible assets purchased separately are recognized as part of an acquisition. The positive or negative goodwill resulting from acquisitions is offset in equity at the date of acquisition against retained earnings.

If the purchase price contains elements that are dependent on future results, they are estimated as accurately as possible at the date of acquisition and recognized in the balance sheet. In the event of disparities when the definitive purchase price is settled, the goodwill offset in equity is adjusted accordingly. The consequences of a theoretical capitalization and amortization of goodwill are explained in note 15.

On the disposal of an entity, the goodwill previously offset in equity is transferred to the income statement.

All research costs are recognized in the income statement as incurred. Development costs are recognized as an asset when specific recognition criteria are met and the amount recognized is assessed to be recoverable through future economic benefits.

2.11 Impairment of assets

Property, plant and equipment, goodwill offset against equity, intangible assets, and other non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, goodwill and other assets are grouped in cash-generating units for which cash flows are separately identifiable. The Group estimates the recoverable amount of those cash-generating units, which generally represent their value in use. Value in use is assessed using the discounted cash flow method. The estimates used in these calculations are based on updated budgets and medium-term plans covering a period of three years. Cash flows beyond the projection period are extrapolated in perpetuity.

When the carrying amount exceeds its recoverable amount, an impairment loss is recognized separately in the income statement. The recoverable amount is the higher of fair value less cost of disposal and value in use.

As goodwill is fully offset against equity at the date of acquisition, an impairment of goodwill will not affect income, but only be disclosed in the notes to the consolidated financial statements.

2.12 Leases

Assets acquired under leasing agreements which effectively transfer substantially all the risks and rewards incidental to ownership from the lessor to the lessee are classified as finance leases. Assets held under finance leases are recorded at the lower of the estimated net present value of the future minimum lease payments and their fair value at the inception of the lease. The estimated net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation. Assets under finance leases are amortized over their estimated useful lives. Operating lease payments are charged to income on a straight-line basis over the lease term.

2.13 Net sales and revenue recognition

Net sales include all sales of goods and related services, after deduction of any sales reductions including rebates, discounts, value-added taxes, and commissions.

Sales from supplied goods and services are recognized upon performance. Sales of goods are recognized when dormakaba Group has delivered the products to the customer, the customer has accepted the products, and it is probable that future economic benefits will flow to the entity.

Sales from long-term construction contracts are recognized using the percentage-of-completion method. The stage of completion is measured by reference to the proportion of contract costs incurred for work performed to date relative to the estimated total costs for the contract. Revenue from individual and separate definable performance obligations are assessed and recognized separately.

2.14 Retirement benefits

There are various pension plans in existence within the Group which are individually aligned with local conditions in their respective countries. They are financed either by means of contributions to legally independent pension/insurance funds, or by recognition as liabilities in the balance sheet of the respective Group companies. An economical obligation or a benefit from Swiss pension schemes is determined from the statements made on the basis of Swiss GAAP FER 26 "Accounting of Pension Plans" and recognized in the balance sheet accordingly.

The provision for pension plans of foreign subsidiaries which are not organized as an independent legal entity is determined based on the local valuation methods.

2.15 Provisions

Provisions are recognized

- when the Group has a present obligation (legal or constructive) as a result of a past event;
- when it is probable that a use of resources will be required to settle the obligation; and
- when the amount of the obligation can be reliably estimated.

Costs relating to restructuring plans or agreements, including the reduction of excess staffing, the discontinuation of certain activities or the streamlining of facilities and operations and other restructuring measures, are recorded in the period in which the Group commits itself to a plan.

2.16 Financial liabilities

Financial liabilities measured at amortized cost are initially recorded at fair value, net of transaction costs incurred and subsequently measured at amortized cost. Any difference between the proceeds of disposal (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.17 Bonds

Bonds are initially recorded at issue price net of issue costs. Issue costs and any discount or premium are recognized in the financial result of the income statement over the period of the respective bond.

2.18 Income taxes

Current income taxes are based on taxable income for the current year and charged to income when incurred. Deferred income taxes are determined using the liability method, with the applicable substantially enacted income tax rates applied on a comprehensive basis to eligible temporary differences. Deferred income tax assets from temporary differences are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income taxes resulting from tax loss carryforwards applicable to future taxable income are only recognized to the extent of available deferred tax liabilities.

2.19 Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to owners of the parent by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share also include all potentially dilutive effects.

2.20 Derivative financial instruments

Derivative financial instruments for hedging purposes of balance sheet items are valued at the same valuation principles as the underlying hedged positions.

The fair value of derivative financial instruments for cash flow hedging purposes is disclosed in the note 26.

2.21 Risk assessment and risk management

The tasks of the Board of Directors include identifying risks, determining suitable measures, and implementing these measures or having them implemented. The Board of Directors of dormakaba Holding AG conducted a Group-wide risk assessment in the year under review and also determined the risks to be managed at particular management levels. The Board of Directors is closely involved in assessing strategic risks and through dialogue with the Executive Committee ensures that operating risks are given due attention and reported accordingly. This approach gives the Board a comprehensive overview of the key risks and measures. With this overview, the Group is able to prioritize and allocate the necessary resources.

Financial risk policy

The dormakaba Group is exposed to various risks in connection with financial instruments, in particular to market risks of fluctuations in foreign exchange rates and interest rates. The Management monitors these risks on a regular basis. In managing the exposure resulting from such fluctuations, the dormakaba Group uses derivative financial instruments wherever the Management deems it appropriate to do so given the prevailing circumstances. The counterparties involved are high-ranking financial institutions.

The dormakaba Group enters only into financial transactions to hedge an associated risk out of balance sheet or highly probable future business transactions. No uncovered short transactions are entered.

In addition, the dormakaba Group is exposed to liquidity risk and credit risk. Risk management also involves securing comprehensive and efficient insurance protection.

Foreign exchange risk

The dormakaba Group is active all over the world and is therefore exposed to fluctuations in foreign exchange rates. Foreign exchange risks arise when future commercial transactions, recognized financial assets and liabilities, and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

A lot of Group companies are exposed to foreign exchange risks. The intercompany invoicing concentrates the foreign exchange risks to the manufacturing companies. The use of a group netting system with intercompany payment terms of up to 60 days reduces the intercompany exposure and foreign exchange risk. The significant third party and intercompany cross-currency exposures are reduced through natural hedges or hedged with financial instruments. The foreign exchange exposures are derived from a 12 month rolling liquidity planning.

Foreign exchange risks on intercompany loans are covered to a large extent by forward exchange contracts.

The dormakaba Group does not actively manage the translation risk arising from net investment in foreign currencies.

Interest rate risk
The dormakaba Group's interest rate risk arises from its short-term and long-term borrowings. This interest rate risk is only hedged in limited cases. The Management strives for a well-balanced mix of long- and short-term interest rates considering the planned financing requirements. Financing and related interest are managed centrally. Cash and cash equivalents are invested on a short-term basis.

Liquidity risk
The liquidity risk is the risk that the dormakaba Group will be unable to meet its obligations when they fall due. The Group Treasury function ensures that optimal liquidity and credit lines are available to the Group's operations at any time to meet its obligations and to finance its projects. Procurement of bank loans is managed centrally.

Credit risk
Credit risks arise from the possibility that the counterparty to a transaction is unable or unwilling to fulfill its obligations and that the dormakaba Group suffers financial damage as a result.

Trade receivables are monitored on an ongoing basis locally and via Group management reporting procedures. The danger of cluster risks on trade accounts receivable is limited due to the large number and wide geographical spread of customers. The extent of the credit risk is determined mainly by the individual characteristics of each customer. Assessment of this risk involves a review of the customer's creditworthiness based on its financial situation and past experience.

Cash and cash equivalents are mainly held in the form of current accounts and current fixed-term deposits. Counterparty risks are monitored continuously and minimized by strictly limiting the associations to high-ranking banks.

2.22 Segment reporting
In accordance with the management organization and the reporting to the Group management level, the reporting segments consist of the businesses as described in note 1. This reporting forms the basis for assessing performance and allocating resources.

Segment accounting is prepared up to the level of EBITDA/EBIT because these are the key figures used for management purposes. All operating assets and liabilities that are directly attributable or can be allocated on a reasonable basis are reported in the respective segments. With the exception of central costs, which are not allocated to the individual segments for internal reporting purposes, the segment results are based on the same accounting principles that are used to determine the operating profit of the Group.

Intersegment transactions are based on the arm's length principle.

2.23 Share-based payments
Stock award plans
The fair value of the employee services received in exchange for shares is measured at fair value of the shares at the grant date and recognized as an expense with a corresponding entry in equity. Expenses for shares that vest immediately are recognized accordingly. Shares that are subject to future services are recognized over the vesting period.

3. Shares

	Financial year ended 30.06.2018	Financial year ended 30.06.2017
For basic number of shares	**Par value CHF 0.10**	**Par value CHF 0.10**
Number of shares outstanding at beginning of financial year	4,177,588	4,190,963
New shares issued	–	5,000
Own shares (acquired) re-issued	9,655	–18,375
Number of shares outstanding at end of financial year	4,187,243	4,177,588
Weighted average number of shares outstanding (basic)	4,184,285	4,194,106
Profit applicable for calculation of earnings per share (basic and diluted - in CHF million)	123.8	116.4
Basic earnings per share (in CHF)	**29.6**	**27.8**
For diluted number of shares		
Weighted average number of shares outstanding (basic)	4,184,285	4,194,106
Eligible shares under stock award plans and shares awarded in acquisitions	11,222	14,637
Weighted average number of shares outstanding (diluted)	4,195,507	4,208,743
Profit applicable for calculation of earnings per share (basic and diluted - in CHF million)	123.8	116.4
Diluted earnings per share (in CHF)	**29.5**	**27.7**
Dividend (in the form of a distribution of capital reserves) per share (in CHF)	**15.0** [1)]	**14.0**
Conditional shares at beginning of financial year	424,384	429,384
New conditional shares created	–	–
New conditional shares issued	–	–5,000
Conditional shares at end of financial year	424,384	424,384
Authorized shares	420,000	419,000
Number of shares authorized but not yet issued	420,000	419,000
Number of own shares held	12,783	22,438

1) Financial year ended 30.06.2018: proposal to the Annual General Meeting; in the form of a distribution of capital reserves.

Earnings per share is calculated based on profit attributable to the owners of the parent only. Net profit attributable to minority interests is not taken into account. Minority shareholders hold 47.5% of the shares of dormakaba Holding GmbH + Co. KGaA, which is a direct subsidiary of the Group parent dormakaba Holding AG, which holds the remaining 52.5%.

4. Business combinations and divestments

Klaus Group

On May 9 2018, dormakaba acquired Klaus Group, based in Lima (Peru). With its key blanks as well as other brass products Klaus Group is a market leader for key systems in South America.

The following table summarizes the consideration paid for the business and the amounts of the assets and liabilities acquired recognized at fair value at the acquisition date.

in CHF million	As at the acquisition date
Consideration at 9 May 2018	
Cash paid	6.3
Deferred payment	1.7
Acquisition-related costs	0.3
Total consideration	**8.3**
Trade receivables	1.7
Inventories	2.2
Current income tax assets	0.3
Other current assets	0.4
Property, plant and equipment	0.8
Current borrowings	–0.2
Trade payables	–0.9
Accrued and other current liabilities	–3.6
Non-current borrowings	–2.4
Total identifiable net assets	**–1.7**
Goodwill	10.0
Total consideration	**8.3**

Cambaum Group

On 26 April 2018, dormakaba acquired the Commercial Building Physical Access Solutions (PAS) business from Beijing-based Cambaum Group. The integration of Cambaum Group's business team, products and service solution offering strengthens dormakaba's position in the smart commercial buildings market within a number of fast growing major cities in China.

The following table summarizes the consideration paid for the business and the amounts of the assets and liabilities acquired recognized at fair value at the acquisition date.

in CHF million	As at the acquisition date
Consideration at 26 April 2018	
Cash paid	20.2
Deferred payment	4.9
Acquisition-related costs	2.0
Total consideration	**27.1**
Other current assets	1.2
Property, plant and equipment	0.2
Accrued and other current liabilities	–0.3
Other non-interest bearing liabilities	–0.1
Total identifiable net assets	**1.0**
Goodwill	26.1
Total consideration	**27.1**

Dorset Kaba

As per 9 April 2018 dormakaba and the Indian joint venture partner have agreed to divide their existing shareholding in Dorset Kaba among them, thus dissolving the joint venture that was initiated by former Kaba Group in 2007 to gain a foothold in the attractive Indian market.

In this regard the minority shares of 26% owned by the Indian partner Dorset Industries Pvt Ltd. were purchased and the net assets related to the local door hardware business sold in return. The activities in the dormakaba's core business (mainly lodging products, physical access systems) remain within the dormakaba Group.

The following table summarizes the considerations paid and received as well as the net assets divested. The resulting net goodwill of CHF 1.9 million was recognized in equity.

in CHF million	As at the acquisition date
Consideration at 9 April 2018	
Cash consideration received	18.6
Purchaseprice for minority shares paid	–8.3
Divestment-related costs paid	–0.2
Total consideration	**10.1**
Assets and liabilities divested	
Trade receivables	5.6
Inventories	3.5
Other current assets	0.1
Property, plant and equipment	1.6
Trade payables	–1.8
Current income tax liabilities	–0.2
Accrued and other current liabilities	–0.3
Accrued pension costs and benefits	–0.3
Total net assets divested	**8.2**
Goodwill net	1.9
Total consideration	**10.1**

Kilargo

On 17 July 2017, dormakaba acquired Kilargo Pty Ltd, based in Brisbane (Australia). Kilargo is one of the market leaders in Australia for commercial door seals and complements dormakaba's integrated portfolio of products, solutions, and services in the Pacific region.

The following table summarizes the consideration paid for the business and the amounts of the assets and liabilities acquired recognized at fair value at the acquisition date.

in CHF million	As at the acquisition date
Consideration at 17 July 2017	
Cash paid	24.2
Acquisition-related costs	0.2
Total consideration	**24.4**
Identifiable assets and liabilities	
Cash and cash equivalents	0.9
Trade receivables	3.0
Inventories	2.2
Other current assets	0.1
Property, plant and equipment	1.1
Deferred income tax assets	0.3
Current borrowings	–2.7
Trade payables	–0.8
Current income tax liabilities	–0.5
Accrued and other current liabilities	–0.7
Provisions	–0.1
Accrued pension costs and benefits	–0.4
Total identifiable net assets	**2.4**
Goodwill	22.0
Total consideration	**24.4**

Skyfold

On 13 July 2017, dormakaba acquired Skyfold Investment Inc., based in Montreal (Canada). The company, with its well-known brand, was the first worldwide to develop vertical folding walls. Skyfold is a provider of automated vertical folding wall systems with a strong presence in the North American market. With this acquisition dormakaba enhances its product portfolio, following the industry trend towards automated systems.

The following table summarizes the consideration paid for the business and the amounts of the assets and liabilities acquired recognized at fair value at the acquisition date.

in CHF million	As at the acquisition date
Consideration at 13 July 2017	
Cash paid	82.5
Acquisition-related costs	0.6
Total consideration	**83.1**
Cash and cash equivalents	5.2
Trade receivables	5.3
Inventories	1.8
Current income tax assets	0.3
Other current assets	0.9
Property, plant and equipment	8.1
Intangible assets	0.1
Non-current financial assets	0.1
Trade payables	–0.7
Current income tax liabilities	–0.2
Accrued and other current liabilities	–8.0
Deferred income tax liabilities	–1.0
Total identifiable net assets	**11.9**
Goodwill	71.2
Total consideration	**83.1**

GMT

GMT Hardware Co. Ltd. (Shanghai/China) was divested on 29 September 2017. GMT offers commercial door hardware products, such as floor hinges for glass doors and door fittings, in China and became member of dormakaba as part of the acquisition of Stanley Black&Decker's mechanical security business in February 2017. Because of dormakaba's existing portfolio of businesses in Asia as well as profitability prospects of GMT, it was concluded to divest the business.

The following table summarizes the consideration received and the net assets divested. The negative goodwill of CHF 5.1 million was recognized in equity.

in CHF million	As at the divestment date
Consideration at 29 September 2017	
Cash considerations	27.2
Divestment-related costs	1.0
Total consideration	**26.2**
Assets and liabilities divested	
Cash and cash equivalents	19.4
Trade receivables	5.5
Inventories	6.7
Other current assets	0.7
Property, plant and equipment	7.2
Intangible assets	0.1
Non-current financial assets	0.3
Trade payables	–4.6
Current income tax liabilities	–0.1
Accrued and other current liabilities	–3.0
Provisions	–0.9
Total net assets divested	**31.3**
Goodwill	–5.1
Total consideration	**26.2**

Other acquisitions/divestments in the reporting period

Divestment DORMA Beschlagtechnik GmbH, Germany

DORMA Beschlagtechnik (Velbert/DE) was sold as at 10 July 2017 to Flacks Group, Miami (Florida/USA). The divested net assets amounted to CHF 9.4 million. A contingent liability related to this transaction depending on the future development of the business remains with dormakaba.

Prior-year business combinations and divestments

Best Access Solutions

On 22 February 2017, dormakaba acquired certain Mechanical Security businesses from Stanley Black & Decker in North America, Taiwan, and China.

With this acquisition, dormakaba gains substantial scale in line with its stated strategy and can offer the full portfolio of door hardware and access control solutions to customers in the important North American market, which dormakaba considers to be the most attractive market in its industry.

The following table summarizes the consideration paid for these businesses and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

in CHF million	As at the acquisition date
Consideration at 22 February 2017	
Cash paid	750.1
Acquisition-related costs	9.9
Total consideration	**760.0**
Identifiable assets and liabilities	
Cash and cash equivalents	25.2
Trade receivables	28.3
Inventories	30.2
Current income tax assets	0.4
Other current assets	2.2
Property, plant and equipment	57.7
Intangible assets	0.1
Non-current financial assets	0.3
Deferred income tax assets	116.9
Trade payables	–19.8
Current income tax liabilities	–1.3
Accrued and other current liabilities	–13.0
Provisions	–5.8
Non-current borrowings	–7.9
Accrued pension costs and benefits	–5.1
Deferred income tax liabilities	–2.2
Total identifiable net assets	**206.2**
Goodwill	553.8
Total consideration	**760.0**

As per 22 February 2017, goodwill was decreased by net CHF 0.5 million due to changes in various identifiable net assets and final purchase price adjustments.

Mesker Openings Group

On 12 December 2016, dormakaba acquired Mesker Openings Group, based in Huntsville (Alabama/USA). Mesker is a provider of commercial door hardware. With this acquisition, dormakaba strengthens its breadth of its product offering in North America.

The following table summarizes the consideration paid for Mesker and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

in CHF million	As at the acquisition date
Consideration at 12 December 2016	
Cash paid	142.7
Acquisition-related costs	0.9
Total consideration	**143.6**
Identifiable assets and liabilities	
Cash and cash equivalents	1.9
Trade receivables	10.3
Inventories	10.4
Other current assets	0.3
Property, plant and equipment	11.6
Deferred income tax assets	18.2
Trade payables	–2.7
Accrued and other current liabilities	–2.5
Provisions	–0.1
Total identifiable net assets	**47.4**
Goodwill	96.2
Total consideration	**143.6**

Other acquisitions/divestments

Acquisition of ATM Türautomatik GmbH, Austria

On 1 July 2016, dormakaba acquired ATM Türautomatik GmbH (Gleisdorf/AT). ATM is a distributor of automatic doors in southern Austria and a major local player in entrance systems and service solutions. The acquired net assets amounted to CHF 0.9 million.

Acquisition of Seca Solutions A/S, Norway

On 28 February 2017, dormakaba acquired Seca Solutions AS, an expert in physical access control and airport solutions in Norway. The acquired net assets amounted to CHF 0.8 million.

Divestment of Ascot Doors Ltd, United Kingdom

Ascot Doors Ltd (Bolton/UK) was divested on 31 October 2016 as part of the post-merger process of the dormakaba business combination. Ascot is a manufacturer and installer of steel doors and shutters. The divested net assets amounted to CHF 3.6 million.

Divestment of the sanitary business of Provitris GmbH, Germany

The sanitary business of Provitris was divested on 20 February 2017 as part of the post-merger process of the dormakaba business combination. The divested net assets amounted to CHF 0.9 million and a contingent liability related to this transaction depending on the future development of the business remains with dormakaba.

5. Net sales

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Total net sales	**2,841.0**	**2,520.1**
Additional information for long-term contracts applying the percentage-of-completion method		
Amounts included in net sales based on the percentage-of-completion method	80.0	70.4
Cumulative progress invoices on contracts in progress	9.2	20.4
Construction contracts in progress (assets)	14.3	10.4
Billings in excess of cost of construction contracts (liabilities see note 19)	–1.5	–1.3
Accumulated contract costs including recognized profits (losses)	**22.0**	**29.5**
Advances for construction contracts (liabilities)	–0.8	–5.4
Retentions on construction contracts in progress (assets)	0.1	0.0

6. Other operating income, net

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Rent	1.0	0.8
Gain from the sale of fixed assets	1.7	3.9
Re-invoiced cost	0.5	0.5
Licence income	1.1	0.1
Insurance reclaim	0.3	0.1
Other revenues	8.1	6.4
Other operating expense	–0.3	–0.3
Total other operating income (net)	**12.4**	**11.5**

7. Personnel expenses

in CHF million	Financial year ended 30.06.2018	in %	Financial year ended 30.06.2017	in %
Salaries and wages	847.0		758.4	
Social security expenses	166.9		145.7	
Share-based payments	9.1		6.7	
Pension cost (see note 21)	19.8		20.4	
Employment termination expenses	2.1		1.2	
Other benefits	0.7		0.9	
Total personnel expenses	**1,045.6**		**933.3**	
Employees at balance sheet date	**15,801**		**16,965**	
Average number of full-time equivalent employees	**16,433**		**16,250**	
Average number of employees per geographic region				
Switzerland	802	4.9	793	4.9
Germany	3,084	18.8	3,400	20.9
Rest of EMEA	3,567	21.7	3,366	20.7
Americas	4,011	24.4	3,292	20.3
Asia Pacific	4,969	30.2	5,399	33.2
Total	**16,433**	**100.0**	**16,250**	**100.0**

8. Financial expenses

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Interest expenses	43.2	17.3
Foreign exchange losses/(gains)	6.4	15.9
Other financial expenses	3.9	4.4
Total financial expenses	**53.5**	**37.6**

9. Financial income

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Interest income	2.0	1.8
Other financial income	0.4	1.3
Total financial income	**2.4**	**3.1**

10. Income taxes

The weighted applicable tax rate is calculated using the expected income tax rates of the individual Group companies in each jurisdiction. These rates vary significantly. The weighted applicable tax rate is 300 basis points below prior year as a result of the US tax reform (effective as of 1 January 2018) and profit from countries with higher than average tax rates contributing less to the overall Group's tax profit.

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Profit before taxes	**315.7**	**295.2**
Weighted applicable tax rate	25.3%	28.3%
Tax calculated at applicable tax rate	**79.9**	**83.5**
Current income taxes	61.0	70.0
Deferred income taxes	16.0	0.6
Income taxes	**77.0**	**70.6**
Difference between applicable and effective income taxes	**–2.9**	**–12.9**
Impact of losses and tax loss carryforwards	–2.1	–9.3
Tax-exempt income	–5.4	–5.2
Non-deductible expenses	6.6	7.2
Non-recoverable withholding tax expenses	2.7	2.3
Tax charges (credits) relating to prior periods, net	–1.1	–2.2
Other	–3.6	–5.7
Difference between expected and effective income taxes	**–2.9**	**–12.9**
Income taxes charged to equity	–0.2	0.5

11. Trade receivables

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Accounts receivable from third parties	513.1	477.1
Accounts receivable from associates	0.5	0.3
Construction contracts in progress	14.3	10.4
Total trade receivables, gross	**527.9**	**487.8**
Allowance for doubtful accounts	–25.8	–26.4
Total trade receivables, net	**502.1**	**461.4**

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Maturity analysis of trade receivables	**Gross**	**Gross**
Not yet due	374.3	350.1
1–30 day(s) overdue	69.0	59.2
31–60 days overdue	22.6	20.2
61–90 days overdue	12.4	12.7
91–120 days overdue	9.6	6.1
121–150 days overdue	5.1	5.0
More than 150 days overdue	34.9	34.5
Total trade receivables, gross	**527.9**	**487.8**

The creditworthiness of not yet due and not impaired accounts receivable is considered good, based on the low losses in the past.

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Details of allowance for doubtful accounts		
Allowance at beginning of financial year	–26.4	–28.0
Additions	–5.4	–11.0
Releases	4.3	8.5
Usage	2.3	5.0
Disposals of businesses	0.7	0.0
Acquisition of businesses	–0.3	–1.5
Translation exchange differences	–1.0	0.6
Allowance at end of financial year	**–25.8**	**–26.4**

Allowances are recorded systematically based on overdue ageing and past experience. In addition accounts receivable are individually impaired in case of clear evidence of insolvency or other indications that collectability is severely endangered.

The Group does not hold material collateral as security for trade receivables.

12. Inventories

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Raw materials and supplies	191.2	168.4
Semi-finished goods and work in progress	83.9	79.6
Finished goods	207.6	216.0
Prepayments to suppliers	3.7	3.6
Total inventories, gross	**486.4**	**467.6**
Allowance for obsolete and slow-moving items	–54.1	–56.2
Total inventories, net	**432.3**	**411.4**
Details allowance for obsolete and slow-moving items		
Allowance beginning of year	–56.2	–51.1
Additions	–6.2	–10.9
Acquisition of businesses	0.0	–5.4
Disposal of businesses	2.9	0.0
Releases	3.8	4.9
Usage	3.8	5.3
Translation exchange differences	–2.2	1.0
Allowance end of year	**–54.1**	**–56.2**

Allowances for inventories are recorded in cases of incongruity between inventory levels and expected consumption on an item-by-item basis. These allowances are released if and as soon as the requested consumption is reached.

13. Other current assets

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Prepaid expenses	19.1	18.8
Retentions	4.4	2.1
Sales, withholding and other recoverable taxes	31.6	36.0
Fair value of forward contracts (see note 26)	0.5	23.4
Other receivables and miscellaneous	4.0	2.2
Total other current assets	**59.6**	**82.5**

14. Property, plant and equipment/Intangible assets

in CHF million	Land and buildings	Plant, machinery and equipment	Furniture and fixtures	Prepayments	Total property, plant and equipment	Intangible assets
Cost						
30 June 2016	260.3	241.3	116.0	15.2	632.8	76.5
Additions	14.3	14.1	18.1	26.9	73.3	11.4
Disposals	–4.2	–9.2	–8.2	–0.5	–22.3	–1.6
Reclassifications	11.6	4.8	–2.8	–13.8	0.0	0.0
Acquisition of businesses	36.2	25.8	9.1	2.3	73.4	0.1
Translation exchange differences	–4.1	–5.6	–1.4	–0.7	–11.7	–0.8
30 June 2017	**314.1**	**271.2**	**130.8**	**29.4**	**745.5**	**85.6**
Accumulated depreciation						
30 June 2016	82.4	155.0	65.5	0.0	302.8	38.8
Additions	8.5	22.9	18.2	0.0	49.7	10.7
Disposals	–0.9	–8.5	–6.4	0.0	–15.3	–2.1
Reclassifications	–0.1	0.8	–0.2	0.0	0.0	0.0
Translation exchange differences	–0.6	–3.2	–0.7	0.0	–4.5	–0.2
30 June 2017	**89.3**	**167.0**	**76.4**	**0.0**	**332.7**	**47.2**
Net book value as of						
30 June 2016 net	177.9	86.3	50.5	15.2	330.0	37.7
30 June 2017 net	224.8	104.2	54.4	29.4	412.8	38.4
Net carrying amount of assets under finance leases as of						
30 June 2016 net			1.3		1.3	
30 June 2017 net		0.2	1.8		2.0	
Cost						
30 June 2017	314.1	271.2	130.8	29.4	745.5	85.6
Additions	19.0	24.9	19.3	28.5	91.7	23.6
Disposals	–0.9	–4.2	–5.0	–0.1	–10.2	–0.8
Reclassifications	10.4	13.6	4.7	–28.7	0.0	0.0
Acquisition of businesses	4.3	4.4	1.3	0.1	10.1	0.4
Divestment of businesses	–7.7	–5.5	–2.3	–0.1	–15.6	–0.3
Translation exchange differences	8.8	11.1	4.6	1.4	25.9	3.0
30 June 2018	**348.0**	**315.5**	**153.4**	**30.5**	**847.4**	**111.5**
Accumulated depreciation						
30 June 2017	89.3	167.0	76.4	0.0	332.7	47.2
Additions	9.6	26.7	18.8	0.0	55.1	11.6
Disposals	–0.2	–3.6	–4.2	0.0	–8.0	–0.6
Reclassifications	0.4	–0.3	–0.1	0.0	0.0	0.0
Divestment of businesses	–0.3	–1.5	–0.7	0.0	–2.5	–0.1
Translation exchange differences	1.9	6.8	2.8	0.0	11.5	1.9
30 June 2018	**100.7**	**195.1**	**93.0**	**0.0**	**388.8**	**60.0**
Net book value as of						
30 June 2017 net	224.8	104.2	54.4	29.4	412.8	38.4
30 June 2018 net	247.3	120.4	60.4	30.5	458.6	51.5
Net carrying amount of assets under finance leases as of						
30 June 2017 net		0.2	1.8		2.0	
30 June 2018 net		1.0	2.5		3.5	

Intangible assets: additions to cost include CHF 2.2 million (2016/17 CHF 1.4 million) invested in research and development projects.

15. Theoretical movement of goodwill

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Cost		
Opening	1,774.8	1,153.2
Additions from acquisitions	141.7	657.0
Adjustments (earn-out, divestments and others)	3.3	2.3
Translation exchange differences	30.4	–37.7
Closing	**1,950.2**	**1,774.8**
Accumulated amortization		
Opening	522.6	255.2
Additions	372.9	272.1
Translation exchange differences	8.2	–4.7
Closing	**903.7**	**522.6**
Theoretical book values, net		
Opening	1,252.2	898.0
Closing	1,046.5	1,252.2

The total goodwill of CHF 145.0 million (2016/17 CHF 659.3 million) resulting from acquisitions is offset in equity as described in note 2.10 and disclosed in the consolidated statement of changes in equity. The following tables show the impact on equity and net profit based on the assumption that this goodwill had been capitalized and amortized over a period of five years.

Effect on the income statement

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Operating profit (EBIT)	364.3	327.0
EBIT in % of net sales	12.8	13.0
Amortization goodwill	–372.9	–272.1
Theoretical operating profit (EBIT) incl. amortization goodwill	–8.6	54.9
Theoretical EBIT in % of net sales	–0.3	2.2
Net profit	238.7	224.6
Amortization goodwill	–372.9	–272.1
Theoretical net loss/profit incl. amortization goodwill	–134.2	–47.5

Effect on the balance sheet

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Equity according to balance sheet	187.0	183.1
Theoretical capitalization net book value goodwill	1,046.5	1,252.2
Theoretical equity incl. net book value goodwill	1,233.5	1,435.3
Equity in % of balance sheet total	9.4	9.6
Theoretical equity incl. net book value goodwill in % of balance sheet total	40.7	45.4

16. Investments in associates and joint ventures

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Associates		
Beginning of year	**36.0**	**33.9**
Increase of investments in associates	1.5	1.0
Dividends received	–1.4	–1.8
Share of profit/(loss)	2.5	2.7
Translation exchange differences	2.0	0.2
Total investments in associates	**40.6**	**36.0**
Details of material investments in associates		
Entity name		
ISEO Serrature S.p.A., Pisogne / IT		
Assets	215.5	183.7
Liabilities	139.8	114.8
Revenues	167.8	158.2
Profit/(Loss)	6.9	6.6
Interest held in %	40.0	40.0
Goodwill included in investments in associates	11.0	11.0

In July 2018 dormakaba has reached an agreement on the sale of its 40% shareholding in ISEO to the Facchinetti family, who already owns the remaining 60% in the company. Closing of the divestment contract is expected to take place by fall 2018.

17. Non-current financial assets

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Non-current financial assets		
Loans	3.6	4.0
Pension-related assets	24.6	22.8
Long-term prepaid expenses	7.3	7.6
Prepaid financing cost	0.0	0.0
Long-term held securities	3.4	3.5
Total non-current financial assets	**38.9**	**37.9**

18. Borrowings

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Current borrowings		
Bank overdrafts	27.2	10.6
Short-term bank loans	121.7	797.3
Current portion of finance lease obligation	1.4	0.9
Current portion of other debt	6.2	5.8
Total current borrowings	**156.5**	**814.6**

Bank overdrafts and short-term bank loans are repayable within one year and are subject to financial debt covenants. The short-term borrowings are fixed for a period of one to three months and the interest rates are based on LIBOR/EURIBOR. The carrying amounts of short-term financial borrowings approximate their fair value.

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Non-current borrowings		
Bank loans	0.1	0.2
Other long-term liabilities	2.2	0.0
Bonds	680.5	0.0
Finance lease obligation	2.4	1.1
Total non-current borrowings	**685.2**	**1.3**
Other non-interest bearing liabilities	4.8	0.0
Total long-term debt	**690.0**	**1.3**

The increased short-term bank loans in 2016/17 to finance the business expansion in North America were refinanced by the issuance of 2 bonds at the Swiss debt capital market on 13 October 2017.

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
At year-end, maturities of debt were as follows:		
Within 1 year	7.6	6.7
Within 2 to 5 years	368.2	1.3
After 5 years	321.8	0.0
Total debt	**697.6**	**8.0**
Current portion of debt	7.6	6.7
Total long-term debt	**690.0**	**1.3**

in CHF million	Issuing currency	Coupon in % p.a.	Financial year ended 30.06.2018	Issuing currency	Coupon in % p.a.	Financial year ended 30.06.2017
Bonds (at fixed interest rates)	**CHF**		**680.5**	**–**	**–**	**–**
CHF 360 million bond 2017 – 2021 (dormakaba Finance AG) Payment date: 13 October 2017 Issue price: 100.298%	CHF	0.375	360.1	–	–	–
CHF 320 million bond 2017 – 2025 (dormakaba Finance AG) Payment date: 13 October 2017 Issue price: 100.46%	CHF	1.000	320.4	–	–	–

19. Accrued and other current liabilities

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Advances from customers	27.0	27.9
Billings in excess of cost of construction contracts	1.5	1.3
Deferred income	33.7	44.1
Sales, withholding and other tax payable	42.9	49.1
Social security payable	11.5	10.2
Payable to pension fund	0.9	0.9
Accruals for vacation, overtime and other employee benefits	112.8	102.5
Accrued interest	3.5	0.6
Fair value of forward contracts (see note 26)	7.6	0.8
Other accruals and current non-interest-bearing liabilities	96.7	91.0
Total accrued and other current liabilities	**338.1**	**328.4**

20. Provisions

in CHF million	Warranty and customer returns	Restructuring	Other	Total
Financial year ended 30.06.2017				
Opening balance as at 01.07.2016	**14.9**	**57.6**	**16.1**	**88.6**
Additions	7.6	–0.2	10.5	17.9
Releases	–0.2	0.0	–0.4	–0.6
Usage	–8.2	–19.5	–6.4	–34.1
Acquisition of businesses	5.2	0.0	0.6	5.8
Translation exchange differences	–0.3	–0.2	–0.2	–0.7
Balance at 30.06.2017	**19.0**	**37.7**	**20.2**	**76.9**
Thereof due within 1 year	19.0	37.7	20.2	76.9
Thereof due 2 to 5 years	0.0	0.0	0.0	0.0
Total	**19.0**	**37.7**	**20.2**	**76.9**
Financial year ended 30.06.2018				
Opening balance as at 01.07.2017	**19.0**	**37.7**	**20.2**	**76.9**
Additions	7.5	0.0	9.0	16.5
Releases	–2.3	–0.2	–2.9	–5.4
Usage	–7.0	–22.2	–5.8	–35.0
Acquisition of businesses	–3.9	0.0	0.1	–3.8
Divestment of business	–0.2	0.0	–0.7	–0.9
Translation exchange differences	0.7	1.5	0.6	2.8
Balance at 30.06.2018	**13.8**	**16.8**	**20.5**	**51.1**
Thereof due within 1 year	13.8	16.8	20.5	51.1
Thereof due 2 to 5 years	0.0	0.0	0.0	0.0
Total	**13.8**	**16.8**	**20.5**	**51.1**

Warranty and customer return provisions

The provision covers customer warranty claims and voluntary concessions as well as customer returns.

Restructuring provisions

Restructuring provisions include expected future cash outflows related to restructuring plans that the Group has started to implement or announced. Restructuring plans mainly focus on optimizing administrative and manufacturing processes.

The major part of these restructuring provisions is due to post-merger integration projects following the merger between Kaba and Dorma as per 1 September 2015 which has been approved by the Board. These provisions mainly include severance cost, early termination cost, and restructuring-related advisory cost.

Other provisions

Other provisions include mainly environmental risks, litigation and sales agents' indemnities.

21. Employee benefit liabilities

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017					Financial year ended 30.06.2018	Financial year ended 30.06.2017
	Economic part of the Corporation	Economic part of the Corporation	Acquisition of Businesses Economical part of the Corporation	Translation differences	Change to prior year period or recognized in the current result of the period, respectively	Contributions concerning the business period	Pension benefit expenses within personnel expenses	Pension benefit expenses within personnel expenses
Pension institutions with surplus						7.9	7.9	7.5
Pension institutions with deficit								
Pension institutions w/o surplus/deficit						11.0	11.0	9.9
Pension institutions without own assets	279.3	264.9	-	14.3	0.1	0.8	0.9	3.0
Other long-term employee benefits	23.7	20.2						
Total	**303.0**	**285.1**	**-**	**14.3**	**0.1**	**19.7**	**19.8**	**20.4**

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Contributions to pension institutions from Group entities	18.9	17.4
Contributions to pension institutions from employer contribution reserves (ECR)	0.0	0.0
Total contributions	18.9	17.4
+/- Changes ECR from asset development, value adjustments, etc.	0.0	0.0
Contributions and changes employer contribution reserves	**18.9**	**17.4**
Increase/decrease economical benefit group from surplus	0.0	0.0
Decrease/increase economical obligation group from deficit	0.0	0.0
Decrease/increase economical obligation group from pension institutions without own assets	0.9	3.0
Total changes economical effects from surplus/deficit	0.9	3.0
Pension benefit expenses within personnel expenses in the period under review	**19.8**	**20.4**

The expenses for pension institutions with surplus fully relate to pension plans in Switzerland. The Swiss plans are valued annually as per December and in line with Swiss GAAP FER 26. The pension institutions without own assets are assessed annually as per financial year-end closing and relate mainly to pension liabilities of Group companies in Germany, Austria as well as Italy.

22. Operating lease commitments

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Operating leases		
Expenses for operating leases amounted to	41.1	36.3
Future minimum lease payments resulting from non-cancellable operating lease contracts are due as follows:		
Up to 1 year	36.1	33.8
2 to 5 years	71.8	64.9
Over 5 years	22.8	22.1
Total future payment commitments for operating leases	**130.7**	**120.8**

Operating lease commitments mainly refer to the lease of buildings which are used for operational purposes.

23. Deferred income taxes

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Expiration of tax loss carry-forwards not recognized as deferred tax assets		
Expiry in 1 year	3.0	3.4
Expiry in 2 to 5 years	19.9	16.1
Expiry after 5 years	13.6	3.3
No expiry	157.3	154.9
Balance of tax loss carry-forwards at end of financial year	**193.8**	**177.7**

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Balance sheet presentation of deferred income taxes		
Deferred income tax assets	203.5	204.2
Deferred income tax liabilities	38.8	29.1
Total deferred income taxes, net	**164.7**	**175.1**

Deferred income tax assets from temporary differences are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income taxes resulting from tax loss carry-forwards applicable to future taxable income are only recognized to the extent of available deferred tax liabilities.

24. Capital management

Management of capital is governed by the following objectives:

- securing sufficient liquidity to meet the Group’s needs to fulfil its financial obligations;
- securing sufficient financing capacity for future investments and acquisitions;
- ensuring creditworthiness;
- achieving a risk-adequate return for investors.

Continuous monitoring and reporting of key financial figures and key performance indicators to the management ensure that appropriate action is taken as soon as required.

The syndicated credit facility of CHF 500 million, established in March 2016 for a five-year period nominates at its original amount again, after the temporary increase was set back due to the issuance of two bonds at the Swiss debt capital market 13 October 2017. The options for prolongation of two additional years and increase of up to CHF 200 million are reinforced after the termination of the temporary increase. The only financial covenant is the net debt ratio (calculated as the ratio of net debt to EBITDA). As of 30 June 2018 dormakaba complied with this financial covenant. The corresponding key figures as at 30 June 2018 and 30 June 2017 respectively are shown below:

in CHF million, except where indicated	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Gearing		
Earnings before interest, taxes, depreciation and amortization (EBITDA)	431.0	387.3
Net debt	701.2	627.6
Net debt/EBITDA (Gearing)	1.6	1.6

A portion of profit generated is paid out to the shareholders as dividends, taking into account the current financing needs and compliance with legal requirements.

dormakaba envisages a dividend policy whereby the minimum payout ratio should be at 50% of consolidated net profit after minority interests.

The Group is not subject to externally imposed capital restrictions.

25. Commitments and contingencies

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Current endorsement liabilities	5.0	3.0
Investments committed to purchase from third parties:		
Property, plant and equipment	15.2	27.9
Intangible assets	1.2	0.5

In addition to the table above, contingent liabilities related to divestments of DORMA Beschlagtechnik GmbH (Germany) and the sanitary business of Provitris GmbH (Germany) remain with dormakaba and depend on the future development of these divested businesses.

26. Derivative financial instruments

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
The following forward contracts existed for hedging purposes on the balance sheet date:		
Currencies		
– Contract value	633.4	1,195.3
– Fair value – held-for-trading, net	–7.1	22.6

27. Segment reporting

in CHF million	Access Solutions AMER Financial year ended 30.06.2018	Access Solutions AMER Financial year ended 30.06.2017	Access Solutions APAC Financial year ended 30.06.2018	Access Solutions APAC Financial year ended 30.06.2017	Access Solutions DACH Financial year ended 30.06.2018	Access Solutions DACH Financial year ended 30.06.2017
Net sales third parties	796.9	656.2	441.1	398.7	530.8	496.4
Intercompany sales	31.5	28.8	26.9	22.2	320.8	304.6
Total sales	**828.4**	**685.0**	**468.0**	**420.9**	**851.6**	**801.0**
Operating profit (EBIT)	**151.0**	**134.4**	**58.3**	**46.6**	**130.4**	**132.7**
in % of sales	18.2%	19.6%	12.5%	11.1%	15.3%	16.6%
Depreciation and amortization	12.4	9.6	7.5	6.2	17.0	16.9
Operating profit before depreciation and amortization (EBITDA)	**163.4**	**144.0**	**65.8**	**52.8**	**147.4**	**149.5**
in % of sales	19.7%	21.0%	14.1%	12.6%	17.3%	18.7%
Operating assets	345.4	341.6	222.2	207.0	356.0	312.4
Operating liabilities	–105.6	–119.6	–111.9	–84.9	–365.9	–362.6
Net operating assets	239.8	221.9	110.3	122.2	–9.9	–50.1
Capital expenditure	14.6	11.7	11.2	10.5	37.8	27.8
Average number of full-time equivalent employees	3,078	2,506	3,836	4,039	3,506	3,747

in CHF million	Access Solutions EMEA Financial year ended 30.06.2018	Access Solutions EMEA Financial year ended 30.06.2017	Eliminations Financial year ended 30.06.2018	Eliminations Financial year ended 30.06.2017	Access Solutions TOTAL Financial year ended 30.06.2018	Access Solutions TOTAL Financial year ended 30.06.2017
Net sales third parties	666.2	619.8	0.0	0.0	2,435.0	2,171.1
Intercompany sales	115.7	113.1	–486.6	–460.1	8.3	8.6
Total sales	**781.9**	**732.9**	**–486.6**	**–460.1**	**2,443.3**	**2,179.7**
Operating profit (EBIT)	**43.4**	**35.9**	**–0.6**	**0.7**	**382.5**	**350.3**
in % of sales	5.5%	4.9%	0.1%	–0.2%	15.7%	16.1%
Depreciation and amortization	14.0	13.6	0.0	0.0	50.9	46.2
Operating profit before depreciation and amortization (EBITDA)	**57.4**	**49.4**	**–0.6**	**0.7**	**433.4**	**396.5**
in % of sales	7.3%	6.7%	0.1%	–0.2%	17.7%	18.2%
Operating assets	345.1	315.0	–15.7	–15.4	1,253.0	1,160.7
Operating liabilities	–148.4	–137.1	0.0	0.1	–731.8	–704.1
Net operating assets	196.7	177.9	–15.7	–15.3	521.2	456.6
Capital expenditure	13.6	10.5	0.0	0.0	77.2	60.4
Average number of full-time equivalent employees	3,378	3,501	–	–	13,799	13,793

in CHF million			Key & Wall Solutions [1] Financial year ended 30.06.2018	Key & Wall Solutions [1] Financial year ended 30.06.2017	Other [2] Financial year ended 30.06.2018	Other [2] Financial year ended 30.06.2017 [3]
Net sales third parties			374.2	321.4	31.8	27.6
Intercompany sales			13.3	10.4	3.7	3.4
Total sales			**387.5**	**331.8**	**35.5**	**31.0**
Operating profit (EBIT)			**47.9**	**39.9**	**3.0**	**0.5**
in % of sales			12.3%	12.0%	8.6%	1.6%
Depreciation and amortization			8.8	7.6	0.6	0.8
Operating profit before depreciation and amortization (EBITDA)			**56.7**	**47.4**	**3.6**	**1.3**
in % of sales			14.6%	14.3%	10.2%	4.1%
Operating assets			218.5	173.0	14.1	34.9
Operating liabilities			–89.4	–74.1	–3.4	–10.7
Net operating assets			129.1	98.8	10.7	24.2
Capital expenditure			13.3	8.6	2.5	0.6
Average number of full-time equivalent employees			2,139	2,056	178	97

in CHF million	Corporate Financial year ended 30.06.2018	Financial year ended 30.06.2017 [3]	Eliminations Financial year ended 30.06.2018	Financial year ended 30.06.2017	Group Financial year ended 30.06.2018	Financial year ended 30.06.2017
Net sales third parties	0.0	0.0	0.0	0.0	2,841.0	2,520.1
Intercompany sales	0.0	0.0	–25.3	–22.4	0.0	0.0
Total sales	**0.0**	**0.0**	**–25.3**	**–22.4**	**2,841.0**	**2,520.1**
Operating profit (EBIT)	**–69.1**	**–63.7**	**0.0**	**0.0**	**364.3**	**327.0**
in % of sales	0.0%	0.0%	0.0%	0.0%	12.8%	13.0%
Depreciation and amortization	6.4	5.8	0.0	0.0	66.7	60.3
Operating profit before depreciation and amortization (EBITDA)	**–62.7**	**–57.9**	**0.0**	**0.0**	**431.0**	**387.3**
in % of sales	0.0%	0.0%	0.0%	0.0%	15.2%	15.4%
Depreciation and amortization					–66.8	–60.3
Result from associates					2.5	2.7
Financial expenses					–53.5	–37.6
Financial income					2.4	3.1
Profit before taxes					**315.7**	**295.2**
Operating assets	46.0	42.8	0.0	0.0	1,531.6	1,411.2
Operating liabilities	–27.8	–52.0	0.0	0.0	–852.4	–840.9
Net operating assets	18.2	–9.3	0.0	0.0	679.2	570.4
Capital expenditure	22.3	15.1	0.0	0.0	115.3	84.7
Average number of full-time equivalent employees	316	303	–	–	16,432	16,250

1) In the financial year ended 30.06.2018 the segments Key Systems and Movable Walls were combined into segment Key & Wall Solutions. In order to enable a comparison with current-year data, prior year data has also been consolidated.

2) The divested GMT commercial door hardware business, acquired within Best Access Solutions in financial year 2016/17, was reclassed into segment "Other" to ensure a fair presentation of the operational main segment.

3) In order to enable a fair comparison with current-year data, certain expenses have been reclassified within segment "Other" and segment "Corporate".

Reconciliation of assets and liabilities

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Segment operating assets	**1,531.6**	**1,411.2**
Cash and cash equivalents	145.3	188.3
Current income tax assets	49.9	36.1
Other current assets	4.5	25.6
Investments in associates	40.6	36.0
Non-current financial assets	6.9	7.6
Deferred income tax assets	203.5	204.2
Total assets	**1,982.3**	**1,909.0**
Segment operating liabilities	**–852.4**	**–840.9**
Current borrowings	–156.5	–814.6
Current income tax liabilities	–51.3	–38.7
Accrued and other current liabilities	–11.1	–1.3
Non-current borrowings	–685.2	–1.3
Deferred income tax liabilities	–38.8	–29.1
Total liabilities	**–1,795.3**	**–1,725.9**

28. Regional reporting – key figures

in CHF million	Net sales to third parties	in %	Non-current assets	in %	Capital expenditure	in %
Prior financial year ended 30.06.2017						
Switzerland	167.2	7	209.8	28	17.0	20
Germany	324.0	13	210.5	30	15.7	18
Rest of EMEA	775.7	30	66.4	9	8.9	11
Americas	830.0	33	137.5	19	16.1	19
Asia Pacific	423.2	17	105.1	14	27.0	32
Total	**2,520.1**	**100**	**729.3**	**100**	**84.7**	**100**
Financial year ended 30.06.2018						
Switzerland	172.6	6	221.7	28	15.3	13
Germany	351.4	12	223.8	28	27.2	24
Rest of EMEA	833.5	29	71.9	9	13.9	12
Americas	1,038.4	37	130.8	17	20.4	18
Asia Pacific	445.1	16	144.9	18	38.5	33
Total	**2,841.0**	**100**	**793.1**	**100**	**115.3**	**100**

29. Stock award plans

In 2012 the Executive Stock Award Plan "ESAP Plus" was introduced. Under the plan, participants were nominated each year by the Compensation Committee for an allocation of shares free of charge ("Award Share[s]") that are automatically subject to a three-year blocking period ("Blocking Period"). Provided that at the expiry of the Blocking Period (i) the participant is still under a contract of employment with a dormakaba Group company and (ii) no notice of termination has been given by either the employer or employee, the participant shall receive free of charge additional shares ("Matching Shares") in the proportion of one additional share for every two Award Shares. The value of the Award Share corresponds to the closing price of the dormakaba Holding AG share at the SIX Swiss Exchange on the business day before the date of the allocation.

In 2013, the Executive Stock Award Plan "ESAP Plus 3" was introduced for new participants. ESAP Plus 3 has the same design as ESAP Plus except that under ESAP Plus, existing ESAP 1 participants were entitled to choose between an allocation under ESAP 1 or under ESAP Plus. Under ESAP Plus 3, this choice is no longer available. ESAP 1 and ESAP Plus were discontinued from 2014/15 financial year onwards.

In 2015, the Executive Stock Award Plan "ESAP 5" was introduced. Under ESAP 5, participants, nominated each year by the Compensation Committee, are granted Award Shares and Performance Share Units that are subject to a three-year vesting period ("Vesting Period") conditional upon (i) the continuous employment of the participant with a dormakaba Group company at the end of the Vesting Period and (ii) the fulfilment of the Earnings per Share ("EPS") performance condition during the Vesting Period, as determined in the ESAP 5 plan rules. At the vesting date, Performance Share Units are converted into shares based on a payout percentage between 0% and 200% (0 to 2 shares delivered for each Performance Share Unit based on the achieved EPS performance).

On 22 September 2014, a total of 3,285 shares were allocated under ESAP Plus 3 (out of treasury shares) with an award value of CHF 440.50 each.

On 21 September 2015, a total of 4,088 Award Shares were allocated under ESAP 5 (out of treasury shares) with an award value of CHF 653.00 each.

On 21 November 2015, a total of 840 Matching Shares were allocated under ESAP Plus with an award value of CHF 664.00 each.

On 21 September 2016, a total of 5,224 Award Shares under ESAP 5 and a total of 1,426 Matching Shares (of which 1,120 under ESAP Plus and 306 under ESAP Plus 3) were allocated (1,650 out of treasury shares and 5,000 out of conditional capital) with an award value of CHF 738.00 each.

On 21 September 2017, a total of 5,997 Award Shares under ESAP 5 with an award value of CHF 975.00 and a total of 1,630 Matching Shares under ESAP Plus 3 with an award value of CHF 978.50 were allocated out of treasury shares. The impact on dormakaba's 2017/18 income statement amounts to CHF 5,847,075 for the Award Shares and CHF 1,726,473 for the Matching Shares (2016/17: CHF 3,855,312 for Award Shares and CHF 989,530 for the Matching Shares).

CHF 6,438.40 (divided into 64,384 registered shares with a par value of CHF 0.10) of conditional capital is reserved for stock award plans.

30. Related parties

in CHF million	Financial year ended 30.06.2018	Financial year ended 30.06.2017
Transactions with associates		
Sales of goods and services	1.1	0.6
Purchase of goods and services	2.6	2.2
Accounts receivable	0.5	0.3
Accounts payable	0.3	0.3

31. Events after the reporting period

dormakaba has reached an agreement on the sale of its 40% shareholding in ISEO to the Facchinetti family, who already owns the remaining 60% in the company. Closing of the divestment contract is expected to take place by fall 2018.

32. Release of consolidated financial statements for publication

These consolidated financial statements have been approved for issue by the Board of Directors on 7 September 2018 and will be presented for approval by the General Meeting of Shareholders of 23 October 2018.

Legal structure of the dormakaba Group

as at 30 June 2018

List of substantial Group and associated companies		Share capital in local currency	Voting rights in %	Participation of Group companies
dormakaba Holding AG, Rümlang/CH	CHF	420,002.60		Publicly Quoted Company
dormakaba Holding GmbH + Co. KGaA, Ennepetal/DE	EUR	27,642,105.00	52.5	dormakaba Holding AG
			47.5	Familie Mankel Industriebeteiligung GmbH + Co. KGaA
dormakaba Beteiligungs-GmbH, Ennepetal/DE	EUR	1,000,000.00	52.5	dormakaba Holding AG
All of the following companies are directly or indirectly held by dormakaba Holding GmbH + Co. KGaA. Voting rights listed for these companies are the voting rights of this subholding. dormakaba Shareholders ultimately benefit with 52.5% from the cash flows generated by these entities.				
dormakaba International Holding AG, Rümlang/CH	CHF	101,000.00	100	dormakaba Holding GmbH + Co. KGaA
ADUK Products Ltd., Haslemere/GB	GBP	53.73	100	Kaba Holding (UK) Ltd.
Advanced Diagnostics Ltd., Haslemere/GB	GBP	100.00	100	ADUK Products Ltd.
Aluminium Services Inc., Scituate/US	USD	30,000.00	100	dormakaba USA Inc.
ATM-Türautomatik GmbH, Gleisdorf/AT	EUR	35,000.00	100	dormakaba Austria GmbH
Corporación Cerrajera Alba, S.A. de C.V., Edo. de México/MX	MXP	202,059,403.00	100	dormakaba Canada Inc.
Dörken + Mankel Verwaltungs-Gesellschaft mit beschränkter Haftung, Ennepetal/DE	EUR	30,000.00	100	dormakaba Holding GmbH + Co. KGaA
DORMA Arabia Automatic Doors Company Ltd., Dammam/SA	SAR	4,000,000.00	95	Dorma- Vertrieb-International GmbH
			5	DORMA Produktion International GmbH
DORMA Door Controls Pty. Ltd., Hallam/AU	AUD	910,700.00	100	Dorma- Vertrieb-International GmbH
DORMA Ghana Limited, Accra/GH	GHS	1,850,000.00	100	Dorma- Vertrieb-International GmbH
DORMA HUEPPE Pty. Ltd., Hallam/AU	AUD	374,406.72	100	DORMA Door Controls Pty. Ltd.
DORMA Hüppe Asia Sdn. Bhd., Senai, Johor/MY	MYR	2,510,000.00	100	DORMA Hüppe Raumtrennsysteme GmbH + Co. KG
DORMA Hüppe Austria GmbH, Linz/AT	EUR	146,000.00	100	DORMA Hüppe Raumtrennsysteme GmbH + Co. KG
DORMA Hüppe Raumtrennsysteme GmbH + Co. KG, Westerstede-Ocholt/DE	EUR	48,300,000.00	100	dormakaba Holding GmbH + Co. KGaA
DORMA Hüppe S.A., Brugge/BE	EUR	3,300,000.00	100	DORMA Hüppe Raumtrennsysteme GmbH + Co. KG
DORMA Hüppe Schweiz AG, St. Gallen/CH	CHF	100,000.00	100	dormakaba International Holding AG
DORMA Ireland Ltd., Dublin/IE	EUR	1,500,002.54	100	Dorma- Vertrieb-International GmbH
DORMA Movable Wall Verwaltungs-GmbH, Ennepetal/DE	EUR	25,000.00	100	dormakaba Holding GmbH + Co. KGaA
DORMA Produktion International GmbH, Ennepetal/DE	EUR	60,000.00	100	dormakaba Deutschland GmbH
DORMA UK Ltd., Hitchin/GB	GBP	250,000.00	100	dormakaba Nederland B.V.
DORMA Ukraine LLC, Kiev/UA	EUR	100,000.00	99	Dorma- Vertrieb-International GmbH
			1	dormakaba Deutschland GmbH
Dorma- Vertrieb-International Gesellschaft mit beschränkter Haftung, Ennepetal/DE	EUR	110,000.00	100	dormakaba Deutschland GmbH
DORMA-Glas GmbH, Bad Salzuflen/DE	EUR	520,000.00	100	dormakaba Deutschland GmbH
dormakaba (Thailand) Ltd., Bangkok/TH	THB	13,490,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Access Indonesia, PT, Jakarta/IN	IDR	1,136,300,000.00	90	Dorma- Vertrieb-International GmbH
			10	DORMA Produktion International GmbH
dormakaba Access Solutions LLC, Doha/QA	QAR	200,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Australia Pty. Ltd., Hallam/AU	AUD	10,702.00	100	DORMA Door Controls Pty. Ltd.

dormakaba Austria GmbH, Herzogenburg/AT	EUR	1,460,000.00	100	dormakaba International Holding AG
dormakaba Belgium N.V., Bruges/BE	EUR	2,416,273.79	100	dormakaba International Holding AG
dormakaba Brasil Soluções de Acesso Ltda. Sao Paulo/BR	BRL	35,160,684.00	100	dormakaba International Holding AG
dormakaba Bulgaria Ltd., Sofia/BG	EUR	1,314,147.96	100	Dorma- Vertrieb-International GmbH
dormakaba Canada Inc., Montreal/CA	CAD	1,000.00	100	dormakaba International Holding AG
dormakaba Cesko s.r.o., Praha/CZ	CZK	100,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba China Ltd, Suzhou/CN	CNY	127,759,074.00	100	Dorma- Vertrieb-International GmbH
dormakaba Danmark A/S, Albertslund/DK	DKK	696,000.00	100	dormakaba International Holding AG
dormakaba Deutschland GmbH, Ennepetal/DE	EUR	126,780,000.00	100	dormakaba Holding GmbH + Co. KGaA
DORMAKABA DOO BEOGRAD, Beograd/RS	RSD	4,474,250.00	100	Dorma- Vertrieb-International GmbH
dormakaba EAD GmbH, Villingen-Schwenningen/DE	EUR	819,100.00	100	dormakaba Holding GmbH + Co. KGaA
dormakaba España S.A.U., Madrid/ES	EUR	600,000.00	100	dormakaba International Holding AG
dormakaba Eurasia LLC, Moscow/RU	RUB	213,000,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Finance AG, Rümlang/CH	CHF	100,000.00	100	dormakaba Holding GmbH + Co. KGaA
dormakaba Finance B.V., Dodewaard/NL	EUR	100,000.00	100	dormakaba Holding GmbH + Co. KGaA
dormakaba Finance GmbH, Ennepetal/DE	EUR	25,000.00	100	dormakaba Holding GmbH + Co. KGaA
dormakaba France S.A.S., Certeil/FR	EUR	5,617,200.00	100	dormakaba International Holding AG
dormakaba Gulf FZE, Dubai/AE	USD	9,524,934.10	100	Dorma- Vertrieb-International GmbH
dormakaba Hong Kong Limited, Hong Kong/HK	HKD	100,000.00	100	dormakaba Nederland B.V.
dormakaba Hrvatska d.o.o., Zagreb/HR	HRK	5,650,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Immobilien GmbH, Villingen-Schwenningen/DE	EUR	50,000.00	100	dormakaba Holding GmbH + Co. KGaA
dormakaba India Private Limited, Chennai/IN	INR	1,147,197,270.00	100	Dorma- Vertrieb-International GmbH
dormakaba International Holding GmbH, Ennepetal/DE	EUR	1,000,000.00	100	dormakaba Holding GmbH + Co. KGaA
dormakaba Italia Srl., Milano/IT	EUR	260,000.00	100	dormakaba Schweiz AG
dormakaba Japan Co. Ltd., Yokohama/JP	JPY	120,000,000.00	100	dormakaba Schweiz AG
dormakaba Kapi Ve Güvenlik Sistemleri Sanayi Ve Ticaret A.S., Istanbul/TR	TRY	3,750,000.00	99	Dorma- Vertrieb-International GmbH
			1	dormakaba Deutschland GmbH
dormakaba Kenya Limited, Nairobi/KE	KES	40,000,000.00	99	Dorma- Vertrieb-International GmbH
			1	dormakaba Deutschland GmbH
dormakaba Korea Inc., Seongnam Ciy/KR	KRW	150,000,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Kuwait for Ready Made Windows LLC, Kuwait City/KW	KWD	10,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Luxembourg S.A., Wecker/LU	EUR	15,191,560.72	100	dormakaba International Holding AG
dormakaba Magyarországì Zrt., Budapest/HU	HUF	251,000,000.00	100	dormakaba Luxembourg S.A.
dormakaba Malaysia SDN BHD, Selangor/MY	MYR	200,000.00	100	dormakaba Nederland B.V.
dormakaba Maroc SARL, Casablanca/MA	MAD	2,000,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba México, S. de R.L. de C.V., Mexico City/MX	MXN	3,000.00	96.6	Dorma- Vertrieb-International GmbH
			3.4	dormakaba Deutschland GmbH
dormakaba Middle East (LLC), Dubai/AE	AED	7,700,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Nederland B.V., Dodewaard/NL	EUR	11,662.00	100	Dorma- Vertrieb-International GmbH
dormakaba New Zealand Limited, Auckland/NZ	NZD	384,000.00	100	dormakaba Nederland B.V.
dormakaba Norge A/S, Drammen/NO	NOK	1,754,500.00	100	dormakaba International Holding AG
dormakaba Philippines Inc., Makati City/PH	PHP	18,000,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Polska sp.z.o.o., Konstancin-Jeziorna/PL	PLN	14,255,500.00	100	dormakaba International Holding AG
dormakaba Portugal, Unipessoal Lda., Lisbon/PT	EUR	50,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Production GmbH + Co. Kommanditgesellschaft, Ennepetal/DE, Singapore/SGP	EUR	2,560,000.00	100	dormakaba Deutschland GmbH
dormakaba Production GmbH, Ennepetal/DE	EUR	50,000.00	100	dormakaba Deutschland GmbH

dormakaba Production Malaysia SDN. BHD., Melaka/MY	MYR	5,000,000.00	100	Dorma- Vertrieb-International GmbH
dormakaba Romania S.R.L., Bucharest/RO	RON	4,705,845.65	100	Dorma- Vertrieb-International GmbH
dormakaba Schweiz AG, Wetzikon/CH	CHF	6,800,000.00	100	dormakaba International Holding AG
dormakaba Singapore Pte Ltd, Singapore/SGP	SGD	500,000.00	100	dormakaba Production GmbH + Co. KG
dormakaba Slovensko s.r.o, Bratislava/SK	EUR	6,639.00	100	Dorma- Vertrieb-International GmbH
dormakaba South Africa (Pty.) Ltd., Johannesburg/ZA	ZAR	950.00	100	Dorma- Vertrieb-International GmbH
dormakaba Suomi Oy, Helsinki/FI	EUR	67,275.17	100	Dorma- Vertrieb-International GmbH
dormakaba Sverige AB, Västra Frölunda/SE	SEK	500,000.00	100	dormakaba Nederland B.V.
dormakaba Uruguay S.A, Montevideo/UY	UYU	10,800.00	100	Dorma- Vertrieb-International GmbH
dormakaba USA Inc., Wilmington/US	USD	1,000.00	100	Kaba U.S. Holding Ltd.
dormakaba Workforce Solutions LLC, Wilmington/US	USD	19,712.76	100	Kaba U.S. Holding Ltd.
Farpointe Data Inc., Sunnyvale/US	USD	1,701,734.88	100	dormakaba USA Inc.
Fermetures GROOM S.A.S., Javené/FR	EUR	1,500,000.00	100	dormakaba France S.A.S.
Forponto Informática S.A., São Paulo/BR	BRL	10,000.00	100	Task Sistemas de Computação S.A.
Grupo Klaus S.A.C., Lima/PE	PEN	11,516,230.00	100	dormakaba International Holding AG
H. Cillekens & ZN BV, Roermond/NL	EUR	15,882.31	100	dormakaba Nederland B.V.
ISEO Serrature S.p.A., Pisogne/IT	EUR	23,969,040.00	40	Dorma- Vertrieb-International GmbH
Kaba (China) Technologies Ltd., Shenzhen/CN	CNY	69,500,000.00	100	Kaba Limited (HK)
Kaba Delaware, LLC, Wilmington/US		N/A	100	dormakaba Schweiz AG
Kaba do Brasil Ltda., São Paulo/BR	BRL	32,051,215.00	100	dormakaba International Holding AG
Kaba Gallenschütz GmbH, Bühl/DE	EUR	2,560,000.00	100	dormakaba Holding GmbH + Co. KGaA
Kaba Holding (UK) Ltd., London/GB	GBP	173,000.00	100	dormakaba International Holding AG
Kaba Holding AG, Rümlang/CH	CHF	100,000.00	100	dormakaba International Holding AG
Kaba Ilco Corp., Rocky Mount/US	USD	56,897,640.00	100	Kaba U.S. Holding Ltd.
Kaba Jaya Security Sdn. Bhd., Selangor/MY	MYR	350,000.00	70	dormakaba Schweiz AG
			30	dormakaba International Holding AG
Kaba Limited, Hong Kong/HK	HKD	560,250,000.00	100	dormakaba Schweiz AG
Kaba Ltd., Tiverton/GB	GBP	6,300,000.00	100	Kaba Holding (UK) Ltd.
Kaba Mas LLC, Lexington/US	USD	880,679.00	100	Kaba U.S. Holding Ltd.
Kaba Security Systems Private Limited, New Delhi/IN	INR	59,630,770.00	100	dormakaba International Holding AG
Kaba U.S. Holding Ltd., Wilmington/US	USD	200,000,000.00	59.47	Kaba Delaware, LLC
			1.98	dormakaba Schweiz AG
			17.55	dormakaba Nederland B.V.
			21	dormakaba International Holding AG
Lasservice Midt-Norge A/S, Drammen/NO	NOK	100,000.00	100	dormakaba Norge A/S
Legic Identsystems AG, Wetzikon/CH	CHF	500,000.00	100	dormakaba Schweiz AG
Mauer Thüringen GmbH, Bad Berka/DE	EUR	255,700.00	100	dormakaba EAD GmbH
Minda Silca Engineering Pvt. Ltd., New Delhi/IN	INR	107,510,000.00	65	dormakaba International Holding AG
Modernfold Inc., Greenfield/US	USD	1.00	100	dormakaba USA Inc.
Modernfold of Nevada LLC., Greenfield/US	USD	1.00	100	Modernfold Inc.
Path Line (China) Ltd., Hong Kong/HK	HKD	113,900,000.00	100	Kaba Limited (HK)
Rafi Shapira & Sons Ltd., Rishon LeZion/IL	ILS	143.00	30	Dorma- Vertrieb-International GmbH
Railtech Composites Inc., New York/US	USD	101.00	100	Skyfold Inc.
Resolute Testing Laboratories Pty. Ltd., Brisbane/AU	AUD	100.00	100	Kilargo Pty. Ltd.
Seca Solutions A/S, Sandnes/NO	NOK	3,000,000.00	100	dormakaba Norge A/S
Silca GmbH, Velbert/DE	EUR	358,000.00	100	dormakaba Holding GmbH + Co. KGaA
Silca Key Systems S.A., Barcelona/ES	EUR	162,296.90	100	dormakaba Luxembourg S.A.

Silca Ltd., Harrow/GB	**GBP**	411,050.00	100	Kaba Holding (UK) Ltd.
Silca S.A.S., Porcheville/FR	**EUR**	797,670.00	100	dormakaba France S.A.S.
Silca S.p.A., Vittorio Veneto/IT	**EUR**	10,000,000.00	97	dormakaba Luxembourg S.A.
			3	dormakaba Schweiz AG
Silca South America S.A., Tocancipa/CO	**COP**	4,973,013,770.00	65.92	dormakaba International Holding AG
			32.52	dormakaba Schweiz AG
Skyfold Inc., Quebec/CA	**CAD**	113,994,483.00	100	dormakaba Canada Inc.
Task Sistemas de Computação S.A., Rio de Janeiro/BR	**BRL**	26,438,731.00	100	dormakaba International Holding AG
TLHM Co. Ltd., Taiwan/TWN	**TWD**	665,000,000.00	100	dormakaba International Holding AG
Wah Mei (Toishan) Hardware Co., Ltd., Taishan/CN	**USD**	15,000,000.00	100	Path Line (China) Ltd.
Wah Yuet (Ng's) Overseas Co. Ltd., Tortola/VG	**USD**	13,289,000.00	100	Kaba Ltd. (HK)
Wah Yuet Industrial Co. Ltd., Hong Kong/HK	**HKD**	1,000,000.00	100	Kaba Ltd. (HK)
Yantai DORMA Tri-Circle Lock Co. Ltd, Yantai City/Shandong/CN	**CNY**	10,000,000.00	60	Dorma- Vertrieb-International GmbH

Apart from dormakaba Holding AG in Rümlang, there are no companies in the dormakaba Group's scope of consolidation whose shares are listed on a stock exchange. The registered shares of dormakaba Holding AG are traded on the Swiss Reporting Standard board of the SIX Swiss Exchange (security no./ISIN: 1179595/CH 0011795959). As at 30 June 2018, the company's market capitalization was CHF 2,908.0 million.

This Legal Structure meets the requirements of the GRI-Standards (Disclosure 102-45).

Report of the statutory auditor
to the General Meeting of dormakaba Holding AG
Rümlang

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of dormakaba Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 June 2018 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 20 to 58) give a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

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 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 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.

Our audit approach

Overview

Overall Group materiality: CHF 15'785'000

We concluded full scope audit work at 53 reporting units in 21 countries. Our audit scope addressed 70% of Group's revenue and 70% of Groups' assets.

In addition, specified procedures were performed for two reporting units in one country addressing a further 8% of the Group's revenue and 5% of the Group's assets. Limited reviews were performed for 39 reporting units in 23 countries addressing a further 11% of the Group's revenue and 16% of the Group's assets.

As key audit matter the following area of focus has been identified:

Revenue recognition in the appropriate period (cut-off)

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Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is divided into five business segments: Access Solutions AMER, Access Solutions APAC, Access Solutions DACH, Access Solutions EMEA, Key & Wall Solutions. In establishing the overall approach for the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team and by component auditors from the different PwC network firms operating under our instructions. The group consolidation, financial statement disclosures, acquisition accounting and the valuation of deferred tax assets are audited by the Group audit team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work for those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our audit opinion on the Group's financial statements as a whole. The Group audit team's involvement included conference calls with component auditors to discuss their audit findings.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 15'785'000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 775'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, 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.

Revenue recognition in the appropriate period (cut-off)

Key audit matter	*How our audit addressed the key audit matter*
Total consolidated net sales of the financial year 2017/2018 amounted to CHF 2'841 million (2016/2017: CHF 2'520 million). The business segments are divided into Access Solutions AMER, Access Solutions APAC, Access Solutions DACH, Access Solutions EMEA, Key & Wall Solutions. Refer to note 2.13 (Net sales and revenue recognition), note 5 (Net sales) and note 27 (Segment reporting). The net sales are the main driver of EBITDA that represents the key performance indicator for the Group and is therefore in the focus of internal and external stakeholders. Expectations from those stakeholders may create pressure on management to achieve the set targets. Thus, there is a risk that revenue recognition may not be consistent with the transfer of risks and rewards of ownership in accordance with the applicable delivery terms (Incoterms) and therefore may not be in line with Swiss GAAP FER. Consequently, when performing the audit we focused on the recognition of revenue in the appropriate period (cut-off).	We obtained an understanding of the policies, processes and methods of the Group's revenue recognition. On a sample basis, for all full scope reporting units of the different segments the following audit procedures were performed: - Based on invoices, delivery notes and payments, we assessed the occurrence of revenue transactions and their recognition in the appropriate period. - We obtained an understanding of the Incoterms and determined for the delivery notes tested whether title, risks and rewards of ownership have been transferred and whether the Incoterms were correctly applied in recognizing revenue. - We tested whether credit notes raised after year-end were appropriately issued and recognized. Based on the audit procedures performed, we consider the risks in relation to the recognition of revenue in the appropriate period to be adequately addressed.

Responsibilities 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 Swiss GAAP FER 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 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 and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism 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.

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Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and 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.

PricewaterhouseCoopers AG

Beat Inauen	Reto Tognina
Audit expert Auditor in charge	Audit expert

Zürich, 7 September 2018

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