dormakaba Holding AG

Group Management Report

Financial Year

2018/19

dormakaba

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1. Introduction

dormakaba Holding AG is the ultimate parent company of dormakaba Group. dormakaba Group was formed by merging the two previously unaffiliated enterprises, Dorma and Kaba, on 1 September 2015. Since then dormakaba Holding AG company owns 52.5% of dormakaba Holding GmbH + Co. KGaA, which as an intermediate holding company combines all operating entities of the Group and is fully consolidated in dormakaba Group's consolidated financial statements, prepared by the parent company, dormakaba Holding AG, as at 30 June 2019[1]. Minority interests are shown separately as part of equity capital. dormakaba Holding AG has prepared its consolidated financial statements in Swiss Franc (CHF) and in accordance with Swiss GAAP FER to the end of the financial year that runs from 1 July 2018 to 30 June 2019. Swiss GAAP FER is an internationally accepted accounting standard for small and medium-sized organizations and groups of organizations with a presence in Switzerland. dormakaba Holding AG is listed on the SIX Swiss Exchange and is headquartered in Rümlang (Zurich/Switzerland).

In addition to the provisions of Swiss GAAP FER, dormakaba Holding AG 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 Deutscher Rechnungslegungs Standard (DRS 20, German Accounting Standard).

2. Fundamental information about dormakaba

2.1. Business model

dormakaba Group ("dormakaba") is one of the leading companies in the global security and access solutions market. With its comprehensive portfolio and strong brands, 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 as well as cloud-based 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 automotive solutions, such as transponder keys and programmers.

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 collaboration 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 end-users.

The company's business is divided into five segments which are aligned to the implemented management structure. The four Access Solutions segments are based on geographical markets and offering. Segment Key & Wall Solutions is also based on offering but operating globally. A detailed description of the segments can be found in the notes to the consolidated Financial Statements for financial year 2018/19 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 stock-listed 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, the company'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, solutions, and services in its target markets. dormakaba has distribution channels and production facilities in all of the industries' key markets and will accelerate global expansion through a strong presence in Europe, the Americas, and Asia-Pacific.

dormakaba has a strong anchor shareholder group that will ensure its long-term oriented strategy. In order to grow profitably, dormakaba focuses on a clearly defined strategy with the following pillars:

- Providing a superior offering of products, along with services to meet the needs of customers and their installations along the entire life cycle
- Expanded 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 for superior customer value
- Active management of the portfolio of business activities and disciplined pursuit of options for corporate transactions (acquisitions, divestments, joint ventures)
- Efficient deployment of employees: having "the right people in the right roles"

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

2.3. Internal management system

dormakaba is led strategically by the Board of Directors (BoD). The duties and responsibilities of the BoD of dormakaba Holding AG are defined by the Swiss Code of Obligations, the Articles of Incorporation and the company's Organizational Regulations. These duties include formulating corporate strategy and monitoring the achievement of targets. As at 30 June 2019, the BoD has ten members, with 30% being women. The BoD is supported by the following committees: the Audit Committee, the Nomination Committee and the Compensation Committee.

The BoD has delegated management of ongoing business to the Executive Committee (EC) under the leadership of the Chief Executive Officer (CEO). Therefore, the CEO is responsible for overall management of dormakaba. The powers and functions of the EC are set out in the Organizational Regulations. The EC's 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. based on information from local markets.

Management of the Group is based on budget 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 achieve the defined goals. The plans take account of how markets are developing. Projections 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 CEO and the Chief Financial Officer (CFO) report each month to the BoD about the extent to which financial targets have been met. Monthly performance reviews are also held with the segment heads, the Chief Operating Officers (COOs), 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 business portfolio transactions (M&A) 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 BoD and EC are set out in the Articles of Incorporation. The relevant regulations are published via Internet on the homepage of the company. The following regulations are particularly important:

- Basic principles of compensation for the BoD (Article 23)
- Basic principles of compensation for the EC (Article 24)
- Binding vote by the General Meeting (Article 22)
- Maximum additional amount of compensation for new EC members (Article 25)
- Loans (Article 28)

The Compensation Report, which provides further details of the 2018/19 financial year, can be found at the following web address: www.report.dormakaba.com.

a) Compensation of the BoD

Members of the BoD 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 BoD remains independent while exercising its supervisory duties towards the EC. The amount of compensation for each function of the BoD 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 EC

The compensation awarded to the EC 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 EC 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 EC receive an annual base salary for fulfilling their function. 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

b2) Benefits

As the EC 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 EC are also provided with certain executive perquisites such as company cars or car allowances, representation allowances, and 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 (STI) 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. The STI may not exceed 150% of the individual annual base salary for the members of the EC (cap).

Following the "We are ONE company" principle, the individual STI paid to the members of the EC 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 (LTI) is to give the EC 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. The fair value of the LTI may not exceed 150% of the individual annual base salary for the members of the EC (cap).

The LTI 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 dormakaba and, starting with the reporting period 2018/19, relative total shareholder return (rTSR) of the company over the three-year performance period. The EPS growth target is fully aligned with the company's communicated strategy of organic sales growth, which is to outperform weighted GDP growth by 2% points. rTSR is measured relative to companies of the Swiss Market Index Mid (SMIM) and provides for a full vesting for median performance.

The LTI plan has been thoroughly reviewed during the financial year 2017/18 and accordingly been refined starting with the grant in September 2018 for financial year 2018/19. In a first step (for the award in financial year 2018/19 granted in September 2018), the grant size is determined as a monetary amount rather than a number of shares. Further, the performance measurement includes both rTSR and EPS growth over the three-year vesting period, as described above. As of the grant in September 2019 (award in financial year 2019/20), 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. Further, the LTI awards will be subject to clawback and malus provisions. In certain circumstances, such as in case of financial restatement due to material non-compliance with financial reporting requirements or of fraudulent behavior or willful and substantial misconduct, the BoD may decide to suspend the vesting or forfeit any granted LTI award (malus provision) or to require the reimbursement of vested shares delivered under the LTI (clawback provision).

2.5. Environmental protection and sustainability reporting

dormakaba has defined sustainability as a foundation of its business strategy. 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 dialog 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 its website.

dormakaba also reports to the Carbon Disclosure Project (CDP) annually. The company received a B score for the 2018 CDP report, which reflects the good progress dormakaba shows on climate change and carbon emissions management. This CDP score is in the top 20% of companies in Switzerland in the assigned sector of Industrials. It is higher than the CDP worldwide average and the European program average (B-). In the 2018/19 financial year, dormakaba focused on improving the reporting coverage of carbon emissions from its operations, as well as on developing carbon inventories for products.

Detailed information on sustainability strategy, measures and progress can be found in the dormakaba Sustainability Report 2018/19 at the following web address: www.report.dormakaba.com/sustainability.

2.6. Research and development

The innovative strength of dormakaba plays a crucial role, and the development of new products, solutions and services is key to its sustainable profitable growth. 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 year 2018/19, digitization continued to be an important driver in research and development work. The digitization of processes, products, and solutions creates opportunities for new business models and value streams.

In recent years, the product portfolio of dormakaba 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, a 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 networked solution, dormakaba is operating as a service provider with a new 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 2018/19 financial year included:

- Argus 80: This new generation of sensor barrier is based on the company’s XEA design language and offers various features for more convenience while at the same time providing the same high level of safety and security
- Saffire LX Series: Designed for hotels and multi-housing markets, this complete suite of electronic locks features the latest RFID technology in a sleek, contemporary design. Combining high performance with appealing aesthetics, the Saffire LX Series easily harmonizes with progressive building technology. Saffire LX provides the option of issuing a mobile, fob, wristband or keycard credential for secure access
- SafeRoute: A new escape route system that provides planning security through largely identical hardware and a unique license model. It allows to protect doors from unauthorized access, exit, and misuse while at the same time complying with all building regulations; it is certified according to EltVTR and complies to EN 13637
- A new NarrowBand-IoT lock launched specifically for the Chinese market, a joint development with China Telecom
- Evolo smart: a new mobile app enabling quick and easy access rights management for Evolo components as well as secured use of smartphones as a key

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. dormakaba will also allocate additional funds to digital transformation in the coming years and is convinced that these investments are vital for a sustainable business development.

3. Presentation of the course of business and economic position

3.1. Macroeconomic and sector-specific conditions

The overall economic environment during the 2018/19 financial year was similar to the previous year with solid growth on a global scale despite substantial political uncertainty. However, growth softened in the first half year of 2019, which is reflected in the downgrade of the GDP growth outlook for 2019 from 3.0% (World Bank, June 2018 report) to 2.6% (World Bank, June 2019 report).

dormakaba as a globally operating company is active in very heterogenous regional markets. The company discloses information about the economic development in each of its geographical segments (see www.report.dormakaba.com).

In the 2018/19 financial year, dormakaba operated in a market environment characterized by a growing global demand for access and security. Four additional megatrends 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

The 2018/19 financial year was satisfactory. The achieved business figures are all above the comparable results from the previous year. In particular, profitability increased further, which is reflected in an increase in all key earnings figures and operating sales margins. All segments contributed to this improvement by achieving both higher EBITDA and higher EBITDA margins. However, organic sales growth was lower than expected, in particular due to lower growth momentum in the second half of the financial year.

The average number of full-time equivalent employees in the 2018/19 financial year was 15,811 (previous year 16,433 full-time equivalent employees).

3.3. Earnings, financial and asset position

dormakaba generated consolidated net sales of CHF 2,818.3 million, which is slightly below the previous year's figure of CHF 2,841.0 million. Organic sales growth of 1.3% (CHF 35.9 million) could not compensate for negative currency translation and divestment effects. Currency translation had an impact on reported sales growth of -1.1% (CHF -29.6 million) and is due to the strengthening of the Swiss franc in the reporting period versus previous year. Portfolio adjustments reduced sales growth by -1.0% (CHF -29.0 million) as divestments carried out in the reporting period were significantly larger than the acquisitions made.

3.3.1. Profitability

dormakaba improved its profitability in the period under review. Its gross margin for the reporting period came to 42.1% (previous year 42.0%) and EBITDA increased by 3.9% to CHF 448.0 million compared to CHF 431.0 million in the previous year. This is despite portfolio adjustments which had a negative net impact on EBITDA as divestments carried out in the reporting period were significantly larger than the acquisitions made and amounted to CHF -1.9 million. EBITDA was also negatively impacted by currency translation by an amount of CHF 2.4 million.

The EBITDA margin rose to 15.9%, compared to 15.2% in the previous year, with all segments contributing higher EBITDA margins. The higher EBITDA margin reflects overall efficiency gains and the positive impact of cost synergies resulting from the dormakaba merger, as well as acquisition and divestment effects. These more than compensated for the significant investments made both in information technology to advance the company's digitization, and in adjusting the company's production footprint. EBIT increased by CHF 10.7 million to CHF 375.0 million (previous year CHF 364.3 million), and the EBIT margin improved to 13.3% compared to 12.8% in the previous year.

3.3.2. Financial result, profit before taxes and income taxes

The net financial result for the reporting period was CHF -42.3 million (previous year CHF -48.6 million). This was mainly attributable to lower interest expenses and the higher result from associates, which was driven by the divestment of the ISEO minority participation. Profit before taxes increased to CHF 332.7 million (previous year CHF 315.7 million). Income taxes for the reporting period amounted to CHF 80.2 million (previous year CHF 77.0 million). The weighted applicable income tax rate of 24.2% is lower than in the previous year (25.3%) mainly as a result of US tax reform (as the reduced US income tax rate now applies to the full reporting period). The effective income tax rate amounts to 24.1% (previous year 24.4%).

3.3.3. Net profit

dormakaba closed the 2018/19 financial year with a 5.8% higher net profit of CHF 252.5 million (previous year CHF 238.7 million). This positive development is mainly attributable to the improved operating performance and a better net financial result. Consequently, net profit after minority interests came to CHF 131.8 million, up from CHF 123.8 million in the previous year. The corresponding earnings per share increased by 6.8% to CHF 31.6 (previous year CHF 29.6).

3.3.4. Cash flow and balance sheet

Cash flow from operations amounted to CHF 372.8 million, and free cash flow increased to CHF 212.9 million (previous year CHF 367.2 million and CHF 37.1 million, respectively). The positive free cash flow of CHF 212.9 million in the period under review resulted primarily from the strong operational cash flow and from the sale of the minority participation in ISEO; it was significantly higher compared to the previous year's free cash flow of 37.1 million, which included acquisitions in subsidiaries such as Skyfold and Kilargo.

Cash flow from investing activities of CHF 67.8 million includes mainly capital expenditures of CHF 111.4 million (previous year CHF 115.3 million) on property, plant and equipment, as well as intangible assets, which in total represents 4.0% of sales (previous year 4.1%). Moreover, it comprises proceeds from the sale of investments in associates and joint ventures in the amount of CHF 40.9 million (previous year CHF 0 million). Cash flow from financing activities came to CHF -223.9 million, which includes dividend payments to company shareholders of CHF 62.2 million, as well as to minority shareholders of CHF 54.9 million (in total CHF 117.1 million; previous year 113.3 million), and purchase of treasury shares in the amount of CHF 38.7 million (previous year CHF 1.9 million), which are intended to serve as long-term incentive (LTI).

The asset structure did not change significantly and largely reflected portfolio management. As at 30 June 2019, total assets were at CHF 1,909.0 million. Within current assets, cash and cash equivalents amounted to CHF 122.4 million, while inventories stood at CHF 454.7 million (23.8% of total assets; previous year 21.8%), and trade receivables at CHF 499.5 million (26.2% of total assets; previous year 25.3%). Non-current assets consisted mainly of property, plant and equipment worth CHF 465.4 million (24.4% of total assets; previous year 23.1%).

The capital structure developed similarly, but improved due to the positive financial performance in the year under review. Total liabilities were at CHF 1,650.5 million (86.5% of total assets; previous year 90.6%), of which CHF 680.5 million mainly reflect the two corporate bonds due in year 2021 and year 2025.

Net financial debt was reduced by CHF 49.8 million to CHF 651.4 million as at 30 June 2019 (30 June 2018: CHF 701.2 million). Financial leverage, which is net debt relative to EBITDA, slightly improved to 1.5 times (30 June 2018: 1.6 times) based on the improved operational profitability as well as the positive cash flow profile of the reporting period.

dormakaba's equity stands at CHF 258.5 million as at 30 June 2019, which represents an equity ratio of 13.5% (CHF 187.0 million or 9.4% as at 30 June 2018). The change in equity is mainly due to higher retained earnings as a result of improved financial performance.

3.3.5. Currency translation effects

The Swiss franc strengthened by 2.0% year-on-year from CHF 1.1582 to CHF 1.1350 against the average Euro exchange rate, while it weakened by 2.5% from CHF 0.9709 to CHF 0.9949 against the average USD exchange rate. However, as the Swiss franc strengthened against most other major currencies (e.g. AUD, CAD, CNY, GBP, INR, NOK), currency translation had an overall negative impact of CHF 29.6 million on net sales and of CHF 2.4 million on EBITDA.

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 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 surveys. Customers usually consider the expanded offering from a single source 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. Following the first Group-wide employee survey after the merger in the 2017/18 financial year, the focus in the 2018/19 financial year was on implementing improvement measures. In more than 800 workshops, the teams discussed and defined actions based on the results of the survey. Around 2,200 such actions are being implemented across the Group.

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/sustainability.

- 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 improved and developed further. The company sets binding rules in its Group-wide Code of Conduct which is available to employees on the Group Intranet in various languages. Furthermore, mandatory Code of Conduct trainings have been conducted for all dormakaba employees. The Code and additional directives form an important foundation for the sustained economic success of dormakaba all over the world.

dormakaba acknowledges its responsibility to respect human rights as outlined in the Code of Conduct and the Supplier Code of Conduct (see paragraph on supply chain below). In financial year 2018/19, dormakaba implemented a stepwise Human Rights Due Diligence (HRDD) project plan, focusing on stakeholder consultations, policy development, and human rights risk assessment including the identification of salient issues. The overarching goal was to develop a HRDD framework in line with international standards including the UN Guiding Principles on Business and Human Rights. The resulting dormakaba Statement of Commitment on Human Rights clarifies:

(1) the relevant international human rights frameworks that the company subscribes to;
(2) salient human rights issues of dormakaba, and
(3) the company's HRDD framework describing the appropriate policies, and processes to implement its human rights commitment.

Based on the human rights-related risks and impacts identified, dormakaba will develop prevention and mitigation measures integrated into company operations, training programs, policies, and management systems. This will be achieved through the implementation of a human rights roadmap which was established in the financial year 2018/19 and approved by the EC in the context of the HRDD process development. Further information on human rights can be found in the Sustainability Report 2018/19 at the following web address: www.report.dormakaba.com/sustainability.

- 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 entire value chain. A detailed overview of the company's sustainability work and the most important benchmarks, including greenhouse gas emissions, energy consumption, water consumption and waste management can be found in the Sustainability Report at the following web address: www.report.dormakaba.com/sustainability.

- 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 and sustainability issues. In addition, the dormakaba Supplier Code of Conduct 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 offers 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 its expanded complementary product portfolios, combined geographical presence and optimized value chains.

- Opportunities arising from the "dormakaba" brand

The 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, 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 dormakaba operates in. 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 30% 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 transformation. 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 manages 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 EC's risk policy is to secure the future development of dormakaba, to achieve sustainable profitable growth, and thus to increase enterprise value[2)]. 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.

2) 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.

dormakaba always takes strategic and operational decisions on the basis of a systematic analysis and evaluation of the opportunities and risks relating to its assets, financial position, and earnings. 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 the risk policy of dormakaba, 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

The overriding aim of dormakaba 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[3)] 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 the 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 BoD regularly deals with the main topics relevant to accounting, risk management, Internal Audit, the external audit mandate, and external audit priorities.

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 uniform consolidation software tool ensures consistent accounting throughout the Group in line with legal and statutory requirements.

Further information can be found in the Corporate Governance Report 2018/19 at the following web address: www.report.dormakaba.com.

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

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 BoD, while the Audit Committee monitors implementation. Responsibility for implementing and applying the risk management system rests with the EC and with line managers throughout the internal hierarchy.

The company's risk management system distinguishes between operational and strategic risks:

- 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 EC into a "Group Risk Assessment" that is presented for approval to the BoD through its Audit Committee. The EC 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. All audits performed in financial year 2018/19 were in line with the (yearly) audit plan and approved by the Audit Committee.

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, IT applications and IT infrastructure, 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 were 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 to sites and premises protected by products and thus cause damage to the Group's reputation and possibly expose dormakaba to liability claims. dormakaba counters the increasing significance of such hacking 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 with upgrades 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. dormakaba has taken out product liability insurance to be protected against these hacking threats to the extent possible.

Digital transformation is progressing rapidly, and it is essential to the success of dormakaba 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 existing competitors or new entrants to the markets of dormakaba could use such disruptive leaps to create significant advantages for themselves. The company's innovation management team systematically monitors and analyzes 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 products and solutions in the premium 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. This strategy is complemented by elaborate strategic pricing efforts.

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 in place at all manufacturing sites is 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 the company'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 29 of its sites worldwide.

As a globally active company, dormakaba is exposed to risks created by the political situation in individual countries and regions, and also to risks resulting from trade conflicts between countries or country groups. Both risk drivers can rarely be influenced. 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 strategy. 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 Group has also developed various change management measures aimed at further fostering the development of the new corporate culture.

- IT risks

The main business processes and customer solutions of dormakaba 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, the company's IT strategy is to use state-of-the-art 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). dormakaba is using advanced threat protection solutions and operates a security operations center to further mitigate cyber security risks. A global information security management system (ISMS) according to ISO 27001 is in place. Cyber security risk awareness trainings (e-learnings, behavior trainings concerning phishing malware) are globally mandatory for each employee with access to corporate IT systems. Additionally, dormakaba has taken out insurance to be protected against cyber threats to the extent possible

Successful and timely execution of the global IT strategy (standardization of applications and infrastructure), which has been defined following the merger, is vital for the company'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 claims as well as potential competition and antitrust law and trademark or patent rights infringements. Risks are managed with the aid of Group-wide standards, trainings, and controls. The internal Legal department and/or external lawyers are brought in for legal matters associated with specific risks.

International business activities can also give rise to tax risks. As tax law is in the responsibility of each jurisdiction, external tax assessments might not be aligned and might lead to double taxation. To identify and manage such tax risks, dormakaba sets directives and manuals based on a defined tax policy. The responsibility for the tax policy rests with the BoD. For intra-Group transactions dormakaba follows the dealing at arm's length principle of the OECD (Organization for Economic Cooperation and Development). This leads to tax payments where the economic value is created. dormakaba publishes the amount of taxes paid in a yearly CbCR (Country-by-Country Report). The internal Tax department works closely together with the local internal finance organization and consults external advisors in case of need.

- Compliance risks

The goal of the Compliance Management System of dormakaba 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. The subsequent mandatory Code of Conduct trainings have been successfully completed for all dormakaba employees. Procedures are in place to ensure that new employees sign the dormakaba Code of Conduct and are trained. In addition, dormakaba placed emphasis on antitrust trainings for a defined target group of employees who are particularly exposed (Senior Management, Sales, etc.). Internal rules and regulations on Group Directive level are harmonized. 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

The company'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.

- 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 aging 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 specific directive. Significant risk positions are reported using a standardized procedure based on currency-differentiated planning and/or average historical values. Group Treasury analyzes 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 risks are 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 businesses result in currency risks. Currency translation risks are not actively hedged. Exchange rate fluctuations cause transaction risk on future foreign currency cashflows, so these risks are limited by means of a global intercompany netting system. Foreign currency risks can be 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 in September 2017 by issuing bonds with fixed coupons for maturity in the years 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 2018/19 financial year.

The granting of financial assurances (guarantees, letters of comfort) to Group companies is also centrally managed 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 2017 to 30 June 2018 it was confirmed that dormakaba has an overall and in all respects appropriate and effective system for ensuring compliance with the statutory requirements. Since 1 January 2016 Switzerland regulates the OTC trade in derivatives with the Finanzmarktinfrastrukturgesetz (FinfraG). All Swiss-based Group companies classify as "NFC-" (small non-financial counterparties) and have signed agreements with their banks regarding the delegation of reporting duties.

The funding for dormakaba Group companies is managed centrally. A five-year syndicated credit facility, agreed for dormakaba during financial year 2015/16 with a consortium of banks amounts to CHF 500 million with options to extend by another two years and to increase the facility by CHF 200 million. There are also agreements with various regional 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.

4.2. Assessment of overall risk and opportunity situation

In conclusion, the company's opportunity and risk situation can be rated as moderate. Existing risks are identified, continuously monitored through the risk management system, and hedged where necessary using appropriate countermeasures. With the merger to dormakaba, with the created organizational and process structure, and with the existing innovation structure and approach, 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 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. Currently no risk has been identified that could significantly affect the assets, financial position, or earnings of dormakaba, neither is there evidence of any liquidity risk. A material deterioration in the future assets, financial position and earnings 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 2.6% in 2019 and by 2.7% in 2020 (Source: World Bank Group, Global Monthly, June 2019). According to a report from the International Monetary Fund (IMF), risks around the globe have shifted forecasts for growth further towards the downside, including in the short term. The mentioned risks include further trade and technology tensions that dent sentiment and slow investments; a protracted increase in risk aversion that exposes the financial vulnerabilities continuing to accumulate after years of low interest rates; and mounting disinflationary pressures that increase debt service difficulties, constrain monetary policy space to counter downturns. Other risks including a turn toward inward-looking policies and geopolitical risks, remain salient (Source: World Economic Outlook, July 2019, IMF).

dormakaba expects that the global macroeconomic and geopolitical environment will remain volatile and that there are several threats like the trade tensions, a potential hard Brexit or an aggravation of political crises which could significantly impact the macroeconomic environment and could lead to a downturn globally or in significant regions. Under the assumption that there will be no further escalation of the trade tensions – for example currency devaluations – between the US, Europe, and China, dormakaba expects the market environment to be good in North America and stable in Asia Pacific despite some weakness in Australia and South East Asia. Growth in Europe is expected to be largely moderate, while demanding in the Middle East, Africa, and Latin America, where further deterioration of the economic environment might negatively impact growth expectations (Source: World Economic Outlook, July 2019, IMF). In addition, dormakaba expects further consolidation in the access and security solutions industry in the coming years. Firstly because the sector is still very fragmented, and secondly as some of its smaller and more local competitors might lack sufficient resources to cope with the technological transformation in the industry – from mechanical to electronic and cloud-based solutions – and will be available for sale or leave the market.

Similarly to the 2018/19 financial year, dormakaba aims to continue its investments level in Information Technology to advance the digitization of the company for the 2019/20 financial year. 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. For financial year 2019/20, the company expects its EBITDA margin and organic growth rate to be above the previous year figures. The medium-term financial targets remain unchanged.

The strategic focus of dormakaba is on sustainable profitable growth. 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. The company will continue to optimize its infrastructure and focus on efficiency gains in purchasing and production. On top final synergies of the post-merger initiatives are expected to be fully effective in financial year 2019/20.

4.4. Capital structure

dormakaba Holding AG's share capital as at 30 June 2019 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 42,438.40 and authorized capital at CHF 42,000 on 30 June 2019.

Further information can be found in the Corporate Governance Report 2018/19 at the following web address: www.report.dormakaba.com.

5. Disclaimer

This 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, 6 September 2019

Consolidated financial statements

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Consolidated income statement

CHF million except share amounts	Note	Financial year ended 30.06.2019	%	Financial year ended 30.06.2018	%
Net sales	1.2	**2,818.3**	**100.0**	**2,841.0**	**100.0**
Cost of goods sold		–1,632.4	–57.9	–1,647.3	–58.0
Gross margin		**1,185.9**	**42.1**	**1,193.7**	**42.0**
Other operating income, net		21.2	0.8	12.4	0.4
Sales and marketing		–441.3	–15.7	–446.8	–15.7
General administration		–283.4	–10.1	–286.3	–10.1
Research and development		–107.4	–3.8	–108.7	–3.8
Operating profit (EBIT)		**375.0**	**13.3**	**364.3**	**12.8**
Result from associates	4.2	2.9	0.1	2.5	0.1
Financial expenses	1.4	–47.4	–1.7	–53.5	–1.9
Financial income	1.4	2.2	0.1	2.4	0.1
Profit before taxes		**332.7**	**11.8**	**315.7**	**11.1**
Income taxes	1.5	–80.2	–2.8	–77.0	–2.7
Net profit		**252.5**	**9.0**	**238.7**	**8.4**
Net profit attributable to minority interests		120.7		114.9	
Net profit attributable to the owners of the parent		131.8		123.8	
Basic earnings per share in CHF	3.3	31.6		29.6	
Diluted earnings per share in CHF	3.3	31.5		29.5	
Operating profit before depreciation and amortization (EBITDA)	**1.1**	**448.0**	**15.9**	**431.0**	**15.2**

Consolidated balance sheet

Assets

CHF million	Note	Financial year ended 30.06.2019	%	Financial year ended 30.06.2018	%
Current assets					
Cash and cash equivalents		122.4	6.4	145.3	7.3
Trade receivables	2.1	499.5	26.2	502.1	25.3
Inventories	2.2	454.7	23.8	432.3	21.8
Current income tax assets		28.2	1.5	49.9	2.6
Other current assets	2.6	58.8	3.1	59.6	3.0
Total current assets		**1,163.6**	**61.0**	**1,189.2**	**60.0**
Non-current assets					
Property, plant, and equipment	2.3	465.4	24.4	458.6	23.1
Intangible assets	2.3	63.7	3.3	51.5	2.6
Investments in associates	4.2	3.5	0.2	40.6	2.0
Non-current financial assets	2.6	39.5	2.1	38.9	2.0
Deferred income tax assets	1.5	173.3	9.0	203.5	10.3
Total non-current assets		**745.4**	**39.0**	**793.1**	**40.0**
Total assets		**1,909.0**	**100.0**	**1,982.3**	**100.0**

Liabilities and equity

CHF million	Note	Financial year ended 30.06.2019	%	Financial year ended 30.06.2018	%
Current liabilities					
Current borrowings	3.1	86.3	4.5	156.5	7.9
Trade payables		134.3	7.0	166.5	8.4
Current income tax liabilities		45.8	2.5	51.3	2.6
Accrued and other current liabilities	2.6	336.7	17.6	338.1	17.0
Provisions	2.4	39.0	2.0	51.1	2.6
Total current liabilities		**642.1**	**33.6**	**763.5**	**38.5**
Non-current liabilities					
Bonds	3.1	680.5	35.6	680.5	34.4
Accrued pension costs and benefits	2.5	295.5	15.5	303.0	15.3
Deferred income tax liabilities	1.5	25.4	1.4	38.8	2.0
Other non-current liabilities	3.1	7.0	0.4	9.5	0.4
Total non-current liabilities		**1,008.4**	**52.9**	**1,031.8**	**52.1**
Total liabilities		**1,650.5**	**86.5**	**1,795.3**	**90.6**
Equity					
Share capital	3.2	0.4	0.0	0.4	0.0
Additional paid-in capital		811.3	42.5	811.3	40.9
Retained earnings		1,244.9	65.2	1,175.1	59.3
Goodwill offset in equity	3.4	–1,809.2	–94.7	–1,805.0	–91.1
Treasury shares	3.2	–40.2	–2.1	–10.3	–0.5
Translation exchange differences	3.5	–10.6	–0.6	2.1	0.1
Total equity owners of the parent		**196.6**	**10.3**	**173.6**	**8.7**
Minority interests		61.9	3.2	13.4	0.7
Total equity	**3.4**	**258.5**	**13.5**	**187.0**	**9.4**
Total liabilities and equity		**1,909.0**	**100.0**	**1,982.3**	**100.0**

Consolidated cash flow statement

CHF million	Note	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Net profit		**252.5**	**238.7**
Depreciation and amortization	2.3	73.0	66.7
Income tax expenses	1.5	80.2	77.0
Interest expenses	1.4	42.1	43.2
Interest income	1.4	–1.4	–2.0
(Gain) Loss on disposal of fixed assets, net		–8.6	–1.0
Adjustment for non-cash items		5.6	10.2
Change in trade receivables		–13.0	–31.5
Change in inventories		–36.2	–12.4
Change in other current assets		–2.2	7.4
Change in trade payables		–27.5	11.8
Change in accrued pension cost		3.9	2.8
Change in accrued and other current liabilities		4.4	–43.7
Cash generated from operations		**372.8**	**367.2**
Income taxes paid		–51.2	–59.8
Interest paid		–42.3	–40.5
Interest received		1.4	2.0
Net cash from operating activities		**280.7**	**268.9**
Cash flows from investing activities			
Additions of property, plant, and equipment	2.3	–84.4	–91.7
Proceeds from sale of property, plant, and equipment	2.3	14.0	3.4
Additions of intangible assets	2.3	–27.0	–23.6
Change in other non-current financial assets and prepaid transaction costs		–3.6	0.8
Acquisition of subsidiaries, net of cash acquired	4.3	–6.2	–140.0
Sale of subsidiaries, net of cash sold	4.3	0.0	20.8
Acquisition of associates and joint ventures	4.2	–1.5	–1.5
Sale of investment in associates and joint ventures	4.2	40.9	0.0
Net cash used in investing activities		**–67.8**	**–231.8**
Cash flows from financing activities			
Other proceeds from (repayment of) current borrowings, net	3.1	–71.6	–694.6
Proceeds from (repayment of) non-current borrowings, net	3.1	4.4	–0.4
Change in other non-current liabilities		–0.9	–0.1
New bonds issued	3.1	0.0	680.5
Dividends paid to company's shareholders	3.3	–62.2	–58.6
Dividends paid to minority shareholders		–54.9	–54.7
(Purchase) Sale of treasury shares	3.2	–38.7	–1.9
Net cash flows from financing activities		**–223.9**	**–129.8**
Translation exchange differences		–11.9	49.7
Net increase (decrease) in cash and cash equivalents		**–22.9**	**–43.0**
Cash and cash equivalents at beginning of period		145.3	188.3
Cash and cash equivalents at end of period		122.4	145.3
Net increase (decrease) in cash and cash equivalents		**–22.9**	**–43.0**

Consolidated statement of changes in equity

CHF million	Share capital	Additional paid-in capital	Retained earnings	Goodwill offset in equity	Treasury shares	Cumul. translation adjustm.	Minority interests	Total equity
Balance at 30.06.2019	**0.4**	**811.3**	**1,244.9**	**–1,809.2**	**–40.2**	**–10.6**	**61.9**	**258.5**
Net profit for the reporting period			131.8				120.7	252.5
Goodwill on acquisitions and divestments (see note 3.4)				–4.2			–3.8	–8.0
Currency translation adjustments						–12.7	–13.7	–26.4
Dividend paid (see note 3.3)			–62.2				–54.9	–117.1
Shares awarded			0.2		8.8		0.2	9.2
Treasury shares (purchased) re-issued					–38.7			–38.7
Balance at 30.06.2018	**0.4**	**811.3**	**1,175.1**	**–1,805.0**	**–10.3**	**2.1**	**13.4**	**187.0**
Net profit for the reporting period			123.8				114.9	238.7
Goodwill on acquisitions and divestments (see note 3.4)				–76.1			–68.9	–145.0
Currency translation adjustments						3.2	12.6	15.8
Dividend paid (see note 3.3)			–58.6				–54.7	–113.3
Shares awarded			0.1		9.5		0.0	9.6
Treasury shares (purchased) re-issued					–1.9			–1.9
Balance at 01.07.2017	**0.4**	**811.3**	**1,109.8**	**–1,728.9**	**–17.9**	**–1.1**	**9.5**	**183.1**

Notes to the consolidated financial statements for the financial year 2018/19

The consolidated financial statements have been optimized in order to provide users better organized and more understandable financial information to explain the financial performance and financial position of the Group. The notes have been divided into five sections. Each section starts with an introduction, which summarizes the information provided. In addition, the accounting policies and accounting estimates applied to prepare the consolidated financial statements now appear at the end of the note to which they relate in order to provide appropriate context.

1. Performance

This section provides information on the operational performance of dormakaba Group. The description of the operating model provides useful information to understand the segment reporting, which corresponds to the Group's internal reporting system. In addition, information is presented on selected income and expense items.

The key headlines concerning the Group's performance are:

- Sales of CHF 2,818.3 million; due to divestments and currency effects slightly below previous year
- EBITDA increased by 3.9% to CHF 448.0 million
- EBITDA margin improved to 15.9%; all segments with positive contribution to increased profitability
- Net profit up 5.8% to CHF 252.5 million

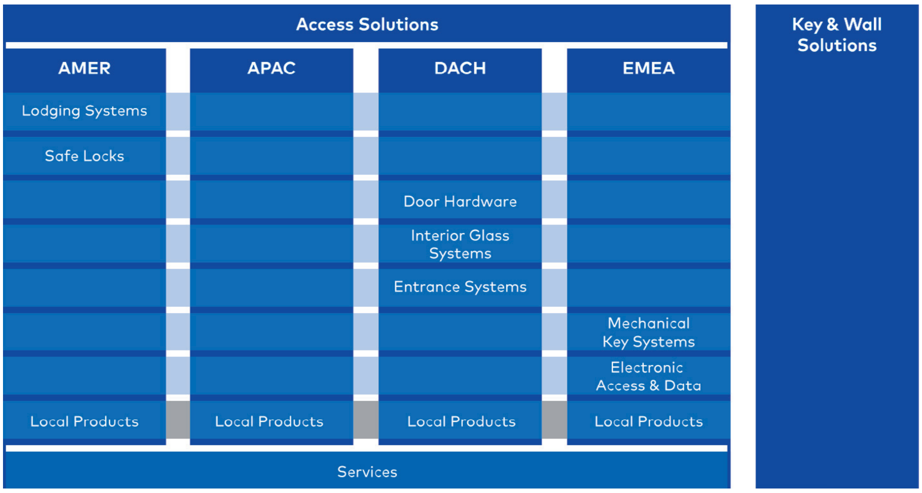
1.1 Segment reporting

Operating model

dormakaba Group has divided the areas of business in which the company is globally active into five segments. Access Solutions (AS) is structured in four segments 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 Key & Wall Solutions segment is global.

To best meet customers' needs, dormakaba Group's operating model is based on a matrix structure, which means that all four Access Solutions segments have a dual responsibility. The Access Solutions global product portfolio is arranged in eight Global Product Clusters: Lodging Systems, Safe Locks, Door Hardware, Interior Glass Systems, Entrance Systems, Mechanical Key Systems, Electronic Access & Data, and Services. The Global Product Clusters are each assigned to specific segments, along with the related production facilities, regardless of the geographical location. These Global Product Clusters are complemented by local products in all Access Solutions segments.

dormakaba Group's worldwide operations are as follows:



AS AMER: this segment includes dormakaba Group's business activities for access solutions in North and South America. It also has overall responsibility across all segments for the Global Lodging Systems and Safe Locks Product Clusters.

AS APAC: this segment includes dormakaba Group's business activities for access solutions in the Asia-Pacific region.

AS DACH: this segment includes dormakaba Group's business activities for access solutions in Germany, Austria, and Switzerland. It also has overall responsibility across all segments for the Door Hardware, Interior Glass Systems, and Entrance Systems Global Product Clusters, including the associated production facilities and competence centers, in particular in Singapore, Suzhou (China), Melaka (Malaysia), and Sofia (Bulgaria).

AS EMEA: this segment includes dormakaba Group's business activities for access solutions in Europe (excluding DACH), the Middle East, and Africa. It also has overall responsibility across all segments 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: this segment combines the two global business units, Key Systems and Movable Walls. Key Systems includes the Keys, Key Cutting Machines, and Automotive Solutions product categories. Movable Walls specializes in acoustic movable partitions and in horizontal and vertical partitioning systems in the space-dividing systems sector. The segment has production facilities in Europe, North and South America, and Asia.

Other business activities, which do not fit into the basic segment structure, are disclosed in the "Other" segment. These mainly consist of operations involving contactless identification systems and trusted services based on the Legic SmartCard and Connect technologies.

Offering

dormakaba stands for security, sustainability, and reliability. It aims to develop products, solutions, and services that make access in life of its customers smart and secure. dormakaba offers an expanded, comprehensive portfolio of products, solutions, and services for access to buildings and rooms from a single source – whether it be hotels, shops, sporting venues, airports, hospitals, the home, or 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 related services. The offering includes the Global Product Clusters (Lodging Systems, Safe Locks, Door Hardware, Interior Glass Systems, Entrance Systems, Mechanical Key Systems, Electronic Access & Data, 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 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.
  The profitability of each AS segment depends on the different market dynamics of the geographical regions but also reflects dormakaba Group's operating model. In compliance with transfer pricing regulation, profit is allocated to entities based on the functions they perform and the risks they assume. As a result, the profitability of AS EMEA, for example, is lower as the segment consists mainly of sales companies and it has fewer production sites; therefore, products sold in this segment might contribute to the financial performance of another segment as well.

- **Key & Wall Solutions segment:** the global Key Systems and Movable Walls business units are combined in this segment. Key Systems offers a range of high-performance key blanks and mechanical, electronic, and (semi-)industrial key-cutting and origination machines. In addition, the portfolio covers solutions for the automotive industry, such as vehicle keys, transponders, and key programming devices and duplication equipment. The Movable Walls unit specializes in acoustic movable partitions as well as horizontal and vertical partitioning systems. The business is global and offers partition solutions that range from manual application to fully automatic/electronic walls.

In accordance with the management organization and the reporting to the Group management level, the reporting segments consist of the businesses as described above. The 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. Net working capital that is directly attributable or can be allocated on a reasonable basis to a specific segment is reported under the segment concerned. With the exception of certain central costs and items that affect comparability, 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.

Segment reporting	Financial year ended 30.06.2019	Financial year ended 30.06.2018	Financial year ended 30.06.2019	Financial year ended 30.06.2018	Financial year ended 30.06.2019	Financial year ended 30.06.2018
CHF million		**Access Solutions AMER**		**Access Solutions APAC**		**Access Solutions DACH [2]**
Net sales third parties	783.7	796.9	435.8	441.1	534.4	530.8
Intercompany sales	33.0	31.5	26.5	26.9	328.6	321.6
Total sales	**816.7**	**828.4**	**462.3**	**468.0**	**863.0**	**852.4**
Operating profit (EBIT)	**154.7**	**151.0**	**60.4**	**58.3**	**136.4**	**131.2**
as % of sales	18.9%	18.2%	13.1%	12.5%	15.8%	15.4%
Depreciation and amortization	13.4	12.4	8.5	7.5	17.2	17.0
Operating profit before depreciation and amortization (EBITDA)	**168.1**	**163.4**	**68.9**	**65.8**	**153.6**	**148.2**
as % of sales	20.6%	19.7%	14.9%	14.1%	17.8%	17.4%
Net working capital	210.2	193.8	109.1	101.9	138.8	115.4
Capital expenditure	19.9	14.6	10.9	11.2	32.3	37.8
		Access Solutions EMEA [2]		**Eliminations**		**Access Solutions TOTAL**
Net sales third parties	660.7	666.2	0.0	0.0	2,414.6	2,435.0
Intercompany sales	117.1	115.7	–497.9	–487.4	7.3	8.3
Total sales	**777.8**	**781.9**	**–497.9**	**–487.4**	**2,421.9**	**2,443.3**
Operating profit (EBIT)	**43.6**	**42.6**	**–0.8**	**–0.6**	**394.3**	**382.5**
as % of sales	5.6%	5.4%	0.2%	0.1%	16.3%	15.7%
Depreciation and amortization	13.1	14.0	0.0	0.0	52.2	50.9
Operating profit before depreciation and amortization (EBITDA)	**56.7**	**56.6**	**–0.8**	**–0.6**	**446.5**	**433.4**
as % of sales	7.3%	7.2%	0.2%	0.1%	18.4%	17.7%
Net working capital	199.2	210.6	–14.3	–15.7	643.0	606.0
Capital expenditure	14.4	13.6	0.0	0.0	77.5	77.2
				Key & Wall Solutions		**Other [1]**
Net sales third parties			388.0	374.2	15.7	31.8
Intercompany sales			13.9	13.3	3.2	3.7
Total sales			**401.9**	**387.5**	**18.9**	**35.5**
Operating profit (EBIT)			**54.0**	**47.9**	**0.8**	**3.0**
as % of sales			13.4%	12.3%	4.0%	8.6%
Depreciation and amortization			9.0	8.8	0.2	0.6
Operating profit before depreciation and amortization (EBITDA)			**63.0**	**56.7**	**1.0**	**3.6**
as % of sales			15.7%	14.6%	5.3%	10.2%
Net working capital			111.5	104.6	3.8	3.8
Capital expenditure			15.4	13.3	1.7	2.5
		Corporate		**Eliminations**		**Group**
Net sales third parties	0.0	0.0	0.0	0.0	2,818.3	2,841.0
Intercompany sales	0.0	0.0	–24.4	–25.3	0.0	0.0
Total sales	**0.0**	**0.0**	**–24.4**	**–25.3**	**2,818.3**	**2,841.0**
Operating profit (EBIT)	**–74.1**	**–69.1**	**0.0**	**0.0**	**375.0**	**364.3**
as % of sales	0.0%	0.0%	0.0%	0.0%	13.3%	12.8%
Depreciation and amortization	11.6	6.4	0.0	0.0	73.0	66.7
Operating profit before depreciation and amortization (EBITDA)	**–62.5**	**–62.7**	**0.0**	**0.0**	**448.0**	**431.0**
as % of sales	0.0%	0.0%	0.0%	0.0%	15.9%	15.2%
Net working capital	–6.2	–9.5	1.1	0.8	753.2	705.7
Capital expenditure	16.8	22.3	0.0	0.0	111.4	115.3

1) In 2017/18: the divested GMT commercial door hardware business, acquired as part of Best Access Solutions in the 2016/17 financial year, is disclosed in the segment Other to ensure a fair presentation of the main operational segments.

2) In 2017/18: in order to enable a fair comparison with current-year data, certain sales have been reclassified within the segments AS EMEA and AS DACH.

EBITDA reconciliation

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Operating profit (EBIT)	**375.0**	**364.3**
Depreciation and amortization	73.0	66.7
Operating profit before depreciation and amortization (EBITDA)	**448.0**	**431.0**
Depreciation and amortization	–73.0	–66.7
Result from associates	2.9	2.5
Financial expenses	–47.4	–53.5
Financial income	2.2	2.4
Profit before taxes	**332.7**	**315.7**

Alternative performance measures

Earnings before interest, taxes, depreciation, and amortization (EBITDA) corresponds to the operating result (EBIT) before depreciation on tangible fixed assets and amortization on intangible assets.

Net working capital reconciliation

CHF million	Note	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Net working capital		**753.2**	**705.7**
Trade receivables	2.1	499.5	502.1
Inventories	2.2	454.7	432.3
Trade payables		–134.3	–166.5
Advances from customers		–32.6	–28.5
Deferred income		–34.1	–33.7

Alternative performance measures

Net working capital is used by the Group to measure the performance of the segments. dormakaba defines net working capital as trade receivables plus inventories, minus the sum of trade payables, advances from customers and deferred income.

1.2 Net sales by region

CHF million	Financial year ended 30.06.2019	%	Financial year ended 30.06.2018	%
Net sales to third parties	**2,818.3**	**100.0**	**2,841.0**	**100.0**
Switzerland	176.3	6.3	172.6	6.1
Germany	352.9	12.5	351.4	12.4
Rest of EMEA	836.3	29.7	833.5	29.3
Americas	1,027.4	36.4	1,038.4	36.5
Asia Pacific	425.4	15.1	445.1	15.7

Accounting principles

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 related to tangible and intangible products is recognized when the products have been delivered and the benefits and risks as well as the authority to dispose of the products have been transferred to the customer. Sales related to services is recognized when the services have been performed. Distinctive components related to multi-element contracts are recognized separately.

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1.3 Personnel expenses

CHF million	Financial year ended 30.06.2019	%	Financial year ended 30.06.2018	%
Personnel expenses	**1,055.1**	**100.0**	**1,045.6**	**100.0**
Salaries and wages	847.0	80.2	847.0	80.9
Social security expenses	166.4	15.8	166.9	16.0
Share-based payments	9.1	0.9	9.1	0.9
Pension cost (see note 2.5)	25.7	2.4	19.8	1.9
Employment termination expenses	5.9	0.6	2.1	0.2
Other benefits	1.0	0.1	0.7	0.1
Employees at balance sheet date	**15,829**		**15,801**	
Average number of full-time equivalent employees	**15,811**		**16,433**	
Average number of employees per segment	**15,811**	**100.0**	**16,433**	**100.0**
Access Solutions AMER	2,875	18.2	3,078	18.7
Access Solutions APAC	3,326	21.0	3,836	23.3
Access Solutions DACH	3,481	22.0	3,506	21.3
Access Solutions EMEA	3,408	21.6	3,378	20.6
Key & Wall Solutions	2,296	14.5	2,139	13.0
Other	66	0.4	178	1.1
Corporate	359	2.3	318	2.0
Average number of employees per geographical region	**15,811**	**100.0**	**16,433**	**100.0**
Switzerland	804	5.1	802	4.9
Germany	3,022	19.1	3,084	18.8
Rest of EMEA	3,615	22.9	3,567	21.7
Americas	3,975	25.1	4,011	24.4
Asia Pacific	4,395	27.8	4,969	30.2

Share-based payments

The Compensation Committee nominates individual Executive Committee (EC) members and other members of Senior Management for long-term incentive awards. The long-term incentive award is split into two components: two-thirds are granted in the 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 the 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) and, since the 2018/19 financial year, the relative Total Shareholder Return (TSR) of the company over the three-year performance period. The vesting level may range from 0% to a maximum of 200% of the original number of units granted (maximum of two shares for each performance share unit originally granted).

The fair value of the restricted shares corresponds to the value of the closing price of the dormakaba Holding AG share on the SIX Swiss Exchange as at the business day prior to the date of the allocation.

The fair value of the performance share units as at the grant date comprises adjustments for lost dividends during the vesting periods and the TSR performance condition. The expenses for the performance share units are allocated on a straight-line basis over the vesting period.

The restricted shares allocated to the members of the Board of Directors (BoD) are also blocked for three years.

Further information about the allocation of treasury shares is disclosed in the note on share capital and treasury shares (3.2), and further details about long-term incentive stock award plans are outlined in the Compensation Report.

Accounting principles

The fair value of the employee services received in exchange for shares is measured at the fair value of the shares as 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.

1.4 Financial result

CHF million	Note	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Financial income		**2.2**	**2.4**
Interest income		1.4	2.0
Other financial income		0.8	0.4
Financial expense		**47.4**	**53.5**
Interest expenses for Bonds	3.1	4.4	3.2
Interest expenses for forward contracts	3.5	26.3	29.4
Other interest expenses		11.4	10.6
Foreign exchange losses (gains)	3.5	2.4	6.4
Other financial expenses		2.9	3.9

1.5 Taxes

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 change in the weighted applicable tax rate is mainly due to benefits from the US tax reform.

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Profit before taxes	**332.7**	**315.7**
Weighted applicable tax rate	24.2%	25.3%
Tax calculated at applicable tax rate	**80.6**	**79.9**
Current income taxes	67.7	61.0
Deferred income taxes	12.5	16.0
Income taxes	**80.2**	**77.0**
Difference between applicable and effective income taxes	**–0.4**	**–2.9**
Impact of losses and tax loss carryforwards	–2.4	–2.1
Tax-exempt income	–2.6	–5.4
Non-deductible expenses	3.1	6.6
Non-recoverable withholding tax expenses	2.9	2.7
Tax charges (credits) relating to prior periods, net	0.8	–1.1
Other	–2.2	–3.6
Difference between expected and effective income taxes	**–0.4**	**–2.9**
Income taxes charged to equity	0.1	–0.2

Deferred taxes

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Balance sheet presentation of deferred income taxes		
Total deferred income taxes, net	**147.9**	**164.7**
Deferred income tax assets	173.3	203.5
Deferred income tax liabilities	25.4	38.8
Expiration of tax loss carryforwards not recognized as deferred tax assets		
Balance of tax loss carryforwards at end of financial year	**170.0**	**193.8**
Expiry in 1 year	0.2	3.0
Expiry in 2 to 5 years	14.2	19.9
Expiry after 5 years	12.0	13.6
No expiry	143.6	157.3

Accounting principles

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 and substantially enacted income tax rates applied on a comprehensive basis to eligible temporary differences. Deferred income tax assets arising 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 the available deferred tax liabilities.

Use of accounting estimates

The recoverable amount of deferred income tax assets is based on past performance and forecasts of the corresponding taxable entity over a period of several years. Deviations between actual and projected results can lead to impairment losses.

2. Operating assets and liabilities

Detailed information on the operating assets used and liabilities incurred to support the Group's operating activities are disclosed in this section. This includes disclosures on the valuation of trade receivables and inventory as well as movements in tangible and intangible assets, provisions, and employee benefits.

2.1 Trade receivables

Maturity analysis	Financial year ended 30.06.2019			Financial year ended 30.06.2018		
CHF million	Gross	Allow.	Net	Gross	Allow.	Net
Trade receivables	**522.2**	**–22.7**	**499.5**	**527.9**	**–25.8**	**502.1**
Not yet due	345.0	–1.2	343.8	374.3	–1.2	373.1
1–30 day(s) overdue	81.7	–0.2	81.5	69.0	–0.3	68.7
31–60 days overdue	26.3	–0.2	26.1	22.6	0.0	22.6
61–90 days overdue	17.8	–0.1	17.7	12.4	0.0	12.4
91–120 days overdue	10.2	–0.4	9.8	9.6	–0.6	9.0
121–150 days overdue	5.0	–0.3	4.7	5.1	–0.8	4.3
More than 150 days overdue	36.2	–20.3	15.9	34.9	–22.9	12.0

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

Accounting principles

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 the maturity structure. In addition, accounts receivable are individually impaired if there is clear evidence of insolvency or other indications that collectability is severely endangered.

2.2 Inventories

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Inventories, net	**454.7**	**432.3**
Allowance for obsolete and slow-moving items	52.8	54.1
Inventories, gross	**507.5**	**486.4**
Raw materials and supplies	196.3	191.2
Semi-finished goods and work in progress	86.0	83.9
Finished goods	221.2	207.6
Prepayments to suppliers	4.1	3.7

Accounting principles

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.

2.3 Property, plant, and equipment/Intangible assets

CHF million, except where indicated	Land and buildings	Plant, machinery, and equipment	Furniture and fixtures	Pre-payments	Total property, plant, and equipment	Intangible assets
30 June 2019, net	**234.6**	**127.4**	**61.2**	**42.2**	**465.4**	**63.7**
30 June 2018, net	**247.3**	**120.4**	**60.4**	**30.5**	**458.6**	**51.5**
Cost 30 June 2019	**342.4**	**334.7**	**167.5**	**42.3**	**886.9**	**134.0**
Additions	7.8	18.8	19.3	38.5	84.4	27.0
Disposals	–8.1	–8.1	–5.8	0.0	–22.0	–1.3
Reclassifications	2.0	17.3	5.9	–25.5	–0.3	0.3
Acquisition of businesses	0.0	0.1	0.1	0.0	0.2	0.0
Translation exchange differences	–7.3	–8.9	–5.4	–1.2	–22.8	–3.5
30 June 2018	**348.0**	**315.5**	**153.4**	**30.5**	**847.4**	**111.5**
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
1 July 2017	**314.1**	**271.2**	**130.8**	**29.4**	**745.5**	**85.6**
Estimated useful life (in years)	20-50 [1]	4-15	3-15			2-5
Accumulated depreciation 30 June 2019	**107.8**	**207.3**	**106.3**	**0.1**	**421.5**	**70.3**
Additions	11.5	26.8	21.1	0.1	59.5	13.5
Disposals	–2.9	–7.9	–5.9	0.0	–16.7	–1.3
Reclassifications	0.1	–1.3	1.2	0.0	0.0	–0.2
Translation exchange differences	–1.6	–5.4	–3.1	0.0	–10.1	–1.7
30 June 2018	**100.7**	**195.1**	**93.0**	**0.0**	**388.8**	**60.0**
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
1 July 2017	**89.3**	**167.0**	**76.4**	**0.0**	**332.7**	**47.2**

1) Land is not depreciated.

Intangible assets: additions to cost include CHF 5.4 million (2017/18: CHF 2.2 million) invested in research and development projects.

Accounting principles

Property, plant, and equipment are recorded at cost less accumulated depreciation using the straight-line method. 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.

Items of minor value are charged directly to the income statement. All gains and losses on the disposal of property, plant, and equipment are recognized in the income statement.

Intangible assets that embody future economic benefits (such as acquired licenses, patents, and similar rights) and eligible development costs are capitalized at cost and are amortized using the straight-line method.

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.

Use of accounting estimates

Property, plant, and equipment as well as intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To determine whether impairment exists, estimates are made of the expected future cash flows arising from the use of the asset. Actual cost may differ from the discounted future cash flows based on these estimates.

2.4 Provisions

CHF million	Warranty and customer returns	Re-structuring	Other	Total
Provisions 30 June 2019	**14.9**	**7.5**	**16.6**	**39.0**
Additions	9.9	3.7	5.9	19.5
Releases	–0.8	–0.4	–1.5	–2.7
Usage	–7.5	–12.3	–7.7	–27.5
Translation exchange differences	–0.5	–0.3	–0.6	–1.4
Provisions 30 June 2018	**13.8**	**16.8**	**20.5**	**51.1**
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
Provisions 1 July 2017	**19.0**	**37.7**	**20.2**	**76.9**

Accounting principles

Provisions are recognized when:

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

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

A restructuring is a program planned and controlled by the Management that materially changes the manner in which the business is conducted. Costs relating to restructuring plans or agreements, including the reduction of excess staff, the discontinuation of certain activities, the streamlining of facilities and operations, and other restructuring measures, are recorded in the period in which the Group commits itself to a detailed formal plan.

Other provisions mainly comprise those relating to environmental risks, litigation, and sales agents' indemnities.

Use of accounting 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.

Significant judgment is required to determine the costs of restructuring plans. The actual cost might deviate from the original plan.

2.5 Employee benefit liabilities

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018				Financial year ended 30.06.2019	Financial year ended 30.06.2018
	Economic part of the Corporation		Translation differences	Change to prior year period or recognized in current result of the period, respectively	Contributions concerning the business period	Pension benefit expenses within personnel expenses	
Total	**295.5**	**303.0**	**–10.4**	**3.7**	**22.0**	**25.7**	**19.8**
Pension institutions with surplus					9.0	9.0	7.9
Pension institutions without surplus/deficit					12.2	12.2	11.0
Pension institutions without own assets	272.6	279.3	–10.4	3.7	0.8	4.5	0.9
Other long-term employee benefits	22.9	23.7					

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Pension benefit expenses within personnel expenses	**25.7**	**19.8**
Decrease/increase economic obligation from pension institutions without own assets	4.5	0.9
Contributions and changes employer contribution reserves	**21.2**	**18.9**
Contributions to pension institutions from Group entities	21.2	18.9

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

Accounting principles

There are various pension plans in existence within the Group, which are individually aligned with local conditions in the respective countries. The plans 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 economic obligation or an economic benefit arising from a Swiss pension scheme 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.

Use of accounting estimates

dormakaba Group operates pension plans in various countries. The calculation of pension provisions for plans that do not have their own assets is based on actuarial assumptions, which may differ from the actual results.

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2.6 Other assets and liabilities

Other assets

CHF million	Note	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Other current assets		**58.8**	**59.6**
Prepaid expenses		21.9	19.1
Retentions		5.5	4.4
Sales, withholding, and other recoverable taxes		28.7	31.6
Fair value of forward contracts	3.5	0.0	0.5
Other receivables and miscellaneous		2.7	4.0
Non-current financial assets		**39.5**	**38.9**
Loans		1.7	3.6
Pension-related assets		21.7	24.6
Long-term prepaid expenses		7.0	7.3
Long-term held securities		9.1	3.4

Accounting principles

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

Other liabilities

CHF million	Note	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Accrued and other current liabilities		**336.7**	**338.1**
Advances from customers		32.6	28.5
Deferred income		34.1	33.7
Sales, withholding and other tax payable		38.7	42.9
Payables to social security and pension fund		13.3	12.4
Accruals for vacation, overtime, and other employee benefits		112.4	112.8
Accrued interest		3.3	3.5
Fair value of forward contracts	3.5	1.9	7.6
Other accruals and current non-interest-bearing liabilities		100.4	96.7

Current borrowings and other non-current liabilities are disclosed in the note on capital management (3.1) as this information relates to capital management disclosures.

Accounting principles

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 from disposal (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

3. Capital and financial risk management

This section outlines the principles and procedures applied to manage the capital structure and the financial risks to which the Group is exposed. Detailed information on dormakaba Group's sources of funding, such as credit facilities and bonds, are also provided here. In addition, the details of the share capital, treasury shares, earnings per share, and dividends are disclosed in this section. The theoretical movement of goodwill provides information about the impact of dormakaba Group's accounting option to offset the goodwill in equity.

3.1 Capital management

Capital management has the following objectives:

- securing sufficient liquidity to meet the Group's needs to fulfil its financial obligations;
- securing sufficient funding capacity for future investments and acquisitions;
- ensuring creditworthiness;
- achieving an appropriate risk-adjusted return for investors.

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

Borrowings and other financial liabilities

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Current borrowings	**86.3**	**156.5**
Short-term bank loans and overdrafts	84.9	148.9
Current portion of other non-current liabilities	1.4	7.6
Bonds	**680.5**	**680.5**
Other non-current liabilities	**7.0**	**9.5**
Other non-interest bearing liabilities	4.0	4.8
Other interest-bearing liabilities	3.0	4.7

Credit facility

As of 30 June 2019, the short-term bank loans and overdrafts amount to CHF 84.9 million (2017/18: CHF 148.9 million).

The majority of the current borrowings relates to a syndicated credit facility of CHF 500 million established in March 2016 for a five-year period, which includes options for a prolongation of two additional years and for an increase of up to CHF 200 million. The single financial covenant is the net debt ratio (calculated as the ratio of net debt to EBITDA). As of 30 June 2019 and throughout the 2018/19 financial year, dormakaba complied with this financial covenant.

The interest expenses on short-term bank loans and overdrafts are recorded within other interest expenses. Interest expenses are disclosed in detail in the note on the financial result (1.4).

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Net debt

Disclosed below are the corresponding key figures as at 30 June 2019 and 30 June 2018, respectively, including the maturities.

	Financial year ended 30.06.2019				Financial year ended 30.06.2018			
CHF million	**Up to 1 year**	**2 to 5 years**	**Over 5 years**	**Total**	**Up to 1 year**	**2 to 5 years**	**Over 5 years**	**Total**
Current borrowings	86.3			86.3	156.5			156.5
Other non-current liabilities		6.3	0.7	7.0		8.1	1.4	9.5
Bonds		360.1	320.4	680.5		360.1	320.4	680.5
Cash and cash equivalents	–122.4			–122.4	–145.3			–145.3
Net debt	**–36.1**	**366.4**	**321.1**	**651.4**	**11.2**	**368.2**	**321.8**	**701.2**
EBITDA				448.0				431.0
Net debt/EBITDA (Leverage)				**1.5x**				**1.6x**

The interest expenses for withdrawals from the syndicated credit facility and other credit facilities are recorded within other interest expenses. Interest expenses are disclosed in detail in the note on the financial result (1.4).

Accounting principles

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 borrowing using the effective interest method.

Bonds

Two bonds were placed in September 2017 in the Swiss capital market by dormakaba Finance AG, a Group company of dormakaba Holding AG, as a dual tranche transaction worth a total of CHF 680 million (ISIN CH0384629884 due in 2021 and ISIN CH0384629892 due in 2025).

CHF million	**Coupon % p.a.**	**Financial year ended 30.06.2019**	**Coupon % p.a.**	**Financial year ended 30.06.2018**
Bonds (at fixed interest rates)		**680.5**		**680.5**
CHF 360 million bond 2017 – 2021 Payment date: 13 October 2017 Issue price: 100.298%	0.375	360.1	0.375	360.1
CHF 320 million bond 2017 – 2025 Payment date: 13 October 2017 Issue price: 100.46%	1.000	320.4	1.000	320.4

The interest expenses for the two bonds amount to CHF 4.4 million in 2018/19 (2017/18: CHF 3.2 million). This is disclosed in the note on the financial result (1.4).

Accounting principles

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

3.2 Share capital and treasury shares

Share capital

As of 30 June 2019, the share capital comprised 4,200,026 registered shares with a par value of CHF 0.10 each. The shares are listed on the SIX Swiss Exchange (DOKA/ISIN CH0011795959).

Conditional capital as of 30 June 2019 amounted to CHF 42,438.

In accordance with the resolution of the Annual General Meeting (AGM) of 17 October 2017, the BoD is authorized to increase the share capital, no later than 17 October 2019, by a maximum amount of CHF 42,000 through the issue of a maximum of 420,000 fully paid-in registered shares at a nominal value of CHF 0.10 each. The increase may be made in partial amounts. No shares were issued out of authorized capital in the 2018/19 financial year.

Treasury shares

Treasury shares are recorded as a negative balance within equity and disclosed in the consolidated statement of changes in equity. These registered shares are predominantly intended as share-based compensation. Further information about the long-term incentive stock award plans are disclosed in the note on personnel expense (1.3) and within the Compensation Report.

	Financial year ended 30.06.2019			Financial year ended 30.06.2018		
Equity and treasury shares	**Number of shares**	**Transaction (Ø) price in CHF per share**	**Treasury shares in CHF million**	**Number of shares**	**Transaction (Ø) price in CHF per share**	**Treasury shares in CHF million**
Treasury shares as at 30 June	**54,709**	**735.29**	**40.2**	**12,783**	**803.44**	**10.3**
Purchases of treasury shares	53,028	730.00	38.7	2,015	933.45	1.9
Shares awarded (share-based compensation)	–11,102	788.47	–8.8	–11,670	814.41	–9.5
Treasury shares as at 1 July	12,783	803.44	10.3	22,438	797.47	17.9

In the 2018/19 financial year, a total of 11,102 shares (2017/18: 11,670 shares) were allocated. 9,217 shares (7,659 restricted and 1,558 performance shares) were vested as part of the long-term incentive stock award plans (2017/18: 7,627 shares made up of 5,997 restricted and 1,630 performance shares). In addition, 1,282 restricted shares (2017/18: 1,225 restricted shares) were allocated to the BoD members and 603 shares (2017/18: 2,818 shares) were allocated as consideration for acquisitions from previous years. Further information on the long-term incentive stock award plans is included in the Compensation Report.

3.3 Earnings per share and dividends

Earnings per share

Number of shares, except where indicated	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Net profit attributable to the owners of the parent	131.8	123.8
For basic number of shares		
Number of shares outstanding at end of financial year	**4,145,317**	**4,187,243**
Own shares (acquired)/reissued	–41,926	9,655
Number of shares outstanding at beginning of financial year	4,187,243	4,177,588
Weighted average number of shares outstanding (basic)	4,166,973	4,184,285
Basic earnings per share in CHF	**31.6**	**29.6**
For diluted number of shares		
Weighted average number of shares outstanding (basic)	4,166,973	4,184,285
Eligible shares under stock award plans and shares awarded in acquisitions	13,016	11,222
Weighted average number of shares outstanding (diluted)	4,179,989	4,195,507
Diluted earnings per share in CHF	**31.5**	**29.5**

The earnings per share is calculated based on the profit attributable to the owners of the parent only. Net profit attributable to minority interests is not taken into account. The minorities represent mainly the shareholders who hold 47.5% of the shares of dormakaba Holding GmbH + Co. KGaA, a direct subsidiary of the Group parent, dormakaba Holding AG, which holds the remaining 52.5%. The legal subsidiaries are disclosed in the note on the legal structure of the dormakaba Group (5.3).

Accounting principles

Basic earnings per share is calculated by dividing net profit attributable to the owners of the parent by the weighted average number of shares outstanding during the reporting period.

The diluted earnings per share includes all potentially dilutive effects.

Dividends

CHF million, except where indicated	CHF per share 1)	Financial year ended 30.06.2019 2)	CHF per share	Financial year ended 30.06.2018	CHF per share	Financial year ended 30.06.2017
Dividend for the financial year	**16.00**	**66.3**	**15.00**	**62.2**	**14.00**	**58.6**
Net profit attributable to the owners of the parent		131.8		123.8		116.4
Dividend payout ratio in %		50.3		50.2		50.3

1) In 2018/19: proposal to the AGM; in the form of a distribution of capital reserves. Date of payment: 28 October 2019 (estimated final dividend payable, subject to variations in the number of shares up to the recording date). This dividend has not been recognized as a liability as at 30 June 2019 and will be recognized in subsequent consolidated financial statements.

2) The dividend for the financial year is calculated on the basis of the outstanding shares at the end of the financial year.

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

The dividend distribution is proposed to the AGM and shall be paid from the reserves from capital contributions of the parent entity, dormakaba Holding AG. As a result, the dividend will be paid out on 28 October 2019 free of Swiss withholding tax.

3.4 Theoretical equity and goodwill movement

The total goodwill of CHF 8.0 million, resulting from acquisitions, recorded in the 2018/19 financial year (2017/18: CHF 145.0 million) is offset in equity as disclosed in the consolidated statement of changes in equity. See also the note on business combinations and divestments (4.3). The following tables show the impact on equity and net profit based on the assumption that the goodwill was capitalized and amortized over a period of five years.

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Theoretical book value of goodwill, net	**667.6**	**1,046.5**
Cost 30 June	**1,935.0**	**1,950.2**
Additions from acquisitions	6.5	141.7
Adjustments (earn-out, divestments and others)	1.5	3.3
Translation exchange differences	–23.2	30.4
Cost 1 July	**1,950.2**	**1,774.8**
Accumulated amortization 30 June	**1,267.4**	**903.7**
Additions	376.9	372.9
Translation exchange differences	–13.2	8.2
Accumulated amortization 1 July	**903.7**	**522.6**

	Financial year ended 30.06.2019			Financial year ended 30.06.2018		
CHF million	Effective	Amortization goodwill	Theoretical (incl. amortization goodwill)	Effective	Amortization goodwill	Theoretical (incl. amortization goodwill)
Effects on the income statement						
Operating profit (EBIT)	375.0	–376.9	**–1.9**	364.3	–372.9	**–8.6**
EBIT as % of net sales	13.3	–13.4	**–0.1**	12.8	–13.1	**–0.3**
Net profit	252.5	–376.9	**–124.4**	238.7	–372.9	**–134.2**
Effect on the balance sheet						
Equity according to balance sheet	258.5	667.6	**926.1**	187.0	1,046.5	**1,233.5**
Equity as % of balance sheet total	13.5		**48.5**	9.4		**40.7**

Accounting principles

As goodwill is fully offset in equity at the date of acquisition, an impairment of goodwill does not affect income; it is only disclosed in the notes to the consolidated financial statements.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the book value as at the acquisition date of any previous equity interest in the acquired entity 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 any 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 the note on the theoretical movement of goodwill.

3.5 Financial risk management

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

Liquidity risk

Liquidity risk arises due to the possibility that dormakaba Group might experience difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

Liquidity risk is managed centrally by Group Treasury. The Group's objective is to maintain a balance between the continuity of funding and flexibility by using varied financing instruments across a range of maturities. The Group aims to maintain a spread of maturities to avoid excessive refinancing in any one period. The Group endeavors to maintain funding flexibility by keeping available committed credit lines with a variety of counterparties.

Credit risk

Credit risk is the risk of loss if a counterparty fails to fulfil its obligations to dormakaba. Hence, dormakaba is exposed to credit risk arising from financing activities, including deposits with banks and financial institutions, foreign exchange transactions, and other financial instruments, such as trade receivables, other current assets, and non-current financial assets.

Cash and cash equivalents are mainly held in the form of current accounts and current fixed-term deposits. Counterparty risks with financial institutions are monitored continuously and are minimized by the Group limiting its relationships to high-ranking banks only.

Trade receivables are monitored on an ongoing basis locally and via Group management reporting procedures. The danger of cluster risks on trade receivables 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. The assessment of this risk involves a review of the customer's creditworthiness based on its financial situation and experience. The maturity analysis of trade receivables is disclosed in the note on trade receivables (2.1).

Interest rate risk

Interest rate risk is the risk that the Group's financial situation is impacted by changes in interest rates.

The dormakaba Group's interest rate risk arises from its short-term and long-term borrowings. The interest rate risk is hedged only in a few cases. Management strives for a well-balanced mix of long- and short-term interest rate exposure, taking into consideration the planned funding requirements. Funding and related interest are managed centrally by Group Treasury.

Foreign currency exposure

Translation risk

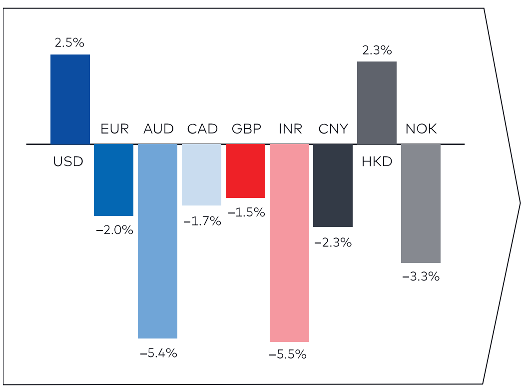
dormakaba Group does not actively manage the translation risk.

In the 2018/19 financial year, the Group's equity was negatively impacted in the amount of CHF 26.4 million (2017/18: CHF 15.8 million positive impact) by foreign currency translation.

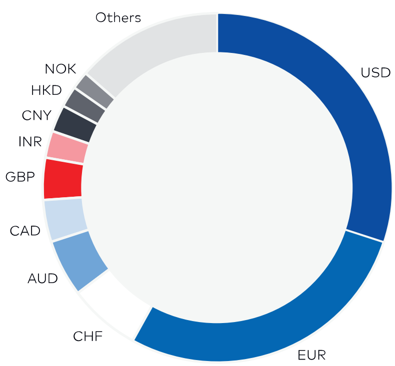
The key exchange rates based on net sales in foreign currencies are disclosed in the table below:

Currency rates (CHF), net sales (CHF million)	Net sales 30.06.2019	Exchange rate 30.06.2019	Average rate 2018/19	Net sales 30.06.2018	Exchange rate 30.06.2018	Average rate 2017/18
Total net sales	**2,818.3**			**2,841.0**		
USD	848.8	0.976	0.995	855.0	0.998	0.971
EUR	791.9	1.110	1.135	792.9	1.154	1.158
CHF	187.0	1.000	1.000	192.4	1.000	1.000
AUD	146.0	0.684	0.712	149.8	0.733	0.753
CAD	109.3	0.745	0.752	111.7	0.752	0.765
GBP	109.2	1.237	1.288	107.6	1.304	1.307
INR	70.9	0.014	0.014	86.8	0.015	0.015
CNY	70.7	0.142	0.146	71.2	0.151	0.149
HKD	55.3	0.125	0.127	55.8	0.127	0.124
NOK	50.6	0.115	0.117	60.6	0.122	0.121
Net sales in other currencies	378.6			357.2		

June 2018 – June 2019
Change of FX-rate in relation to CHF



2018/19
Net sales exposure



In the 2018/19 financial year, dormakaba Group's sales growth was negatively impacted by foreign currency translations in the amount of CHF 29.6 million (2017/18: CHF 47.9 million positive impact) and EBITDA likewise by CHF 2.4 million (2017/18: CHF 9.7 million positive impact).

Transaction risk

Management monitors foreign exchange risks on a regular basis. When Management deems it appropriate to do so, dormakaba uses derivative financial instruments to manage its transaction risk exposure to fluctuations in exchange rates.

Foreign exchange risks relating to intercompany loans are covered to a large extent by forward exchange contracts with third parties. The external counterparties involved are high-ranking financial institutions. dormakaba enters into financial transactions only to hedge against a related off-balance-sheet risk or a highly probable future business transaction. No uncovered short transactions are entered into.

Intercompany invoicing is structured in a way that foreign exchange risks are concentrated in dormakaba's 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 third party and intercompany cross-currency exposures are reduced through natural hedges or they are hedged using financial instruments.

dormakaba Group actively manages the transaction risk arising from net investment in foreign currencies.

The following currency forward contracts for hedging purposes existed as at the balance sheet date:

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Contract value	**740.3**	**633.4**
Fair value – held-for-trading, net	**–1.9**	**–7.1**
Assets from fair value of forward contracts	0.0	0.5
Liabilities from fair value of forward contracts	–1.9	–7.6

In the 2018/19 financial year, the net foreign exchange loss amounts to CHF 2.4 million (2017/18: CHF 6.4 million). While the hedges mitigate the foreign currency effect arising from intercompany loans, the interest expenses for forward contracts amounts to CHF 26.3 million (2017/18: CHF 29.4 million). The foreign exchange gains and losses as well as the interest expenses and income are disclosed in the note on the financial result (1.4).

Accounting principles

Derivative financial instruments for the purpose of hedging balance sheet items are recorded using the same valuation principles as applied to the underlying hedged positions.

4. Other financial information

This section provides details of the various commitments and contingencies as well as information about the associated companies, the acquisitions and divestments, and the legal subsidiaries including the Group companies' shareholdings.

4.1 Commitments and contingencies

Lease commitments

Operating lease payments are charged to income (CHF 40.5 million in 2018/19 and CHF 41.1 million in 2017/18) on a straight-line basis over the lease term. The following table shows the future minimum lease payments resulting from non-cancellable operating leases:

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Future payment commitments for operating leases	**130.0**	**130.7**
Up to 1 year	33.3	36.1
2 to 5 years	74.1	71.8
Over 5 years	22.6	22.8

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

Accounting principles

Operating lease agreements are lease agreements that do not qualify as finance leases and are not capitalized in the balance sheet.

Other commitments and contingencies

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Current endorsement liabilities	3.7	5.0
Investments committed to purchase from third parties:		
Property, plant, and equipment	13.4	15.2
Intangible assets	0.6	1.2

In addition to the table above, contingent liabilities related to the 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.

4.2 Equity accounted investments

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Investments in associates - 30 June	**3.5**	**40.6**
Increase of investments in associates	1.5	1.5
Sale of investments in associates	–37.7	0.0
Dividends received	0.0	–1.4
Share of profit (loss)	–0.3	2.5
Translation exchange differences	–0.6	2.0
Investments in associates - 1 July	**40.6**	**36.0**
Result from associates	**2.9**	**2.5**
Share of profit (loss)	–0.3	2.5
Profit from sale of investments in associates	3.2	0.0

ISEO

The 40% shareholding in ISEO (Italy) was divested on 15 October 2018. ISEO is a manufacturer of security products, such as cylinders, master key systems, locks, and panic hardware, mainly for the European market. Pre-merger Dorma acquired a 40% stake in ISEO in December 2012 to strengthen its business by extending its product range. Following the merger, dormakaba's comprehensive product range led to a reassessment of the strategic position and to the decision to divest.

Accounting principles

Investments in associates and joint ventures where dormakaba Group exercises significant influence but does not have control (i.e. usually 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 associate/joint venture 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 negative balance. Investments in which dormakaba Group does not have significant influence (i.e. dormakaba Group's interest is usually less than 20%) are recorded at cost.

4.3 Business combinations and divestments

Business combinations

In the reporting period, only smaller acquisitions were made: Autodor Services Ltd in New Zealand, GBS Groothandel in Beveiligingssystemen B.V. in the Netherlands, Chartwell Doors Ltd in the United Kingdom, and Locktech BVBA in Belgium.

The following table summarizes the considerations paid for businesses and the amounts of assets and liabilities acquired, recognized at fair value as at the acquisition date.

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Consideration as at acquisition date		
Cash paid	6.2	134.7
Deferred payment	0.1	6.6
Acquisition-related costs	0.3	3.1
Total consideration	**6.6**	**144.4**
Identifiable assets and liabilities		
Cash and cash equivalents	0.4	6.1
Trade receivables	0.7	10.0
Inventories	0.3	6.2
Current income tax assets	0.0	0.6
Other current assets	0.0	2.7
Property, plant, and equipment	0.2	10.2
Intangible assets	0.0	0.4
Non-current financial assets	0.0	0.1
Deferred income tax assets	0.0	0.3
Current borrowings	0.0	–2.9
Trade payables	–0.3	–2.8
Current income tax liabilities	–0.1	–0.7
Accrued and other current liabilities	–0.5	–12.6
Provisions	0.0	–0.1
Non-current borrowings	–0.3	–2.4
Accrued pension costs and benefits	0.0	–0.4
Deferred income tax liabilities	0.0	–2.1
Other non-interest bearing liabilities	0.0	–0.1
Total identifiable net assets	**0.4**	**12.5**
Goodwill	6.2	131.9
Total consideration	**6.6**	**144.4**

Accounting principles

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the book value as at the acquisition date of any previous equity interest in the acquired entity 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 any 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 the note on the theoretical equity and goodwill movement (3.4).

Business divestments

In December 2018, dormakaba divested parts of the US Door Hardware Service Business in the AS AMER segment due to insufficient profitability.

The following table summarizes the considerations paid and received as well as the net assets divested. The resulting net goodwill was offset in equity.

CHF million	Financial year ended 30.06.2019	Financial year ended 30.06.2018
Consideration as at divestment date		
Cash consideration received	0.0	44.7
Purchase price for minority shares paid	0.0	–8.3
Divestment-related costs paid	0.0	–1.2
Divestment price adjustment [1]	–1.8	0.0
Total consideration	**–1.8**	**35.2**
Assets and liabilities divested		
Cash and cash equivalents	0.0	22.7
Trade receivables	0.0	11.1
Inventories	0.0	12.6
Other current assets	0.0	0.8
Property, plant, and equipment	0.0	12.9
Intangible assets	0.0	0.1
Non-current financial assets	0.0	0.3
Trade payables	0.0	–6.7
Current income tax liabilities	0.0	–0.3
Accrued and other current liabilities	0.0	–3.7
Provisions	0.0	–0.9
Accrued pension costs and benefits	0.0	–0.6
Total net assets divested	**0.0**	**48.3**
Goodwill, net	–1.8	–13.1
Total consideration	**–1.8**	**35.2**

1) In 2018/19: the divestment price adjustment of CHF 1.8 million relates to a business divestment from a previous year.

Accounting principles

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

5. Other disclosures

This section provides a general understanding of the preparation and consolidation principles as well as an overview of the use of accounting estimates. In addition, it details any events occurring between the balance sheet date and the date at which the financial statements are approved by the BoD.

5.1 About this report

Parent company of the Group

The parent company of the Group is dormakaba Holding AG, a company limited by shares that is 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.

Basis for preparation

These consolidated financial statements were approved for issue by the BoD on 6 September 2019 and will be presented for approval by the AGM on 22 October 2019.

The consolidated financial statements of dormakaba Group comply with Swiss law and have been prepared using the historical cost principle, except where disclosed in the accounting policies below, and in accordance with Swiss GAAP FER as a whole (GAAP = Generally Accepted Accounting Principles, FER = Fachempfehlung zur Rechnungslegung or "accounting and reporting recommendations"). Furthermore, the accounting complies with the provisions of the Listing Rules of SIX and Swiss company law. The accounting policies have been applied consistently by Group companies. No changes to the Swiss GAAP FER requirements were announced or released in the year under review.

Currency conversion

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 converted into the functional currency of the appropriate entity using the exchange rates prevailing as 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.

The assets and liabilities of subsidiaries reporting in currencies other than Swiss francs are translated at the exchange rates prevailing as 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. Upon 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 the sale.

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 it 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 the uniform measurement and reporting practices prescribed by the Group. In 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 when 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 as of the date when control ceases. All intercompany balances, transactions, and intercompany profits are eliminated upon consolidation. Investments in associates and joint ventures where dormakaba Group exercises significant influence but does not exercise control (i.e. usually 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 associate/joint venture 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 negative balance. Investments in which dormakaba Group does not have significant influence (i.e. dormakaba Group's interest is usually less than 20%) are recorded at cost.

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

In the event that shares of a Group company or associated company 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 the equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling interests and minority interests to reflect their relative interests in the subsidiary.

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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported value of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events as well as actions that dormakaba Group may undertake in the future, the actual results may differ from the estimates. The most important accounting estimates are described in a blue box at the end of the note to which they relate as per the following table:

Use of accounting estimates	**Note**
Deferred income taxes	1.5
Provisions	2.4
Testing goodwill and assets for impairment	2.3, 5.1
Accrued pension costs and benefits	2.5

In accordance with Swiss GAAP FER, assets are subject to an impairment test based on indicators reflecting a possible impairment of the individual assets. Therefore, the following accounting estimates apply to all assets in general.

Use of accounting estimates

For the purpose of testing impairment, goodwill and 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.

5.2 Events occurring after the balance sheet date

On 27 June 2019, dormakaba announced that it had signed an agreement to acquire Alvarado Manufacturing Co. Inc., based in Chino (CA/USA). Alvarado is a leading manufacturer of physical access solutions in North America. The transaction was concluded on 31 July 2019.

5.3 Legal structure of the dormakaba Group

As at 30 June 2019

List of substantial Group and associated companies		Share capital in local currency (000)	Voting rights in %	Group companies with shareholdings
dormakaba Holding AG, Rümlang/CH	CHF	420.0		Publicly Quoted Company
dormakaba Holding GmbH + Co. KGaA, Ennepetal/DE	EUR	27,642.1	52.5	dormakaba Holding AG
			47.5	Familie Mankel Industriebeteiligung GmbH + Co. KGaA
dormakaba Beteiligungs-GmbH, Ennepetal/DE	EUR	1,000.0	52.5	dormakaba Holding AG

All of the following companies are held directly or indirectly by dormakaba Holding GmbH + Co. KGaA. The voting rights listed for these companies represent the voting rights of this sub-holding. dormakaba shareholders ultimately benefit from the 52.5% share of the cash flows generated by these entities.

dormakaba International Holding AG, Rümlang/CH	CHF	101.0	100	dormakaba Holding GmbH + Co. KGaA

ADUK Products Ltd., Haslemere/GB	GBP	0.1	100	Kaba Holding (UK) Ltd.
Advanced Diagnostics Ltd., Haslemere/GB	GBP	0.1	100	ADUK Products Ltd.
Aluminium Services Inc., Scituate/US	USD	30.0	100	dormakaba USA Inc.
any2any GmbH, Munich/DE	EUR	33.2	20	dormakaba International Holding GmbH
ATM-Türautomatik GmbH, Gleisdorf/AT	EUR	35.0	100	dormakaba Austria GmbH
Chartwell Doors Ltd., Hitchin/GB	GBP	0.3	100	DORMA UK Ltd.
Corporación Cerrajera Alba, S.A. de C.V., Edo. de México/MX	MXP	202,059.4	100	dormakaba Canada Inc.
Dörken + Mankel Verwaltungs-Gesellschaft mit beschränkter Haftung, Ennepetal/DE	EUR	30.0	100	dormakaba Holding GmbH + Co. KGaA
DORMA Arabia Automatic Doors Company Ltd., Dammam/SA	SAR	4,000.0	95	Dorma- Vertrieb-International GmbH
			5	DORMA Produktion International GmbH
DORMA Door Controls Pty. Ltd., Hallam/AU	AUD	910.7	100	Dorma- Vertrieb-International GmbH
DORMA Ghana Limited, Accra/GH	GHS	1,850.0	100	Dorma- Vertrieb-International GmbH
DORMA HUEPPE Pty. Ltd., Regents Park/AU	AUD	5'374.4	100	DORMA Door Controls Pty. Ltd.
DORMA Hüppe Asia Sdn. Bhd., Senai, Johor/MY	MYR	2,510.0	100	DORMA Hüppe Raumtrennsysteme GmbH + Co. KG
DORMA Hüppe Austria GmbH, Linz/AT	EUR	146.0	100	DORMA Hüppe Raumtrennsysteme GmbH + Co. KG
DORMA Hüppe Raumtrennsysteme GmbH + Co. KG, Westerstede-Ocholt/DE	EUR	48,300.0	100	dormakaba Holding GmbH + Co. KGaA
DORMA Hüppe S.A., Brugge/BE	EUR	3,300.0	100	DORMA Hüppe Raumtrennsysteme GmbH + Co. KG
DORMA Ireland Ltd., Dublin/IE	EUR	1,500.0	100	Dorma- Vertrieb-International GmbH
DORMA Movable Wall Verwaltungs-GmbH, Ennepetal/DE	EUR	25.0	100	dormakaba Holding GmbH + Co. KGaA
DORMA Produktion International GmbH, Ennepetal/DE	EUR	60.0	100	dormakaba Deutschland GmbH
DORMA UK Ltd., Hitchin/GB	GBP	250.0	100	dormakaba Nederland B.V.
Dorma- Vertrieb-International Gesellschaft mit beschränkter Haftung, Ennepetal/DE	EUR	110.0	100	dormakaba Deutschland GmbH
DORMA-Glas GmbH, Bad Salzuflen/DE	EUR	520.0	100	dormakaba Deutschland GmbH
dormakaba (China) Technologies Ltd., Shenzhen/CN	CNY	69,500.0	100	dormakaba Hong Kong Limited
dormakaba (Thailand) Ltd., Bangkok/TH	THB	13,490.0	100	Dorma- Vertrieb-International GmbH
dormakaba Access Indonesia, PT, Jakarta/IN	IDR	2,555,199.5	90	Dorma- Vertrieb-International GmbH
			10	DORMA Produktion International GmbH
dormakaba Access Solutions LLC, Doha/QA	QAR	200.0	100	Dorma- Vertrieb-International GmbH
dormakaba Australia Pty. Ltd., Hallam/AU	AUD	10.7	100	DORMA Door Controls Pty. Ltd.
dormakaba Austria GmbH, Herzogenburg/AT	EUR	1,460.0	100	dormakaba International Holding AG
dormakaba Belgium N.V., Bruges/BE	EUR	2,416.3	100	dormakaba International Holding AG
dormakaba Brasil Soluções de Acesso Ltda., Sao Paulo/BR	BRL	35,160.7	100	dormakaba International Holding AG
dormakaba Bulgaria Ltd., Sofia/BG	EUR	1,314.1	100	Dorma- Vertrieb-International GmbH
dormakaba Canada Inc., Montreal/CA	CAD	1.0	100	dormakaba International Holding AG
dormakaba Cesko s.r.o., Praha/CZ	CZK	100.0	100	Dorma- Vertrieb-International GmbH
dormakaba China Ltd, Suzhou/CN	CNY	127,759.1	100	Dorma- Vertrieb-International GmbH
dormakaba Danmark A/S, Albertslund/DK	DKK	696.0	100	dormakaba International Holding AG
dormakaba Deutschland GmbH, Ennepetal/DE	EUR	126,780.0	100	dormakaba Holding GmbH + Co. KGaA
DORMAKABA DOO BEOGRAD, Beograd/RS	RSD	4,474.3	100	Dorma- Vertrieb-International GmbH
dormakaba EAD GmbH, Villingen-Schwenningen/DE	EUR	819.1	100	dormakaba Holding GmbH + Co. KGaA
dormakaba España S.A.U., Madrid/ES	EUR	600.0	100	dormakaba International Holding AG

dormakaba Eurasia LLC, Moscow/RU	RUB	213,000.0	100	Dorma- Vertrieb-International GmbH
dormakaba Finance AG, Rümlang/CH	CHF	100.0	100	dormakaba Holding GmbH + Co. KGaA
dormakaba Finance B.V., Dodewaard/NL	EUR	100.0	100	dormakaba Holding GmbH + Co. KGaA
dormakaba Finance GmbH, Ennepetal/DE	EUR	25.0	100	dormakaba Holding GmbH + Co. KGaA
dormakaba France S.A.S., Créteil/FR	EUR	5,617.2	100	dormakaba International Holding AG
dormakaba Gulf FZE, Dubai/AE	USD	9,524.9	100	Dorma- Vertrieb-International GmbH
dormakaba Hong Kong Limited, Hong Kong/HK	HKD	100.0	100	dormakaba Nederland B.V.
dormakaba Hrvatska d.o.o., Zagreb/HR	HRK	5,650.0	100	Dorma- Vertrieb-International GmbH
dormakaba Immobilien GmbH, Villingen-Schwenningen/DE	EUR	50.0	100	dormakaba Holding GmbH + Co. KGaA
dormakaba India Private Limited, Chennai/IN	INR	1,147,197.3	100	Dorma- Vertrieb-International GmbH
dormakaba International Holding GmbH, Ennepetal/DE	EUR	1,000.0	100	dormakaba Holding GmbH + Co. KGaA
dormakaba Italia Srl., Milano/IT	EUR	260.0	100	dormakaba Schweiz AG
dormakaba Japan Co. Ltd., Yokohama/JP	JPY	120,000.0	100	dormakaba Schweiz AG
dormakaba Kapi Ve Güvenlik Sistemleri Sanayi Ve Ticaret A.S., Istanbul/TR	TRY	3,750.0	99	Dorma- Vertrieb-International GmbH
			1	dormakaba Deutschland GmbH
dormakaba Kenya Limited, Nairobi/KE	KES	40,000.0	99	Dorma- Vertrieb-International GmbH
			1	dormakaba Deutschland GmbH
dormakaba Korea Inc., Seoul/KR	KRW	150,000.0	100	Dorma- Vertrieb-International GmbH
dormakaba Kuwait for Ready Made Windows LLC, Kuwait City/KW	KWD	10.0	100	Dorma- Vertrieb-International GmbH
dormakaba Luxembourg S.A., Wecker/LU	EUR	15,191.6	100	dormakaba International Holding AG
dormakaba Magyarorszàg Zrt., Budapest/HU	HUF	251,000.0	100	dormakaba Luxembourg S.A.
dormakaba Malaysia SDN BHD, Selangor/MY	MYR	200.0	100	dormakaba Nederland B.V.
dormakaba Maroc SARL, Casablanca/MA	MAD	2,000.0	100	Dorma- Vertrieb-International GmbH
dormakaba México, S. de R.L. de C.V., Mexico City/MX	MXN	3.0	96.6	Dorma- Vertrieb-International GmbH
			3.4	dormakaba Deutschland GmbH
dormakaba Middle East (LLC), Dubai/AE	AED	7,700.0	100	Dorma- Vertrieb-International GmbH
dormakaba Middle East SPV Limited, Abu Dhabi/AE		N/A	100	dormakaba International Holding AG
dormakaba Nederland B.V., Dodewaard/NL	EUR	11.7	100	Dorma- Vertrieb-International GmbH
dormakaba New Zealand Limited, Auckland/NZ	NZD	384.0	100	dormakaba Nederland B.V.
dormakaba Norge A/S, Drammen/NO	NOK	1,754.5	100	dormakaba International Holding AG
dormakaba Philippines Inc., Makati City/PH	PHP	18,000.0	100	Dorma- Vertrieb-International GmbH
dormakaba Polska sp.z.o.o., Konstancin-Jeziorna/PL	PLN	10,000.0	100	dormakaba International Holding AG
dormakaba Portugal, Unipessoal Lda., Lisbon/PT	EUR	50.0	100	Dorma- Vertrieb-International GmbH
dormakaba Production GmbH + Co. Kommanditgesellschaft, Ennepetal/DE, Singapore/SGP	EUR	2,560.0	100	dormakaba Deutschland GmbH
dormakaba Production GmbH, Ennepetal/DE	EUR	50.0	100	dormakaba Deutschland GmbH
dormakaba Production Malaysia SDN. BHD., Melaka/MY	MYR	5,000.0	100	Dorma- Vertrieb-International GmbH
dormakaba Romania S.R.L., Bucharest/RO	RON	4,705.8	100	Dorma- Vertrieb-International GmbH
dormakaba Schweiz AG, Wetzikon/CH	CHF	6,800.0	100	dormakaba International Holding AG
dormakaba Singapore Pte Ltd, Singapore/SGP	SGD	500.0	100	dormakaba Production GmbH + Co. KG
dormakaba Slovensko s.r.o, Bratislava/SK	EUR	6.6	100	Dorma- Vertrieb-International GmbH
dormakaba South Africa (Pty.) Ltd., Johannesburg/ZA	ZAR	1.0	100	Dorma- Vertrieb-International GmbH
dormakaba Suomi Oy, Helsinki/FI	EUR	67.3	100	Dorma- Vertrieb-International GmbH
dormakaba Sverige AB, Västra Frölunda/SE	SEK	500.0	100	dormakaba Nederland B.V.
dormakaba Ukraine LLC, Kiev/UA	EUR	250.0	99	Dorma- Vertrieb-International GmbH
			1	dormakaba Deutschland GmbH
dormakaba Uruguay S.A, Montevideo/UY	UYU	10.8	100	Dorma- Vertrieb-International GmbH
dormakaba USA Inc., Wilmington/US	USD	1.0	100	Kaba U.S. Holding Ltd.
dormakaba Workforce Solutions LLC, Wilmington/US	USD	19.7	100	Kaba U.S. Holding Ltd.
Farpointe Data Inc., Sunnyvale/US	USD	1,701.7	100	dormakaba USA Inc.
Fermetures GROOM S.A.S., Javené/FR	EUR	1,500.0	100	dormakaba France S.A.S.
Forponto Informática S.A., São Paulo/BR	BRL	10.0	100	Task Sistemas de Computação S.A.
Grupo Klaus S.A.C., Lima/PE	PEN	11,516.2	100	dormakaba International Holding AG
H. Cillekens & ZN BV, Roermond/NL	EUR	15.9	100	dormakaba Nederland B.V.
Kaba do Brasil Ltda., São Paulo/BR	BRL	32,051.2	100	dormakaba International Holding AG
Kaba Gallenschütz GmbH, Bühl/DE	EUR	2,560.0	100	dormakaba Holding GmbH + Co. KGaA
Kaba Holding (UK) Ltd., London/GB	GBP	173.0	100	dormakaba International Holding AG
Kaba Holding AG, Rümlang/CH	CHF	100.0	100	dormakaba International Holding AG
Kaba Ilco Corp., Rocky Mount/US	USD	56,897.6	100	Kaba U.S. Holding Ltd.
Kaba Jaya Security Sdn. Bhd., Selangor/MY	MYR	350.0	70	dormakaba Schweiz AG
			30	dormakaba International Holding AG

Kaba Ltd., Tiverton/GB	GBP	6,300.0	100	Kaba Holding (UK) Ltd.
Kaba Mas LLC, Lexington/US	USD	880.7	100	Kaba U.S. Holding Ltd.
Kaba Security Systems Private Limited, New Delhi/IN	INR	59,630.8	100	dormakaba India Private Limited
Kaba U.S. Holding Ltd., Wilmington/US	USD	200,000.0	61.45	dormakaba Schweiz AG
			17.55	dormakaba Nederland B.V.
			21	dormakaba International Holding AG
Kilargo Pty. Ltd., Hallam/AU	AUD	1.0	100	DORMA Door Controls Pty. Ltd.
KIWS Property LLC, Delaware/US		N/A	100	dormakaba USA Inc.
Lasservice Midt-Norge A/S, Drammen/NO	NOK	100.0	100	dormakaba Norge A/S
Legic Identsystems AG, Wetzikon/CH	CHF	500.0	100	dormakaba Schweiz AG
Mauer Thüringen GmbH, Bad Berka/DE	EUR	255.7	100	dormakaba EAD GmbH
Modernfold Inc., Greenfield/US	USD	0.0	100	dormakaba USA Inc.
Modernfold of Nevada LLC., Greenfield/US	USD	0.0	100	Modernfold Inc.
Path Line (China) Ltd., Hong Kong/HK	HKD	113,900.0	100	Wah Yuet Hong Kong Limited
Rafi Shapira & Sons Ltd., Rishon LeZion/IL	ILS	0.1	30	Dorma- Vertrieb-International GmbH
Railtech Composites Inc., New York/US	USD	0.1	100	Skyfold Inc.
Resolute Testing Laboratories Pty. Ltd., Hallam/AU	AUD	0.1	100	Kilargo Pty. Ltd.
Seca Solutions A/S, Sandnes/NO	NOK	3,000.0	100	dormakaba Norge A/S
Silca GmbH, Velbert/DE	EUR	358.0	100	dormakaba Holding GmbH + Co. KGaA
Silca Key Systems S.A., Barcelona/ES	EUR	162.3	100	dormakaba Luxembourg S.A.
Silca S.A.S., Porcheville/FR	EUR	797.7	100	dormakaba France S.A.S.
Silca S.p.A., Vittorio Veneto/IT	EUR	10,000.0	97	dormakaba Luxembourg S.A.
			3	dormakaba Schweiz AG
Silca South America S.A., Tocancipa/CO	COP	4,973,013.8	65.92	dormakaba International Holding AG
			32.52	dormakaba Schweiz AG
Skyfold Inc., Quebec/CA	CAD	113,994.5	100	dormakaba Canada Inc.
Smart Access Solutions Company Ltd., Riyadh/SA	SAR	25.0	100	dormakaba Middle East SPV Limited
Task Sistemas de Computação S.A., Rio de Janeiro/BR	BRL	26,438.7	100	dormakaba International Holding AG
TLHM Co. Ltd., Taiwan/TWN	TWD	270,000.0	100	dormakaba International Holding AG
Wah Mei (Toishan) Hardware Co., Ltd., Taishan/CN	USD	15,000.0	100	Wah Yuet Hong Kong Limited
Wah Yuet Hong Kong Limited, Hong Kong/HK	HKD	560,250.0	100	dormakaba Schweiz AG
Wah Yuet (Ng's) Overseas Co. Ltd., Tortola/VG	USD	13,289.0	100	Wah Yuet Hong Kong Limited
Wah Yuet Industrial Co. Ltd., Hong Kong/HK	HKD	1,000.0	100	Wah Yuet Hong Kong Limited
Yantai DORMA Tri-Circle Lock Co. Ltd, Yantai City/Shandong/CN	CNY	10,000.0	60	Dorma- Vertrieb-International GmbH

Apart from dormakaba Holding AG in Rümlang, none of the companies in the dormakaba Group's scope of consolidation is listed on a stock exchange. The registered shares of dormakaba Holding AG are traded on the SIX Swiss Exchange (security no./ISIN: 1179595/CH 0011795959). As at 30 June 2019, the company's market capitalization was CHF 2,932.8 million.

This disclosure 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 income statement for the year ended 30 June 2019, the consolidated balance sheet as at 30 June 2019, the consolidated cash flow statement and the consolidated statement of changes in equity 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 25 to 61) give a true and fair view of the consolidated financial position of the Group as at 30 June 2019 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 16'635'000

We concluded full scope audit work at 51 reporting units in 20 countries. Our audit scope addressed 76% of Group's revenue and 75% of Group's assets. In addition, specified procedures were performed for one reporting unit in one country addressing a further 2% of the Group's revenue and 1% of the Group's assets. Reviews were performed for 40 reporting units in 24 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:

Valuation of inventories

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

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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 16'635'000
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 831'750 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

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.

Valuation of inventories

Key audit matter	How our audit addressed the key audit matter
Total consolidated inventory of the financial year 2018/2019 amounted to CHF 454.7 million (2017/2018: CHF 432.3 million). Inventory represents a significant share of total assets (about 23.8%). Refer to note 2.2 "Inventories". Inventories are valued at the lower of purchase or manufacturing cost and net realizable value (i.e. the selling price less costs to complete and sell). An allowance for obsolete and slow-moving items is recorded in case of incongruity between inventory levels and expected turnover.	We obtained an understanding of the Group's policies, processes and methods in regards to inventory valuation. We performed, on a sample basis, the following audit procedures for all full scope reporting components of the different segments and for one component performing specified procedures: - We assessed whether the process for identifying any obsolete and slow-moving items is in-line with dormakaba's accounting policy and whether the accounting policy is reasonable.

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We consider the valuation of inventories as a key audit matter because of its significance in the balance sheet and some scope for judgement by Management when assessing the inventory allowance. Inventory write-downs have a direct impact on EBITDA-margin, thus increasing the risk of material misstatement in valuation of inventory.

- We determined whether the inventory allowance is recognised in-line with the accounting policy. In case of deviations, we obtained documentation in order to assess whether the allowance level is supported.
- By comparing the net book value with invoices or sale agreements, we assessed whether the net book value is not in excess of the net realizable value.
- We analysed stock level fluctuations (i.e. inventories in % of net sales compared to prior year) and obtained and corroborated explanations from Management for material fluctuations.

Based on the audit procedures performed, we consider the valuation of inventories to be adequately addressed by Management.

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.

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- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In accordance with article 728a 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, 6 September 2019

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