Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income T042

in EUR thousands	Note	2019	2018
Revenue	(8)	1,100,096	1,084,140
Changes in inventories of finished goods and work in progress		3,045	10,383
Other own work capitalized		4,910	5,197
Raw materials and consumables used	(9)	– 477,628	– 473,551
Gross profit		**630,423**	**626,169**
Other operating income	(10)	13,630	15,589
Other operating expenses	(11)	– 157,879	– 162,016
Employee benefits expense	(12)	– 312,376	– 282,768
Depreciation and amortization	(18, 19)	– 77,116	– 63,429
Operating profit		**96,682**	**133,545**
Financial income		1,460	2,703
Financial costs		– 16,950	– 14,371
Financial costs – net	(13)	**– 15,490**	**– 11,668**
Profit before income tax		**81,192**	**121,877**
Income taxes	(16)	– 22,743	– 30,089
Profit for the period		**58,449**	**91,788**
Other comprehensive income for the period, net of tax			
Other comprehensive income that can be reclassified to profit or loss, net of tax		**7,210**	**10,749**
Exchange differences on translation of foreign operations	(24)	8,893	10,068
Cash flow hedges, net of tax	(21, 24)	– 1,750	748
Costs of hedging, net of tax	(21, 24)	67	– 67
Other comprehensive income that cannot be reclassified to profit or loss, net of tax		**– 1,519**	**– 214**
Remeasurements of post-employment benefit obligations, net of tax	(24, 26)	– 1,519	– 214
Other comprehensive income for the period, net of tax		**5,691**	**10,535**
Total comprehensive income for the period		**64,140**	**102,323**
Profit attributable to			
Shareholders of the parent		58,422	91,873
Non-controlling interests		27	– 85
		58,449	**91,788**
Total comprehensive income attributable to			
Shareholders of the parent		64,236	102,540
Non-controlling interests		– 96	– 217
		64,140	**102,323**
(Un)diluted earnings per share (in EUR)	(15)	**1.83**	**2.88**

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

T043

Assets

in EUR thousands	Note	Dec 31, 2019	Dec 31, 2018
Non-current assets			
Goodwill	(18)	393,087	389,505
Other intangible assets	(18)	265,407	283,394
Property, plant and equipment	(19)	290,843	243,326
Other non-financial assets	(23)	2,792	2,404
Derivative financial assets	(21)	120	2,180
Income tax assets		1,173	878
Deferred income tax assets	(17)	9,375	6,571
		962,797	**928,258**
Current assets			
Inventories	(22)	173,249	178,107
Other non-financial assets	(23)	21,933	17,984
Other financial assets	(21)	4,792	5,231
Derivative financial assets	(21)	330	584
Income tax assets		8,607	6,807
Trade and other receivables	(21)	162,386	143,138
Contract assets	(8)	525	1,185
Cash and cash equivalents	(29)	179,721	190,392
		551,543	**543,428**
Total assets		**1,514,340**	**1,471,686**

Equity and Liabilities

in EUR thousands	Note	Dec 31, 2019	Dec 31, 2018
Equity attributable to equity holders of the parent			
Subscribed capital		31,862	31,862
Capital reserve		210,323	210,323
Other reserves		9,850	2,517
Retained earnings		375,843	356,022
Equity attributable to shareholders		**627,878**	**600,724**
Non-controlling interests		1,576	1,717
Total equity	(24)	**629,454**	**602,441**
Liabilities			
Non-current liabilities			
Retirement benefit obligations	(26)	15,890	12,804
Provisions	(27)	5,984	7,260
Borrowings	(21)	495,927	455,759
Other non-financial liabilities	(28)	356	431
Contract liabilities	(8)	103	149
Lease liabilities		30,168	0
Other financial liabilities	(21)	1,630	1,992
Derivative financial liabilities	(21)	684	605
Deferred income tax liabilities	(17)	69,562	73,099
		620,304	**552,099**
Current liabilities			
Provisions	(27)	8,543	8,750
Borrowings	(21)	45,971	113,332
Other non-financial liabilities	(28)	36,665	26,984
Contract liabilities	(8)	420	453
Lease liabilities		8,427	0
Other financial liabilities	(21)	17,496	18,866
Derivative financial liabilities	(21)	229	153
Income tax liabilities		3,712	6,580
Trade and other payables	(21)	143,119	142,028
		264,582	**317,146**
Total liabilities		**884,886**	**869,245**
Total equity and liabilities		**1,514,340**	**1,471,686**

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows

T044

in EUR thousands	Note	2019	2018
Operating activities			
Profit for the period		**58,449**	**91,788**
Depreciation and amortization	(18, 19)	77,116	63,429
Gain (–)/loss (+) on disposal of property, plant and equipment		17	184
Change in provisions	(26, 27)	364	777
Change in deferred taxes	(17)	– 5,254	– 5,401
Change in inventories, trade account receivables and other receivables, which are not attributable to investing or financing activities	(21, 22, 23)	– 15,299	– 2,651
Change in trade and other payables, which are not attributable to investing or financing activities	(21, 28)	5,557	– 20,960
Change in reverse factoring liabilities		2,135	– 6,198
Payments for share-based payments		– 1,045	– 3,513
Interest expenses in the period		15,008	13,218
Income (–)/expenses (+) due to measurement of derivatives		73	436
Other non-cash expenses (+)/income (–)	(29)	– 38	– 266
Cash flow from operating activities		**137,083**	**130,843**
thereof interest received		1,007	484
thereof income taxes		– 32,879	– 33,072
Investing activities			
Payments for acquisitions of subsidiaries, net	(29)	0	– 69,797
Investments in property, plant and equipment and intangible assets	(18, 19)	– 57,784	– 60,842
Proceeds from the sale of property, plant and equipment		751	1,131
Cash flow from investing activities		**– 57,033**	**– 129,508**
Financing activities			
Payments for the acquisition of non-controlling interests		0	– 1,121
Interest paid		– 15,070	– 13,676
Dividends paid to shareholders	(24)	– 35,049	– 33,456
Dividends paid to non-controlling interests		– 43	– 134
Proceeds from borrowings	(21)	263,664	117,467
Repayment of borrowings	(21)	– 296,600	– 37,266
Proceeds from/ repayment of derivatives		– 83	– 409
Repayment of lease liabilities		– 10,058	– 123
Cash flow from financing activities	(29)	**– 93,239**	**31,282**
Net change in cash and cash equivalents		**– 13,189**	**32,617**
Cash and cash equivalents at the beginning of the year		190,392	155,323
Effect of foreign exchange rates on cash and cash equivalents		2,518	2,452
Cash and cash equivalents at the end of the period		**179,721**	**190,392**

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity T045

in EUR thousands	Note	Attributable to equity holders of the parent: Subscribed capital	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of December 31, 2017 (as reported)		**31,862**	**210,323**	**– 8,364**	**298,077**	**531,898**	**2,423**	**534,321**
Effects of IFRS 9					– 600	– 600	– 13	– 613
Balance as of January 1, 2018		**31,862**	**210,323**	**– 8,364**	**297,477**	**531,298**	**2,410**	**533,708**
Result for the period					91,873	91,873	– 85	91,788
Exchange differences on translation of foreign operations				10,200		10,200	– 132	10,068
Cash flow hedges, net of tax	(21)			681		681		681
Remeasurements of post-employment benefit obligations, net of tax	(24, 26)	0			– 214	– 214		– 214
Total comprehensive income for the period		**0**	**0**	**10,881**	**91,659**	**102,540**	**– 217**	**102,323**
Dividends paid	(24)				– 33,456	– 33,456		– 33,456
Dividends paid to non-controlling interests						0	– 134	– 134
Acquisition of non-controlling interests	(24)				342	342	– 342	0
Total transactions with owners for the period		**0**	**0**	**0**	**– 33,114**	**– 33,114**	**– 476**	**– 33,114**
Balance as of December 31, 2018 (as reported)		**31,862**	**210,323**	**2,517**	**356,022**	**600,724**	**1,717**	**602,441**
Effects of IFRS 16					– 2,033	– 2,033	– 2	– 2,035
Balance as of January 1, 2019		**31,862**	**210,323**	**2,517**	**353,989**	**598,691**	**1,715**	**600,406**
Changes in equity for the period								
Result for the period					58,422	58,422	27	58,449
Exchange differences on translation of foreign operations				9,016		9,016	– 123	8,893
Cash flow hedges, net of tax	(21)			– 1,683		– 1,683		– 1,683
Remeasurements of post-employment benefit obligations, net of tax	(24, 26)				– 1,519	– 1,519		– 1,519
Total comprehensive income for the period		**0**	**0**	**7,333**	**56,903**	**64,236**	**– 96**	**64,140**
Dividends paid	(24)				– 35,049	– 35,049		– 35,049
Dividends paid to non-controlling interests						0	– 43	– 43
Total transactions with owners for the period		**0**	**0**	**0**	**– 35,049**	**– 35,049**	**– 43**	**– 35,092**
Balance as of December 31, 2019		**31,862**	**210,323**	**9,850**	**375,843**	**627,878**	**1,576**	**629,454**

Notes to the Consolidated Financial Statements

General information

1. Group information

NORMA Group SE is the ultimate parent Company of NORMA Group. Its headquarters are located at 63477 Maintal, Edisonstrasse 4, in the vicinity of Frankfurt, Germany, and the Company is registered in the commercial register of Hanau under the number HRB 94473. NORMA Group SE and its affiliated Group subsidiaries operate in the market as 'NORMA Group'.

NORMA Group has been listed in the Prime Standard of Frankfurt Stock Exchange's Regulated Market since April 8, 2011. For a detailed overview of NORMA Group's shareholdings, please refer to the → APPENDIX TO THE NOTES: 'VOTING RIGHTS'.

NORMA Group SE was established in 2006 as a result of the merger of Rasmussen GmbH and the ABA Group. Rasmussen was founded in 1949 as Rasmussen GmbH in Germany. It manufactured connecting and retaining elements as well as fluid conveying conduits such as monolayer and multilayer tubes and corrugated tubes. All products were marketed globally under the NORMA brand. ABA Group was founded in 1896 in Sweden. The Group has since developed into a leading multinational company specializing in the design and production of hose and pipe clamps, as well as connectors for many worldwide applications.

In past decades, NORMA Group has, driven by its successful acquisitions and continuous technological innovation with products and operations, developed into a Group of companies of global importance.

NORMA Group markets its products to its customers via two different market channels: Engineered Joining Technology (EJT) and Distribution Services (DS).

For Engineered Joining Technology (EJT) customers, NORMA Group offers tailor-made solutions and special engineered joining systems. To effectively fulfill special requirements, NORMA Group builds on extensive industry and application knowledge, a successful track record of innovation and long-standing relationships with all its key customers.

For Distribution Services (DS) customers, NORMA Group offers a wide range of standard fastening and fixing products. Furthermore, NORMA Group offers a broad technological and innovative product portfolio which includes brands like ABA®, Breeze®, Clamp-All®, CONNECTORS®, FISH®, Five Star®, Gemi®, NDS®, NORMA®, Raindrip®, R.G.RAY®, Serflex®, TORCA and TRUSTLENE®.

2. Basis of preparation

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Consolidated Financial Statements of NORMA Group have been prepared in accordance with International Financial Reporting Standards and the relevant interpretations as adopted by the EU (IFRS) as well as with the regulations under commercial law as set forth in Section 315e of the German Commercial Code (HGB) for the year ended December 31, 2019.

The Consolidated Statement of Comprehensive Income has been prepared in accordance with the total cost method.

The Consolidated Financial Statements of NORMA Group SE were prepared by the Management Board on March 23, 2020, and are scheduled to be released for publication after approval by the Supervisory Board on March 24, 2020.

The Consolidated Financial Statements of NORMA Group are being filed with and published in the German Federal Gazette (*Bundesanzeiger*).

The preparation of financial statements in conformity with IFRS requires the Management Board the use of certain accounting estimates. It is also required to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in → NOTE 6 'CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS'.

Accounting standards applied for the first time in the current fiscal year

IFRS 16

Due to the first-time adoption of IFRS 16 since January 1, 2019, the Group's Consolidated Financial Statements have been affected by changes in accounting policies in the following areas. NORMA Group applied the modified retrospective method for the first time adoption as of January 1, 2019, for accounting purposes as lessee, i.e. the cumulative adjustment effects at the time of first-time application have been recognized as a charge to equity against retained earnings and the comparative figures for the previous year's periods have not been adjusted. For previous operating leases that do not end in 2019, the Group recognizes a lease liability at the present value of the future lease payments (taking into account any extension options) as of January 1, 2019. The weighted avarage interest rate applied in the NORMA Group was 3.08%.

The corresponding rights of use are calculated as if IFRS 16 had been applied since the beginning of the lease. Both, the rights of use and the future lease payments are mainly discounted using the lessee's marginal borrowing rate at the date of initial application.

Applied simplifications
The Group made use of the following simplifications when IFRS 16 was applied for the first time:

- Assumption of the previous assessment of whether a lease is encumbered.
- The recognition of leases with a remaining term of less than 12 months as of January 1, 2019 as current leases.
- The non-inclusion of initial direct costs in the measurement of rights of use on the date of initial application.
- Subsequent consideration of the current state of knowledge when determining the term of leases for contracts with renewal or termination options.

The Group has elected not to change the original carrying amounts of assets and liabilities under finance leases existing on the date of first-time adoption of IFRS 16.

The effects of the first time adoption of IFRS 16 on retained earnings are as follows:

Retained earnings reconciliation: IFRS 16 T046

in EUR thousands	Retained earnings
Retained earnings as of December 31, 2018	**356,022**
Effects of IFRS 16	**– 2,033**
of which deferred taxes	614
Retained earnings as of January 1, 2019	**353,989**

For the majority of leases, the Group as lessee recognizes a right of use asset under IFRS 16 and a corresponding lease liability. The lease liability must be compounded in the subsequent valuation and the right of use must be depreciated. Besides the resulting balance sheet extension, under IFRS 16, there is a reclassification within the Statement of Comprehensive Income of the leasing installments previously recognized as operating expenses to depreciation and interest expense and thus an increase in EBITDA (by the full reclassification effect) as well as EBITA and EBIT (by the reclassification effect attributable to interest). In the Statement of Cash Flows, the cash flows from operating activities attributable to the payments for capitalized leases have been reclassified from cash flow from operating activities to cash flow from financing activities.

The effects of the first-time application of IFRS 16 on the Consolidated Statement of Financial Positions as of January 1, 2019, and the effects on the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows for the period from January 1 to December 31, 2019 are presented in the following:

Reconciliation Consolidated Statement of Financial Position IFRS 16

T047

in EUR thousands	Dec 31, 2018 as originally presented	IFRS 16	Jan 1, 2019 restated
Non-current assets			
Property, plant and equipment	243,326	31,980	275,306
Deferred income tax assets	6,571	620	7,191
Other non-current assets	678,361		678,361
	928,258	**32,600**	**960,858**
Current assets			
Other current assets	543,428		543,428
	543,428	**0**	**543,428**
Total assets	**1,471,686**	**32,600**	**1,504,286**
Equity			
Retained earnings	356,022	– 2,033	353,989
Other equity	246,419	– 2	246,417
	602,441	**– 2,035**	**600,406**
Liabilities			
Non-current liabilities			
Lease liabilities	0	26,180	26,180
Other financial liabilities	1,992	– 16	1,976
Deferred income tax liabilities	73,099	6	73,105
Other non-current liabilities	477,008		477,008
	552,099	**26,170**	**578,269**
Current liabilities			
Lease liabilities	0	8,481	8,481
Other financial liabilities	18,866	– 16	18,850
Other current liabilities	298,280		298,280
	317,146	**8,465**	**325,611**
Total liabilities	**869,245**	**34,635**	**903,880**
Total equity and liabilities	**1,471,686**	**32,600**	**1,504,286**

The difference between the nominal values of the payments expected as of December 31, 2018; for operating leases in the amount of EUR 21,905 thousand and the lease liabilities of EUR 34,661 thousand recorded in the opening balance sheet is mainly due to the reassessment of the lease terms in accordance with the requirements of IFRS 16. Sufficiently secure extension or termination options were taken into account when determining the lease payments to be recognized as liabilities and resulted in net in a higher value to be recognized. The non-inclusion of lease payments for certain low-value and short-term leases and the discounting of the lease liability in accordance with IFRS 16 had the opposite effect.

The Right of use relate to the following types of assets:

Carrying amounts rights of use

T048

	Carrying amounts	
in EUR thousands	Dec 31, 2019	Jan 1, 2019
Land and buildings	36,834	27,778
Machinery and tools	247	182
Forklifts and warehouse	1,429	1,691
Office and IT equipment	233	291
Company cars	2,170	2,038
Total	**40,913**	**31,980**

Reconciliation for Consolidated Statement of Comprehensive Income IFRS 16

T049

in EUR thousands	2019	Effects of IFRS 16	2019 without IFRS 16
Revenue	1,100,096		1,100,096
Changes in inventories of finished goods and work in progress	3,045		3,045
Other own work capitalized	4,910		4,910
Raw materials and consumables used	– 477,628		– 477,628
Gross profit	**630,423**		**630,423**
Other operating income	13,630	76	13,554
Other operating expenses	– 157,879	11,296	– 169,175
Employee benefits expense	– 312,376		– 312,376
Depreciation and amortization	– 77,116	– 10,341	– 66,775
Operating profit	**96,682**	**1,031**	**95,651**
Financial income	1,460		1,460
Financial costs	– 16,950	– 1,256	– 15,694
Financial costs – net	**– 15,490**	**– 1,256**	**– 14,234**
Profit before income tax	**81,192**	**– 225**	**81,417**
Income taxes	– 22,743	68	– 22,811
Profit for the Period	**58,449**	**– 157**	**58,606**
Other comprehensive income for the period, net of tax			
Other comprehensive income that can be reclassified to profit or loss, net of tax	**7,210**		**7,210**
Exchange differences on translation of foreign operations	8,893		8,893
Cash flow hedges, net of tax	– 1,683		– 1,683
Other comprehensive income that cannot be reclassified to profit or loss net of tax	**– 1,519**		**– 1,519**
Remeasurements of post-employment benefit obligations net of tax	– 1,519		– 1,519
Other comprehensive income for the period, net of tax	**5,691**		**5,691**
Total Comprehensive Income for the Period	**64,140**	**– 157**	**64,297**
Profit attributable to			
Shareholders of the parent	58,422	– 157	58,579
Non-controlling interests	27		27
	58,449	**– 157**	**58,606**
Total comprehensive income attributable to			
Shareholders of the parent	64,236	– 157	64,393
Non-controlling interests	– 96		– 96
	64,140	**– 157**	**64,297**
(Un)diluted earnings per share (in EUR)	**1.83**	**– 0.0**	**1.83**

In contrast to the previous approach, according to which expenses for operating leases were shown in full in operating profit, under IFRS 16, for capitalized leases, only the amortization of rights of use is allocated to operating profit. Interest expenses from the compounding of lease liabilities are shown in the financial result. Compared to the previous method, this relieves the operating profit by EUR 1,031 thousand in 2019.

Reconciliation Consolidated Statement of Cash Flows IFRS 16

T050

in EUR thousands	2019	Effects of IFRS 16	2019 without IFRS 16
Operating activities			
Profit for the period	**58,449**	**– 157**	**58,606**
Depreciation and amortization	77,116	10,341	66,775
Gain (–) / loss (+) on disposal of property, plant and equipment	17		17
Change in provisions	364		364
Change in deferred taxes	– 5,254	– 68	– 5,186
Change in inventories, trade account receivables and other receivables, which are not attributable to investing or financing activities	– 15,299		– 15,299
Change in trade and other payables, which are not attributable to investing or financing activities	5,557		5,557
Change in reverse factoring liabilities	2,135		2,135
Payments for share-based payments	– 1,045		– 1,045
Interest expenses in the period	15,008	1,260	13,748
Income (–) / expenses (+) due to measurement of derivatives	73		73
Other non-cash expenses (+) / income (–)	– 38	– 58	20
Cash flows from operating activities	**137,083**	**11,318**	**125,765**
thereof interest received	1,007		1,007
thereof income taxes	– 32,879		– 32,879
Investing activities			
Investments in property, plant and equipment and intangible assets	– 57,784		– 57,784
Proceeds from the sale of property, plant and equipment	751		751
Cash flows from investing activities	**– 57,033**	**0**	**– 57,033**
Financing activities			
Interest paid	– 15,070	– 1,260	– 13,810
Dividends paid to shareholders	– 35,049		– 35,049
Dividends paid to non-controlling interests	– 43		– 43
Proceeds from borrowings	263,664		263,664
Repayment of borrowings	– 296,600		– 296,600
Proceeds from / repayment of derivatives	– 83		– 83
Repayment of lease liabilities	– 10,058	– 10,058	0
Cash flows from financing activities	**– 93,239**	**– 11,318**	**– 81,921**
Net change in cash and cash equivalents	**– 13,189**	**0**	**– 13,189**
Cash and cash equivalents at the beginning of the year	190,392		190,392
Effect of foreign exchange rates on cash and cash equivalents	2,518		2,518
Cash and cash equivalents at the end of the period	**179,721**	**0**	**179,721**

Due to the changed recognition of lease expenses from operating leases in the Statement of Cash Flows, the cash inflow from operating activities improved by EUR 11,318 thousand in 2019. The cash outflow from financing activities decreased accordingly.

The effects on the key performance indicators of NORMA Group can be seen in the → MANAGEMENT GROUP REPORT P. 65.

IFRIC 23: uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. In assessing the uncertainty, an entity shall consider whether it is probable that a taxation authority will accept the uncertain tax treatment.

Amendments to IAS 19: plan amendment, curtailment or settlement

On February 7, 2018, the IASB issued amendments to IAS 19 – plan amendment, curtailment or settlement. The amendments to IAS 19 Employee Benefits now explicitly state that after an amendment, curtailment or settlement of a pension plan during the year, the current service cost and the net interest for the remaining period must be recalculated. The actuarial assumptions valid at the time of the planned event must be used for this recalculation.

Annual improvement project 2015 – 2017

In December 2017, the IASB conducted the cycle as part of the Annual Improvement Project 2015 – 2017, which provides various amendments to existing standards. The cycle: 2015 – 2017 contains clarifications for three standards, IFRS 3 and IFRS 11, IAS 12 and IAS 23. The amendments and IAS are effective for annual periods beginning on or after January 1, 2019.

Standards, amendments and interpretations of existing standards that are not yet effective and have not been adopted earlier by the group

The following standards and amendments to existing standards have been published and application is mandatory for all accounting periods beginning on or after January 1, 2019. The Group has decided against early adoption.

1) Standards, amendments and interpretations to existing standards that have not been endorsed by the EU:

Amendments to IFRS 3: definition of a business

On October 22, 2018, the IASB issued amendments to the guidance in IFRS 3, ‘Business Combinations’ that revises the definition of a business.

With this amendment, the IASB clarifies that a business comprises a group of activities and assets that include at least one resource, input, and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, in terms of outputs, now the focus is on goods and services provided to customers; the reference to cost reductions is omitted. The new regulations also include an optional ‘concentration test,’ which should enable a simplified identification of a business operation.

These amendments shall be applied for acquisitions occurring during annual periods beginning on or after January 1, 2020, while earlier application is permitted. However, first-time adoption within the EU prior to endorsement is not permitted.

The IASB has published a number of other pronouncements. These recently translated accounting pronouncements as well as the pronouncements which have not yet been implemented have no material effect on the Consolidated Financial Statements of NORMA Group.

3. Summary of significant accounting principles

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

The Group uses the acquisition method of accounting to account for business combinations. The initial value for the acquisition of a subsidiary is recognized at fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The initial value recognized includes the fair value of any asset or liability resulting from a contingent consideration arrangement. On the acquisition date, the fair value of the contingent consideration is recognized as part of the consideration transferred in exchange for the acquiree. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the acquisition date. According to IFRS 3, for each business combination, the acquirer shall measure any non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's net assets. The Group measures the non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized immediately in the Consolidated Statement of Comprehensive Income.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

Intercompany transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Non-controlling interests

Non-controlling interests have a share in the earnings of the reporting period. Their interests in the shareholders' equity of subsidiaries are reported separately from the equity of the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the subsidiary is remeasured at its fair value, with the change in the carrying amount recognized in profit or loss. The initial carrying amount is the fair value for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Valuation methods

The following table shows the most important valuation methods:

Valuation methods T051

Position	Valuation method
Assets	
Goodwill	Acquisition costs less potential impairment
Other intangible assets (except goodwill) – finite useful lives	Amortized costs
Other intangible assets (except goodwill) – indefinite useful lives	Acquisition costs less potential impairment
Property, plant and equipment	Amortized costs
Derivative financial assets:	
Classified as cash flow hedge	At fair value in other comprehensive income
Classified as fair value hedge	At fair value through profit or loss
Without hedge accounting	At fair value through profit or loss
Inventories	Lower of cost or net realizable value
Other non-financial assets	Amortized costs
Other financial assets	Amortized costs
Trade and other receivables	Amortized costs
Trade receivables, available for sale	At fair value through profit or loss
Contract assets	Percentage of completion method less potential impairment
Cash and cash equivalents	Nominal amount
Liabilities	
Pensions	Projected unit credit method
Other provisions	Present value of future settlement amount
Borrowings	Amortized costs
Other non-financial liabilities	Amortized costs
Lease liabilities	Valuatiion based on IFRS 16.36
Other financial liabilities:	
Financial liabilities at cost (FLAC)	Amortized costs
Derivative financial liabilities:	
Classified as cash flow hedge	At fair value in other comprehensive income
Classified as fair value hedge	At fair value through profit or loss
Without hedge accounting	At fair value through profit or loss
Contingent consideration	At fair value through profit or loss
Trade and other payables	Amortized costs

Fair value estimation

IFRS 7 requires for financial instruments that are measured in the Statement of Financial Position at fair value in accordance with IFRS 13 a disclosure of fair value measurements by level using the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is derived from prices), and

Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in total is determined on the basis of the lowest level input that is significant to the fair value measurement in total. The different hierarchy levels demand different amounts of disclosure.

On December 31, 2019, and 2018, the Group's derivative financial instruments carried in the Statement of Financial Position at fair value (e. g. derivatives used for hedging) are categorized in total within Level 2 of the fair value hierarchy. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using a present value model based on forward exchange rates.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are prepared in 'euros' (EUR), which is NORMA Group SE's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the actual exchange rates on the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'financial income / costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income / expenses'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Consolidated Statement of Financial Position presented are translated at the closing rate on the date of that Consolidated Statement of Financial Position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity.

Goodwill and fair value adjustments arising through the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates of the currencies affecting foreign currency translation are as follows:

Exchange rates T052

	Spot rate		Average rate	
per EUR	Dec 31, 2019	Dec 31, 2018	2019	2018
Australian dollar	1.5995	1.6220	1.6103	1.5803
Brazilian real	4.5157	4.4440	4.4147	4.3071
Chinese renminbi yuan	7.8205	7.8751	7.7329	7.8065
Swiss franc	1.0854	1.1269	1.1126	1.1550
Czech koruna	25.4080	25.7240	25.6680	25.6468
British pound sterling	0.8508	0.8945	0.8774	0.8847
Indian rupee	80.1870	79.7298	78.8145	80.6760
Japanese yen	121.9400	125.8500	122.0522	130.3588
South Korean won	1,296.2800	1,277.9300	1,304.6216	1,298.7919
Malaysian ringgit	4.5953	4.7317	4.6370	4.7630
Mexican peso	21.2202	22.4921	21.5534	22.7001
Polish złoty	4.2568	4.3014	4.2968	4.2612
Serbian dinar	117.5700	118.2690	117.8292	118.2359
Russian ruble	69.9563	79.7153	72.4412	74.0428
Swedish krona	10.4468	10.2548	10.5853	10.2611
Singapore dollar	1.5111	1.5591	1.5271	1.5924
Thai baht	33.4150	37.0520	34.7642	38.1559
Turkish lira	6.6843	6.0588	6.3606	5.6960
US dollar	1.1234	1.1450	1.1195	1.1810

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary on the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Development costs

Costs of research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are expensed as incurred.

Costs for development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalized if development costs can be measured reliably, the product or process is technically and commercially feasible and future economic benefits are probable.

Furthermore, NORMA Group intends, and has sufficient resources, to complete development and use or sell the asset. The costs capitalized include the cost of materials, direct labor and other directly attributable expenditure that serves to prepare the asset for use. Such capitalized costs are included in profit or loss in line 'own work capitalized'. Capitalized development costs are stated at cost less accumulated amortization and impairment losses with an amortization period of generally three to five years. Development costs which did not meet the requirements are expensed as incurred.

(c) Other intangible assets

Separately acquired other intangible assets are shown at historical cost less accumulated amortization. Intangible assets acquired in a business combination are recognized at fair value on the acquisition date. Other intangible assets which have a finite useful life will be amortized over their estimated useful life. Amortization is calculated using the straight-line method to allocate their cost. Other intangible assets which are determined to have indefinite useful lives as well as intangible assets not yet available for use are not amortized, but instead tested for impairment at least annually. Furthermore, other intangible assets which are determined to have indefinite useful lives and therefore are not amortized, will be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for these assets.

In general, the Group's other intangibles are not qualifying assets in accordance with IAS 23 and borrowing costs eligible for capitalization therefore do not exist.

The useful lives of other intangible assets acquired in a business combination are estimates based on the economics of each specific asset which were determined in the process of the purchase price allocation. The major part of these assets are brand names and customer lists.

The estimated useful lives for other intangible assets are as follows:

- Patents: 5 to 10 years
- Customer lists: 4 to 20 years
- Technology: 10 to 20 years
- Licenses, rights: 3 to 5 years
- Trademarks: indefinite or 20 years
- Software: 3 to 5 years
- Development costs: 3 to 5 years

Other intangible assets with indefinite useful lives are essentially brand names, for which the end of usability is not foreseeable and therefore indeterminable. These brand names result from acquisitions. For these brand names, an indefinite useful life is assumed. Based on a market perspective, there are no clear indications for a definite useful life of these brand names as they have been well-established in the market for many years.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment loss, if substantial. Historical cost includes expenditure that is directly attributable to the acquisition of the items and, if any, the present value of estimated costs for dismantling and removing the assets, restoring the site on which it is allocated. Borrowing costs eligible for capitalization in the sense of IAS 23 were not available.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is foreseeable 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 expenses are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, on each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income / expenses'.

The estimated useful lives for property, plant and equipment (excluding rights of use under IFRS 16) are as follows:

- Buildings: 8 to 40 years
- Machinery and technical equipment: 3 to 18 years
- Tools: 3 to 10 years
- Other equipment: 2 to 20 years

Leasing activities of the Group and their accounting treatment (from January 1, 2019)

NORMA Group has significant leases for the rental of land and buildings. In addition, the Group maintains leases for various company cars and technical equipment under non-cancellable lease agreements. Besides the usual extension options, the leases include, to a minor extent, purchase and termination options that are not taken into account. The lease terms per asset class are as follows:

- Right of use assets – land and buildings: 1 month to 78 years
- Right of use assets - machinery and tools : 3 to 6 years
- Right of use assets – forklifts and warehouse: > 1 to 7 years
- Right of use assets – office and IT equipment: > 1 to 6 years
- Right of use assets – company cars: > 1 to 9 years

The Group's leases generally do not contain credit terms, however, leased assets may not be used as collateral for borrowings.

As of January 1, 2019, leases are recognized as rights of use and corresponding lease liabilities at the time when the leased asset is available for use by the Group. Each lease payment is divided into repayment and financing expenses. Finance expenses are charged to the income statement over the lease term. The right of use asset is amortized on a straight-line basis over the shorter of the useful life and the lease term.

Right of use asset and lease liabilities are initially recognized at present value. The lease liabilities generally include the present value of the following lease payments:

- fixed payments (including de facto fixed payments, less any leasing incentives to be received)
- variable lease payments linked to an index or interest rate
- expected residual value payments from residual value guarantees of the lessee
- the exercise price of a purchase option, if it is sufficiently certain that the lessee will exercise it
- penalties for terminating the lease, if the lease term takes into account that the lessee will exercise a termination option

Lease payments are discounted at the interest rate underlying the lease if this can be determined. Otherwise, they are discounted at the lessee's incremental borrowing rate. Rights of use assets are measured at cost, which is comprised as follows:

- amount of the initial measurement of the lease liability
- all leasing payments made at or before the commencement date, less any lease incentives received
- all initial direct costs incurred by the lessee, and
- the estimated costs incurred by the lessee in dismantling or removing the underlying asset, restoring the site on which it is located, or returning the underlying asset to the condition required by the lease agreement.

Exceptions in the form of accounting options exist for short-term leases (minimum term of a maximum of twelve months if no purchase option has been agreed) and for low-value assets. The lease payments resulting from these leases are therefore to continue to be included in operating expenses in the future. NORMA Group has made use of these simplified application options as a lessee, with the exception of leased assets that are allocated to the asset class 'Right of use assets – land and buildings'. Furthermore, lessees are granted an accounting option not to separate leasing and non-leasing components, which NORMA Group has made use of, except for the asset classes 'Right of use assets – land and buildings' and 'Right of use assets – company cars'.

i. Extension and termination options

Some of NORMA Group's real estate leases contain extension options. Termination options are included to a very limited extent in the area of real estate leasing. Such contractual terms and conditions are used to provide the Group with operational flexibility with respect to the contract portfolio. The majority of the current extension and termination options can only be exercised by the Group and not by the respective lessor.

In determining the term of leases, all facts and circumstances that provide an economic incentive to exercise extension options or not to exercise termination options are taken into account. Changes to the term of the lease resulting from the exercise of extension and termination options are only included in the term of the lease if an extension or non-exercise of a termination option is reasonably certain.

The following considerations are taken into account when determining the term of the leases or the inclusion or non-inclusion of extension and termination options:

Contract-related

- existence of renewal or purchase options and their conditions,
- an obligation to dismantle installations or restore them to their original condition,
- amount of lease payments (including all variable payments) for an optional period compared to customary market payments.

Asset-based / Company-based

- the existence of significant leasehold improvements that would be lost in the event of (premature) termination or non-extension of the contract,
- costs in connection with a loss of production upon termination of the lease,
- costs associated with the acquisition of an alternative asset,
- dependence of the business activity (core business) on the continued use of the asset,
- financial consequences of the extension or termination of the lease,
- nature of the leased asset (specific vs. generic / general leased asset; extent to which the leased asset is critical to the lessee's operations).

Market-related

- legal and local regulations to be observed for the (permanent) obligation,
- alternative lease payments for comparable assets.

The assessment will be reviewed if a significant event or significant change in circumstances occurs that could influence the previous assessment, provided this is within the lessee's control.

As of December 31, 2019, potential additional cash outflows from extension options in the amount of EUR 1,516 thousand and potential reduced cash outflows from termination options in the amount of EUR 626 thousand were not recognized in the lease liability as it is not reasonably certain that the leases will be renewed or terminated prematurely.

Adjustments to the lease liabilities / right of use assets due to changes in estimates of the term or amount of the expected lease payments (index-based payments) amount to EUR 15 thousand (an increase).

Leases and their accounting treatment (until December 31, 2018)

Leases in which substantially all the risks and rewards incidental to ownership remain with the lessor are classified as operating leases. Payments made under operating leases (less incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term. Leases where the Group bears substantially all the risks and rewards incidental to ownership are classified as finance leases. A finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Each lease payment is divided into an interest and a repayment portion so that the lease liability carries a constant interest rate. The net lease liability is reported under liabilities in accordance with its term. The interest portion of the lease payment is recognized in profit or loss. Property, plant and equipment held under a finance lease is depreciated over the shorter of the following two periods: the economic life of the asset or the lease term.

The Group has both operating leases and finance leases, which mainly relate to property, plant and equipment.

Impairment of non-financial assets

(a) Assets with finite useful lives

An impairment test must be carried out for assets with a determinable useful life if there are indications of a possible impairment. If there are any such indications, the amortized carrying amount of the asset is compared with the recoverable amount, which represents the higher of fair value less costs to sell and value in use. The value in use is equivalent to the present value of the future cash flows expected from the continuing use of the asset. In the event of impairment, the difference between the amortized carrying amount and the lower recoverable amount is recognized as an expense. The impairment loss is reversed as soon as there are indications that the reasons for impairment no longer exist. These may not exceed the amortized cost of acquisition.

(b) Goodwill and other assets with an indefinite useful life

Moreover, other intangible assets with an indefinite useful life, other intangible assets not yet ready for use or advance payments on such assets as well as goodwill must be tested for impairment annually. A test is also performed whenever there is any indication that an asset might be impaired. Where the reasons for an impairment no longer exist, the impairment loss is reversed, except in the case of goodwill.

The recoverable amount is determined for each individual asset, unless an asset generates cash inflows that are not largely independent of those from other assets or other groups of assets or cash-generating units. In these cases, the impairment test is performed at the relevant level of cash-generating units to which the asset is attributable.

Goodwill acquired in a business combination is allocated at the acquisition date to the cash-generating unit or group of cash-generating units that are expected to profit from the synergies deriving from the business combination. This also represents the lowest level at which goodwill is monitored for internal management purposes. These are the operating and reportable segments EMEA, Americas and Asia-Pacific.

There is currently no goodwill in the Group that can be directly allocated to an individual entity because this reflects the enterprise value of the acquired entity regardless of the transaction.

The Company normally determines the recoverable amount using measurement methods based on discounted cash flows.

Brand names with indefinite useful lives acquired in business combinations are tested for impairment at the level at which a recoverable amount, which is based on the fair value less costs to sell, can be determined.

For cash-generating units, NORMA Group first determines the relevant recoverable amount as fair value less costs to sell, which it compares with the respective carrying amounts, including allocated goodwill in the case of impairment tests on goodwill. For further details regarding the determination of the fair value less costs to sell and the underlying assumptions, we refer to. → NOTE 18. 'GOODWILL AND OTHER INTANGIBLE ASSETS'.

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated variable selling costs. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Inventories of the Group are not qualifying assets in accordance with IAS 23, so that the acquisition or production costs do not include capitalized borrowing costs.

Financial instruments

(a) Financial assets

Classification

From January 1, 2018, on, the Group classifies its financial assets in the following measurement categories:

- Debt instruments measured at amortized cost (AC);
- Debt instruments measured at fair value through equity (FVOCI), with cumulative gains and losses reclassified to the income statement when the financial asset is derecognized;
- Debt, derivative and equity instruments at fair value through profit or loss (FVTPL);
- Equity instruments classified as FVOCI, with gains and losses remaining in other comprehensive income (OCI) (without reclassification).

The classification depends on the business model according to which NORMA Group manages its financial assets and the characteristics of the contractual cash flows of these financial assets.

NORMA Group reclassifies debt instruments only when the business model for managing such financial assets changes.

Recognition and derecognition

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows have expired or been transferred and the Group has transferred substantially all risks and rewards of ownership.

Measurement
Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Debt instruments
The subsequent measurement of debt instruments depends on the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset in order to collect the contractual cash flows and the contractual cash flows from the financial asset represent only principal and interest payments and the fair value option is not exercised at inception. Interest income from these financial assets is reported under financial income using the effective interest method. Gains and losses from derecognition, impairment and currency translation are recognized directly in the Consolidated Statement of Comprehensive Income and reported in other operating income / expenses.

A debt instrument that is held in a business model in which both the contractual cash flows of financial assets are received and financial assets are sold, and in which the contractual cash flows include only principal and interest payments, is measured at fair value with no effect on income, unless the fair value option is exercised upon initial recognition. Changes in the carrying amount are recognized in other comprehensive income, except for impairment gains or losses, interest income and gains and losses on currency translation, which are recognized directly in the Consolidated Statement of Comprehensive Income. When the financial asset is derecognized, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity to the Consolidated Statement of Comprehensive Income. Interest income from these financial assets is recognized in financial income using the effective interest method. Gains and losses from currency translation are recognized directly in the Consolidated Statement of Comprehensive Income and reported in other operating income / expenses.

The impairment losses recognized in the Consolidated Statement of Comprehensive Income are disclosed separately in the section “Notes to the Statement of Comprehensive Income.”

All other debt instruments that do not meet these two conditions must be measured at fair value through profit or loss (FVTPL).

Equity instruments
All equity instruments are subsequently measured at fair value. If an equity instrument is not held for trading purposes, NORMA Group may, at the time of initial recognition, make the irrevocable decision to measure it at fair value with recognition of changes in value in other comprehensive income (FVTOCI), whereby only income from dividends is recognized in profit or loss for the period unless it represents a capital repayment.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the Consolidated Statement of Comprehensive Income under other operating income / expenses.

Impairments
Since January 1, 2018, NORMA Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments, which are measured at amortized cost or at fair value with no effect on income.

The Group has three types of financial assets subject to this new model:

- Trade receivables from the sale of goods and the rendering of services,
- Contract assets from research and development activities; and
- Other debt instruments measured at amortized cost

In the case of trade receivables, NORMA Group applies the simplified approach provided for in IFRS 9, which requires the recognition of expected credit losses over the term of the receivables from their initial recognition; further details can be found in → NOTE 21. (A) 'TRADE AND OTHER RECEIVABLES'.

Receivables which are significantly overdue, which can be more than 180 days due to the customer structure , or those whose debtors were subject to insolvency or similar proceedings, are individually tested for impairment.

The criteria that the Group uses to determine if there is objective evidence of an impairment loss include:

- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For cash and cash equivalents, receivables from the ABS program and factoring (both from purchase price retentions), and other receivables, mainly from banker's acceptance bills for trade receivables, NORMA Group applies the general impairment approach. As it is our policy to only invest in high-quality assets of issuers with a minimum rating of at least investment grade so as to minimize the risk of credit losses, we use the low credit risk exception. Thus, these assets are always allocated to stage 1 of the three-stage credit loss model and, if material, a loss allowance for an amount equal to 12-month expected credit losses will be recorded. This loss allowance is calculated based on our exposure as of the respective reporting date, the loss given default for this exposure, and the credit default swap spread as a measure of the probability of default. To ensure that during their lifetime, our investments always fulfill the requirement of being investment-grade, we monitor changes in credit risk by tracking published external credit ratings.

(b) Financial liabilities

Financial liabilities primarily include trade payables, liabilities to banks, derivative financial liabilities and other liabilities.

Financial liabilities that are measured at amortized cost
After initial recognition, financial liabilities are carried at amortized cost using the effective interest method. Trade payables, liabilities to banks and other financial liabilities, in particular, are classified to this category.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include derivative financial instruments and contingent purchase price liabilities. Gains or losses on financial liabilities that are measured at fair value through profit or loss are included in profit or loss.

(c) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivative financial instruments not designated as hedges
Gains and losses from derivatives that are not designated as hedges (trading derivatives) are recognized in profit or loss. Trading derivatives are classified as non-current assets or liabilities in accordance with IAS 1.68 and IAS 1.71 if they have a remaining term of more than one year; otherwise they are classified as current.

Derivative financial instruments designated as hedges
Derivatives included in hedge accounting are generally designated as either:

- Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge);
- Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

At the inception of the transaction, NORMA Group documents the relationship between the hedging instruments and the hedged item, including whether changes in the cash flows of the hedging instruments offset changes in the cash flows of the hedged item. The Group documents the risk management objectives and strategies for undertaking the hedging transaction.

Further information on the instruments used by the Group and the hedging can be found in → NOTE 5 'FINANCIAL RISK MANAGEMENT' and → 21. (F) 'DERIVATIVE FINANCIAL INSTRUMENTS'.

The development of the hedging reserve in equity can be found in → NOTE 21. (F) 'DERIVATIVE FINANCIAL INSTRUMENTS'.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. At NORMA Group, arrangements exist which do not meet the criteria for netting in the Consolidated Statement of Financial Position according to IAS 32.42, as they allow netting only in the case of future events such as default or insolvency on the part of the Group or the counterparty.

The following tables present the recognized financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as of December 31, 2019, and 2018:

Offsetting financial instruments T053

in EUR thousands	Gross amounts of financial assets / financial liabilities	Gross amounts of financial assets / financial liabilities offset in the statement of financial position	**Net amounts recognized in the statement of financial position**	Amounts that are not offset in the statement of financial position: Financial instruments	Net amount
Dec 31, 2019					
Financial assets					
Derivative financial instruments (b)	450	0	450	100	350
Trade and other receivables (a)	162,888	502	162,386	0	162,386
Other financial assets	4,792	0	4,792	0	4,792
Cash and cash equivalents	179,721	0	179,721	0	179,721
Total	**347,851**	**502**	**347,349**	**100**	**347,249**
Financial liabilities					
Borrowings	541,898	0	541,898	0	541,898
Derivative financial instruments (b)	913	0	913	100	813
Trade and other payables (a)	143,621	502	143,119	0	143,119
Other financial liabilities	19,126	0	19,126	0	19,126
Total	**705,558**	**502**	**705,056**	**100**	**704,956**
Dec 31, 2018					
Financial assets					
Derivative financial instruments (b)	2,764	0	2,764	335	2,429
Trade and other receivables (a)	143,604	466	143,138	0	143,138
Other financial assets	5,231	0	5,231	0	5,231
Cash and cash equivalents	190,392	0	190,392	0	190,392
Total	**341,991**	**466**	**341,525**	**335**	**341,190**
Financial liabilities					
Borrowings	569,091	0	569,091	0	569,091
Derivative financial instruments (b)	758	0	758	335	423
Trade and other payables (a)	142,494	466	142,028	0	142,028
Other financial liabilities	20,858	0	20,858	0	20,858
Total	**733,201**	**466**	**732,735**	**335**	**732,400**

(a) Offsetting arrangements

NORMA Group gives volume-based rebates to selected customers. Under the terms of the supply agreements, the amounts payable by NORMA Group are offset against receivables from the customers and only the net amounts are settled. The relevant amounts have therefore been presented net in the balance sheet.

(b) Master netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement and other corresponding national master agreements, such as the corresponding German Framework Agreement. These arrangements do not meet the offsetting criteria because they allow netting only in the case of future events such as default or insolvency on the part of the Group or the counterparty. The table above shows the impact on the Group's balance sheet if all set-off rights were exercised.

Current and deferred income tax

The tax expenses for the period are comprised of current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted on the balance sheet date in the countries where the Group's subsidiaries operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements and on tax losses carried forward and not yet used tax credits. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

A surplus of deferred income tax assets is recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

For taxable temporary differences arising on investments in subsidiaries and associates, deferred tax liabilities are recognized, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Employee benefits

(a) Pension obligations

Group companies operate different pension schemes. NORMA Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. The major defined benefit plan is the German benefit plan which defines the amount of pension benefit that an employee will receive on retirement to depend on years of service and compensation.

The liability recognized in the Consolidated Statement of Financial Position with respect to defined benefit pension plans is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions, as well as returns on plan assets, which are not included within the net interest on the defined benefit liability, are recognized within retained earnings in other comprehensive income (OCI).

Past service costs are recognized fully in the period of the related plan amendment.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefits expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits as a liability and expense on the earlier date of: (a) when the entity can no longer withdraw the offer of those benefits; or (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(c) Short-term employee benefits

Employee benefits with short-term payment dates include wages and salaries, social security contributions, vacation pay and sickness benefits and are recognized as liabilities at the repayment amount as soon as the associated job has been performed.

(d) Provisions for other long-term employee benefits

Provisions for obligations similar to pensions (such as anniversary allowances and death benefits) are comprised of the present value of future payment obligations to the employee less any associated assets measured at fair value. The amount of provisions is determined on the basis of actuarial opinions in line with IAS 19. Gains and losses from the remeasurement are recognized in profit or loss in the period in which they are incurred.

Share-based payment

Share-based payment plans issued at NORMA Group are accounted for in accordance with IFRS 2 'Share-based Payment'. In accordance with IFRS 2, NORMA Group in principle distinguishes between equity-settled and cash-settled plans. The financial interest from equity-settled plans granted on the grant date is generally allocated over the expected vesting period against equity until the exit event occurs. Expenses from cash-settled plans are generally also allocated over the expected vesting period until the exit event occurs, but against accruals. A description of the plans existing within NORMA Group can be found in → NOTE 25 'SHARE-BASED PAYMENTS'.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation to third parties as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation taking into account all identifiable risks. Provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to passage of time is recognized as interest expense.

In addition to the expected amount of cash outflows, uncertainties also exist regarding the time of outflows. If it is expected that the outflows will take place within one year, the relevant amounts are reported in the short-term provisions.

When the Group expects a refund for a provision, this refund is recognized in accordance with IAS 37.53 as a separate asset. If the refund is in a close economic relationship with the recognized provision, the expenses from the provision are netted with the income from the corresponding refund in profit or loss.

Income from the release of non-utilized provisions from prior years is recorded within other operating income.

Revenues from contracts with customers (revenue recognition)

NORMA Group recognizes revenue, when or as control over distinct goods or services is transferred to the customer; i. e. when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits, provided a contract with enforceable rights and obligations exists and amongst others collectability of consideration is probable taking into account our customer's creditworthiness. Revenue is the transaction price NORMA Group expects to be entitled to. Variable consideration is included in the transaction price if it is highly probable that a significant reversal of revenue will not occur once associated uncertainties are resolved. The amount of variable consideration is calculated by either using the expected value or the most likely amount depending on which is expected to better predict the amount of variable consideration. Consideration is adjusted for the time value of money if the period between the transfer of goods or services and the receipt of payment exceeds twelve months and there is a significant financing benefit either to the customer or NORMA Group. If a contract contains more than one distinct good or service, the transaction price is allocated to each performance obligation based on relative stand-alone selling prices. If stand-alone selling prices are not observable, the Company reasonably estimates those. Revenue is recognized for each performance obligation either at a point in time or over time.

(a) Sale of goods

Revenues are recognized at a point in time when control of the goods passes to the buyer, usually upon delivery of the goods. Invoices are issued at that point in time and are usually payable within 30 to 90 days. For the sale of goods, retrospective volume discounts, which usually apply to a calendar year, are often agreed to. Revenues from these sales are recognized at the amount of the consideration set in the contract less the estimated volume discounts. The estimate of the refund liabilities recognized for these volume rebates is based on experience and revenue recognized in the fiscal year.

(b) Engineering services

Revenues are recognized over time under the percentage-of-completion method, based on the percentage of costs incurred to date compared to total estimated costs. An expected loss on the contract is recognized as an expense immediately. Payment terms are usually 30 to 90 days from the date of invoice issued according to the contractual terms.

The percentage of completion method places considerable importance on accurate estimates of the extent of progress towards completion and may involve estimates on the scope of deliveries and services required for fulfilling the contractually defined obligations. These estimates include total contract costs, total contract revenues, contract risks, including technical risks and other judgments. Under the percentage of completion method, changes in estimates may lead to an increase or decrease in revenue. The creditworthiness of our customers is taken into account in estimating the probability that economic benefits associated with a contract will flow to the Company.

Contract assets, contract liabilities, refund liabilities and considerations payable to a customer

When either party to a contract with customers has performed, NORMA Group presents a contract asset, a contract liability or a trade receivable depending on the relationship between NORMA's performance and the customer's payment.

A contract asset represents NORMA Group's right to consideration in exchange for goods or services that have been transferred to the customer. The impairment of contract assets is measured, presented and reported on the same basis as for financial assets within the scope of IFRS 9.

Trade receivables are recognized if NORMA Group's right to consideration are unconditional.

Considerations received, which are expected to be reimbursed to the customer, are shown as refund liabilities. These liabilities are included in the balance sheet in the item 'Trade and other payables'. These amounts typically relate to expected volume discounts and annual customer bonuses.

Consideration payable to a customer that cannot be directly allocated to a service or good received by NORMA Group are recognized as a reduction of the transaction price. If this reduction relates to future revenue, this part is recognized in other non-financial assets as consideration payable to a customer.

Government grants

Government grants are not recognized until there is reasonable assurance that the conditions attached to them are complied with and that the grants will be received.

Government grants for the compensation of expenses incurred are recognized in profit or loss as part of the other operating income on a systematic basis over the periods in which the related costs are expensed that the grants are intended to compensate for.

Grants related to non-depreciable assets are recognized in profit or loss as part of the other operating income over the periods that bear the cost of meeting the obligations.

Grants related to depreciable assets are recognized in profit or loss over the periods that bear the expense related to the depreciation of the underlying assets and are recognized as deferred income in the Statement of Financial Position. The deferred income is recognized in profit or loss on a straight-line basis over the expected useful life of the underlying asset and reported as part of other operating income.

4. Scope of consolidation

With NORMA Group SE, the Consolidated Financial Statements contain all domestic and foreign companies which NORMA Group SE controls directly or indirectly.

The Consolidated Financial Statements for 2019 include 8 domestic (Dec 31, 2018: 8) and 44 foreign (Dec 31, 2018: 44) companies.

The composition of the Group changed as follows:

Change in scope of consolidation T054

	2019			2018		
	Total	Domestic	Foreign	Total	Domestic	Foreign
As of January 1	52	8	44	**48**	**7**	**41**
Additions	0	0	0	**5**	**1**	**4**
of which newly founded				2	0	2
of which acquired				3	1	2
Disposals	0	0	0	**1**	**0**	**1**
of which no longer consolidated				1	0	1
of which mergers				0	0	0
As of December 31	52	8	44	**52**	**8**	**44**

There were no additional acqusitions or establishments during 2019.

For a detailed overview of NORMA Group's shareholdings, please refer to the following chart:

List of Group companies of NORMA Group as of December 31, 2019 T055

				Share in %				
No.	Company	Registered address	held by	Direct parent company	of NORMA Group SE	Currency	Equity [1]	Result [1]
Central functions								
01	NORMA Group SE	Maintal, Germany						
02	NORMA Group APAC Holding GmbH	Maintal, Germany	01	100.00	100.00	kEUR	24	– 7
03	NORMA Group Holding GmbH	Maintal, Germany	01	100.00	100.00	kEUR	106,814	0 [2]
Segment EMEA								
04	NORMA Distribution Center GmbH	Marsberg, Germany	03	94.80	100.00	kEUR	2,175	0 [2]
05	DNL GmbH & Co KG	Maintal, Germany	03	100.00	100.00	kEUR	6,227	– 85
06	NORMA Germany GmbH	Maintal, Germany	03	94.90	100.00	kEUR	56,306	0 [2]
07	NORMA Verwaltungs GmbH	Maintal, Germany	03	100.00	100.00	kEUR	20	0 [2]
08	STATEK Stanzereitechnik GmbH	Maintal, Germany	03	100.00	100.00	kEUR	4,467	0 [2]
09	DNL France SAS	Briey, France	03	100.00	100.00	kEUR	29,801	– 4,398
10	NORMA Autoline France SAS	Guichen, France	09	100.00	100.00	kEUR	26,066	– 244
11	NORMA Distribution France SAS	Croissy Beaubourg, France	09	100.00	100.00	kEUR	2,471	596
12	NORMA France SAS	Briey, France	09	100.00	100.00	kEUR	6,068	– 20
13	DNL UK Ltd.	Newbury, Great Britain	03	100.00	100.00	kGBP	15,958	7,000
14	NORMA UK Ltd.	Newbury, Great Britain	13	100.00	100.00	kGBP	18,630	8,077
15	NORMA Italia SpA	Gavardo, Italy	03	100.00	100.00	kEUR	6,210	1,878

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List of Group companies of NORMA Group as of December 31, 2019 (continued) T055

No.	Company	Registered address	held by	Share in % Direct parent company	Share in % of NORMA Group SE	Currency	Equity [1]	Result [1]
16	Groen Bevestigingsmaterialen B.V.	Purmerend, Netherlands	03	70.00	100.00	kEUR	5,057	5,060
17	NORMA Netherlands B.V.	Purmerend, Netherlands	22	100.00	100.00	kEUR	509	497
18	NORMA Polska Sp. z.o.o.	Sławniów, Poland	03	100.00	100.00	kPLN	147,192	24,833
19	NORMA Group Distribution Polska Sp. z.o.o.	Sławniów, Poland	18	100.00	100.00	kPLN	12,687	4,500
20	Lifial – Indústria Metalúrgica de Águeda, Lda.	Águeda, Portugal	03	99.99	100.00	kEUR	5,495	– 133
21	NORMA Group CIS LLC	Togliatti, Russian Federation	03	99.96	100.00	kRUB	226,149	20,061
22	DNL Sweden AB	Stockholm, Sweden	03	100.00	100.00	kSEK	86,422	77,617
23	NORMA Sweden AB	Stockholm, Sweden	22	100.00	100.00	kSEK	207,413	64,640
24	Connectors Verbindungstechnik AG	Wallisellen, Switzerland	03	100.00	100.00	kCHF	3,146	– 1,188
25	NORMA Grupa Jugoistocna Evropa d.o.o.	Subotica, Serbia	03	100.00	100.00	kRSD	4,635,411	186,584
26	Fijaciones NORMA S.A.U.	L'Hospitalet de Llobregat, Spain	03	100.00	100.00	kEUR	5,024	437
27	NORMA Czech, s.r.o.	Hustopeče, Czech Republic	03	100.00	100.00	kCZK	369,947	31,061
28	NORMA Turkey Bağlantı ve Birleştirme Teknolojileri Sanayi ve Ticaret Limited Şirketi	Kadıköy / İstanbul, Turkey	07	100.00	100.00	kTRL	7,762	3,447
Segment Americas								
29	NORMA do Brasil Sistemas De Conexão Ltda.	Atibaia, Brazil	37	98.20	100.00	kBRL	4,620	– 7,717
30	NORMA Group Mexico, S. de R.L. de C.V. [3]	Monterrey, Mexico	36	99.40	100.00	kUSD	2,944	– 1,262
31	NORMA Distribution and Services S. de R.L. de C.V.	Juarez, Mexico	36	99.00	100.00	kMXN	– 3,189	2,174
32	Craig Assembly, Inc.	Auburn Hills, MI, USA	37	100.00	100.00	kUSD	72,998	8,471
33	National Diversified Sales, Inc.	Woodland Hills, CA, USA	37	100.00	100.00	kUSD	314,174	31,033
34	NG AM FinSrv, LLC	Auburn Hills, MI, USA	36	70.00	100.00	kUSD	– 202	59

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List of Group companies of NORMA Group as of December 31, 2019 (continued) T055

No.	Company	Registered address	held by	Share in % Direct parent company	Share in % of NORMA Group SE	Currency	Equity [1]	Result [1]
35	NORMA Manufacturing NA SW, LLC	Auburn Hills, MI, USA	36	100.00	100.00	kUSD	– 6,135	– 6,147
36	NORMA Michigan, Inc.	Auburn Hills, MI, USA	37	100.00	100.00	kUSD	95,670	2,426
37	NORMA Pennsylvania, Inc.	Auburn Hills, MI, USA	01	100.00	100.00	kUSD	109,779	– 2,730
38	NORMA U.S. Holding LLC	Auburn Hills, MI, USA	37	100.00	100.00	kUSD	21,804	– 936
39	R. G. RAY Corporation	Auburn Hills, MI, USA	37	100.00	100.00	kUSD	122,930	2,498
Segment Asia-Pacific								
40	NORMA Pacific Pty. Ltd.	Dandenong South, Victoria, Australia	51	100.00	100.00	kAUD	15,183	2,695
41	Fengfan Fastener (Shaoxing) Co., Ltd.	Shaoxing City, China	51	80.00	80.00	kCNY	37,126	4,108
42	NORMA China Co., Ltd.	Qingdao, China	03	100.00	100.00	kCNY	237,420	17,150
43	NORMA EJT (Changzhou) Co., Ltd.	Changzhou, China	51	100.00	100.00	kCNY	103,149	36,927
44	NORMA EJT (Wuxi) Co., Ltd.	Wuxi, China	51	100.00	100.00	kCNY	211,739	2,758
45	NORMA Group Products India Pvt. Ltd.	Pune, India	51	99.99	100.00	kINR	557,533	25,236
46	Kimplas Piping Systems Ltd.	Nashik, Maharashtra, India	51	100.00	100.00	kINR	1,892,354	69,861
47	Kimplas Ltd.	Essex, Great Britain	46	100.00	100.00	kGBP	703	232
48	NORMA Japan Inc.	Tokyo, Japan	51	60.00	60.00	kJPY	118,688	– 3,638
49	NORMA Products Malaysia Sdn. Bhd. (formerly Chien Jin Plastic Sdn. Bhd.)	Ipoh, Malaysia	51	100.00	100.00	kMYR	31,325	248
50	NORMA Korea Inc.	Seoul, Republic of Korea	51	100.00	100.00	kKRW	575,046	43,437
51	NORMA Group Asia Pacific Holding Pte. Ltd.	Singapore, Singapore	01	100.00	100.00	kSGD	207,207	– 28,303
52	NORMA Pacific (Thailand) Ltd.	Chonburi, Thailand	51	99.99	100.00	kTHB	115,183	27,867

1_Reported values according to IFRS as of December 31, 2019; except for NORMA Group Holding GmbH, NORMA Germany GmbH, STATEK Stanzereitechnick GmbH and NORMA Distribution Center GmbH; these values are prepared according to German GAAP as of December 31, 2019, but not yet finally audited. The values are translated with the exchange rates according to → NOTE 3.
2_A profit pooling contract exists.
3_Maquiladora operation of company No. 36.

5. Financial risk management

Financial risk factors

The Group's operations expose it to a variety of financial risks, including market, credit and liquidity risks. The Group's financial risk management focuses on the unpredictability of the financial markets and is designed to mitigate potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain exposures.

Overview of financial risks T056

Risk	Risks from	Assessment	Management
Market risk – Foreign exchange risk	Future transactions and recognized financial assets and liabilities	Cash flow projections and sensitivity analysis	Forward exchange contracts and natural hedges
Market risk – Interest rate risk	Long-term borrowings at variable interest rates	Sensitivity analysis	Interest rate swaps
Default risk	Cash and cash equivalents, derivative financial instruments, trade receivables and contractual assets	Age structure analysis and credit rating	Diversification of bank balances, credit limits and letters of credit
Liquidity risk	Payment obligations arising from borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and facilities and trade working capital management

Financial risk management is carried out by a central Treasury department (Group Treasury). The responsibilities and necessary controls related to risk management are defined by the Group's management. The Treasury department is responsible for identifying and assessing financial risks in close consultation with the Group's operating units. In a close dialogue, Group Treasury informs and trains the companies and technically handles the hedging process. The use of derivative and non-derivative financial instruments and the investment of liquidity surpluses are governed by policies established by Group management.

(a) Market risk

Foreign exchange risk

NORMA Group operates as an internationally active Company in 100 different countries and is exposed to the currency risk resulting from various foreign currency positions in respect of the most important currencies: the US dollar, British pound, Chinese renminbi, Indian rupee, Polish Złoty, Swedish krona, Swiss franc, Czech koruna, Serbian dinar and Singapore dollar.

Taking into account the respective risk-bearing capacity of the subsidiaries, Treasury Risk Management strives to achieve a reasonable degree of hedging of net foreign currency risks (as a result of taking into account incoming and outgoing foreign currency transactions). Highly fluctuating net foreign currency risks are thus hedged with increased hedging ratios. The external financial liabilities denominated in US dollars are repaid with US dollar receipts resulting from the externally financed investments in the US. The foreign currency position of these liabilities was therefore not hedged.

The Group uses forward exchange contracts to hedge the foreign exchange risk arising from its operating activities. The risk arises from a possible change in future cash flows from a highly probable forecasted transaction in a non-functional currency, which is due to a change or fluctuation in the exchange rate. The hedging relationship is designated as a cash flow hedge. The Group only designates the spot component as a hedging element. Gains or losses on the effective portion of the change in the spot component of the forward contract are recognized in the hedging reserve as a component of equity. Changes in the forward component of the hedging instrument relating to the hedged item ("aligned forward element") are recognized in other comprehensive income in the hedging reserve as a component of equity.

In addition, the Group uses forward exchange contracts to hedge intercompany financing transactions that involve foreign exchange risk arising from intercompany loans denominated in non-functional currencies. The Group designates such loans and hedging instruments as fair value hedges in order to achieve the offsetting effects of hedged items and hedges in the same income statement line item. The Group designates only the spot component as a hedging element. Gains or losses from the effective portion of the change in the spot component of the forward transaction are recognized in the financial result, analogous to those of the underlying item. The changes in the forward component of the hedging instrument, which relate to the hedged underlying transaction ("aligned forward element") are also included in this item.

For more information on the foreign currency risk hedging instruments used by the Group, please refer to → NOTE 21. (F) 'DERIVATIVE FINANCIAL INSTRUMENTS'.

In accordance with the Group guideline, the essential contractual conditions of the forward transactions for all hedging relationships must correspond to the hedged underlying transactions.

The effects of changes in the exchange rates of financial assets and financial liabilities denominated in foreign currencies are presented below.

Foreign exchange risk T057

	Dec 31, 2019		Dec 31, 2018	
in EUR thousands	**+ 10 %**	**– 10 %**	+ 10 %	– 10 %
Currency relation				
EUR / USD				
Profit before tax	– 607	743	– 681	833
EUR / GBP				
Profit before tax	121	– 148	308	– 376
EUR / CNY				
Profit before tax	– 634	776	– 567	693
EUR / INR				
Profit before tax	– 62	76	– 208	255
EUR / PLN				
Profit before tax	890	– 1,088	727	– 888
EUR / SEK				
Profit before tax	339	– 415	256	– 313
EUR / CHF				
Profit before tax	63	– 77	123	– 151
EUR / CZK				
Profit before tax	273	– 334	233	– 285
EUR / RSD				
Profit before tax	– 63	77	– 91	111
EUR / SGD				
Profit before tax	– 136	167	– 465	568

Interest rate risk

NORMA Group's interest rate risk arises from long-term borrowings with variable interest rates. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk which is partially offset by hedges (interest rate swaps). As there are currently no signs of a more restrictive monetary policy in the euro zone, NORMA Group considers the risk of interest rate increases for the euro to be unlikely in the short term. In the longer term, however, the risk of interest rate increases is considered possible. On the other hand, in view of the current low interest rate level in the euro zone, the opportunities that could result from a further decline in interest rates are considered unlikely. In the USD area, on the other hand, further interest rate reductions are considered more likely, which would lead to corresponding opportunities for NORMA Group. Against the backdrop of the measures already implemented to optimize financing, the financial impact of these opportunities is considered to be insignificant.

Currently swaps cover around 34% (2018: 71%) of outstanding variable interest rate loans. Further information on the instruments used to hedge the interest rate risk used by the Group can be found under → NOTE 21. (F) 'DERIVATIVE FINANCIAL INSTRUMENTS'.

Below, the effects of changes in interest rates are analyzed for bank borrowings which bear variable interest rates, and for interest rate swaps included in hedge accounting. Borrowings that bear fixed interest rates are excluded from this analysis.

Due to the current low level of interest rates in those markets that are relevant for NORMA Group's funding, the likelihood of rising interest rates is higher than that of declining interest rates – this has been addressed in the sensitivity analysis.

In fiscal year 2019, if interest rates on euro and US dollar denominated borrowings had been 100 basis points (BPS) (2018: 100 BPS) higher with all other variables held constant, profit before tax for fiscal year 2019 would have been EUR 1,183 thousand lower (2018: EUR 503 thousand lower) and other comprehensive income would have been EUR 1,531 thousand higher (2018: EUR 2,716 thousand higher with a 100 basis points shift).

In fiscal year 2019, if interest rates on euro and US dollar denominated borrowings had been 50 basis points (2018: 50 BPS) lower with all other variables held constant, profit before tax for fiscal year 2019 would have been EUR 84 thousand higher (2018: EUR 63 thousand higher). Other comprehensive income would have been EUR 786 thousand lower (2018: EUR1,437 thousand lower).

Other price risks

As NORMA Group is not exposed to any other material economic price risks, such as stock exchange prices or commodity prices, an increase or decrease in the relevant market prices within reasonable margins would not have an impact on the Group's profit or equity. The raw material risk is mainly based on alloy surcharges, which can be passed on to customers to a certain extent via price passing clauses. Therefore, the Group's exposure to other price risks is considered probable, but with low financial impact → RISK AND OPPORTUNITY REPORT.

(b) Credit risk

The credit risk incurred by the Group is the risk that counterparties fail to meet their obligations arising from operating activities and from financial transactions. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Credit risk is monitored on a Group basis. To minimize credit risk from operating activities and financial transactions, each counterparty is assigned a credit limit, the use of which is monitored regularly.

In order to reduce the credit risk arising from our investing activities and derivative financial assets, in accordance with our internal treasury policy, we have entered into all transactions only with recognized, large financial institutions and issuers, each with high external credit ratings.

In operational business, default risks are continuously monitored.

The aggregate carrying amounts of financial assets represent the maximum default risk. Given the Group's heterogeneous customer structure, there is no risk concentration.

As of December 31, 2019, the credit exposure for the gross carrying amounts of cash and cash equivalents and other financial assets was as follows:

Credit risk exposure from cash and cash equivalents and other financial assets T058

As of December 31, 2019

in EUR thousands	Equivalent to External Rating	Gross Carrying Amount Not Credit-Impaired	Gross Carrying Amount Credit-Impaired
Risk class 1 – low risk	AAA – BBB–	193,378	0

As of December 31, 2018

in EUR thousands	Equivalent to External Rating	Gross Carrying Amount Not Credit-Impaired	Gross Carrying Amount Credit-Impaired
Risk class 1 – low risk	AAA – BBB–	202,990	0

Further details on the credit risk positions for trade receivables can be found under → NOTES 21. (A) 'TRADE AND OTHER RECEIVABLES'.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

In July 2013, NORMA Group issued a promissory note loan of EUR 50 million with terms of 7 and 10 years. The two fixed-interest annual tranches will be repaid in July 2020 and July 2023. Yet another promissory note loan was issued in December 2014, also with 7- and 10-year terms in both euro and dollar tranches. This promissory note loan has a total volume of approximately EUR 80 million and has both fixed and variable interest tranches. These promissory notes will be redeemed in December 2021 and December 2024. A third promissory note with 5-, 7- and 10-year maturities has a total volume of approximately EUR 149 million and was issued in August 2016. The different tranches also consist of both fixed and variable interest rate tranches and will be repaid in 2021, 2023 and 2026.

In December 2019, NORMA Group repaid a promissory note in the amount of approximately EUR 108 million. In addition, the syndicated bank loan with a total volume of approximately EUR 183 million, consisting of euro and dollar tranches, and an accordion facility of EUR 102 million included in the total volume, was refinanced before maturity in 2022. Due to the current favorable market environment, this refinancing was achieved via a new syndicated bank loan and a commercial paper program.

The refinancing in December 2019 promises the Group even greater security and flexibility. In addition, the annual financing costs were reduced significantly. Furthermore, the new syndicated bank loan includes a sustainability component. This links the financing conditions to NORMA Group's commitment to Corporate Responsibility. By further improving its sustainability rating, the Company has the opportunity to further reduce the interest burden of its financing. With the conclusion of the new loan agreement, the Group has secured approximately EUR 250 million in debt financing capital, consisting of both euro and dollar tranches. In addition, a EUR 50 million revolving facility and a leveraged flexible accordion facility were included. The loan agreement has been concluded for a term of five years and includes the option to extend it twice for a further year each.

The newly launched commercial paper program with a total volume of up to EUR 300 million consists of short-term (2 – 12 weeks) bearer bonds. The revolving issuance of such short-term bonds enables the Group to manage and optimize its short-term financing requirements even more flexibly via the money and capital markets in addition to its existing credit lines with various banks.

Liquidity is monitored on an ongoing basis with regard to the Group's business performance, planned investment and redemption of loans.

The amounts disclosed in the table below are the contractual, undiscounted cash flows. Financial liabilities denominated in foreign currencies are translated at the closing rate on the balance sheet date. Interest payments on financial instruments with variable interest rates are calculated on the basis of the interest rates applicable as of the reporting date.

Maturity structure of non-derivative financial liabilities T059

Dec 31, 2019 in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Borrowings	57,594	110,813	379,415	43,160
Trade and other payables	143,119	0	0	0
Other financial liabilities	17,496	0	1,631	0
	218,209	**110,813**	**381,046**	**43,160**
Dec 31, 2018 in EUR thousands	**up to 1 year**	**> 1 year up to 2 years**	**> 2 years up to 5 years**	**> 5 years**
Borrowings	127,305	44,624	355,739	90,115
Trade and other payables	142,028			
Finance lease liabilities	17	5	13	
Other financial liabilities	18,850	0	1,976	
	288,200	**44,629**	**357,728**	**90,115**

The maturity structure of the derivative financial instruments based on cash flows is as follows:

Maturity structure of derivative financial instruments T060

As of Dec 31, 2019 in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Derivative receivables – gross settlement				
Cash outflows	– 940			
Cash inflows	955			
Derivative liabilities – gross settlement				
Cash outflows	– 578			
Cash inflows	576			
Derivative receivables – net settlement				
Cash inflows	406	30		
Derivative liabilities – net settlement				
Cash outflows	– 268	– 644		
	151	**– 614**	**0**	**0**

As of Dec 31, 2018 in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Derivative receivables – gross settlement				
Cash outflows	– 31,221			
Cash inflows	31,414			
Derivative liabilities – gross settlement				
Cash outflows	– 5,385			
Cash inflows	5,302			
Derivative receivables – net settlement				
Cash inflows	1,746	608	217	
Derivative liabilities – net settlement				
Cash outflows	– 216	– 418	– 41	
	1,640	**190**	**176**	**0**

Capital risk management

NORMA Group's objectives when managing capital are to ensure that it will continue to be able to repay its debt and remain financially sound.

The Group is subject to the financial covenant total net debt cover (net debt in relation to adjusted Group EBITDA), which is monitored on an ongoing basis. This financial covenant is based on the Group's Consolidated Financial Statements as well as on special definitions of the bank facility agreements. There were no covenant breaches in 2019 and 2018.

In the case of a covenant breach, the facility agreement includes several ways to remedy a potential breach by rules of exemption or shareholder actions. If a covenant breach occurs and is not remedied, the syndicated loans may be, but are not required to be, withdrawn.

6. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience, and expectations regarding future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the respective actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are addressed below.

Estimated impairment of goodwill

NORMA Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in → NOTE 3. 'SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES – IMPAIRMENT OF NON-FINANCIAL ASSETS'. The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell calculations. These calculations are based on discounted cash flow models, which require the use of estimates. → NOTE 18. 'GOODWILL AND OTHER INTANGIBLE ASSETS'

In 2019 and 2018, no impairment of goodwill, which amounted to EUR 393,087 thousand on December 31, 2019 (Dec 31, 2018: EUR 389,505 thousand), was necessary.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgments are required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters differs from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. On December 31, 2019, income tax liabilities were EUR 3,712 thousand (Dec 31, 2018: EUR 6,580 thousand) and deferred tax liabilities were EUR 69,562 thousand (Dec 31, 2018: EUR 73,099 thousand).

Pension benefits

The present value of the pension obligations depends on a number of factors determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The present value of the defined benefit obligation is calculated by discounting the estimated future cash outflows using the interest rates of high-quality corporate bonds.

The Group determines the appropriate discount rate on the balance sheet date. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in → NOTE 3. 'SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES – EMPLOYEE BENEFITS'.

Pension liabilities amounted to EUR 15,890 thousand on December 31, 2019 (Dec 31, 2018: EUR 12,804 thousand).

Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation / amortization charges for its property, plant and equipment and intangible assets. This estimate is based on projected lifecycles. These could change as a result of technical innovations or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Accounting for leases

In connection with the accounting for leases, estimation uncertainties and discretionary decisions arise, which are described in → NOTE 3. 'SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES – LEASING ACTIVITIES OF THE GROUP AND THEIR ACCOUNTING TREATMENT (FROM JANUARY 1, 2019)'.

Business combinations

In our accounting for business combinations, judgment is required in determining whether an intangible asset is identifiable, and should be recorded separately from goodwill. Additionally, estimating the acquisition-date fair values of the identifiable assets acquired and liabilities assumed involves considerable judgment. The necessary measurements are based on information available on the acquisition date and are based on expectations and assumptions that have been deemed reasonable by management. These judgments, estimates, and assumptions can materially affect our financial position and profit for several reasons, including the following:

- Fair values assigned to assets subject to depreciation and amortization affect the amounts of depreciation and amortization to be recorded in operating profit in the periods following the acquisition.
- Subsequent negative changes in the estimated fair values ofassets may result in additional expense from impairment charges.
- Subseqeunt changes in the estimated fair values of liabilities and provisions may result in additional expense (if increasing the estimated fair value) or additional income (if decreasing the estimated value).

7. Adjustments

Certain expenses are adjusted for operational management purposes. Hence, the following results which are adjusted by these expenses, reflect the Management Board's perspective.

In fiscal year 2019, net expenses of EUR 13,431 thousand in total were adjusted within EBITDA (earnings before interest, tax, depreciation and amortisation) (2018: EUR 4,390 thousand). These relate to other operating expenses (EUR 2,920 thousand), employee benefit expenes (EUR 9,935 thousand) and material costs (EUR 213 thousand). Those are linked to the rightsizing program which was initiated in the fourth quarter 2018 for optimizing organizational structures. The adjustmends of employee benefit expenses are attributable to costs for internal project hours of permanent staff, to costs for temporarily hired employees and to severance payments made.

Furthermore, integration costs of EUR 310 thousand within other operating expenses and EUR 53 thousand within employee benefit expenses were adjusted. These are directly contributable to the acquired companies Kimplas and Statek in fiscal year 2018.

The adjustments made within EBITDA in fiscal year 2018 are related in the amount of EUR 389 thousand to costs of materials that resulted from the valuation of the inventories acquired as part of the purchase price allocation for the acquisition of Kimplas. The adjustments for acquisition-related costs within other operating expenses amounting to EUR 1,190 thousand are related to the acquisitions of Kimplas and Statek. In addition, expenses for the integration of the companies acquired in the current fiscal year amounting to EUR 426 thousand were adjusted in other operating expenses and within employee benefit expenses (EUR 152 thousand).

Furthermore, adjustments were made in connection with the rightsizing project launched in the fourth quarter of 2018 to optimize the Group's structure within employee benefit expenses in the amount of EUR 1,771 thousand, within other operating expenses in the amount of EUR 443 thousand and within costs of materials in the amount of EUR 19 thousand.

Besides the adjustments mentioned, depreciation of property, plant and equipment from purchase price allocations in the amount of EUR 3,998 thousand (2018: EUR 3,993 thousand) within EBITA (earnings before interest, taxes and amortization of intangible assets) and amortization of intangible assets in the amount of EUR 22,484 thousand (2018: EUR 21,124 thousand) from purchase price allocations within EBIT were adjusted as in past years.

Furthermore, an impairment loss of EUR 1,433 thousand in the area of capitalized customer relationships was adjusted in fiscal year 2018 within amortization of intangible assets. This related to the Chinese company Fengfan.

The theoretical taxes resulting from the adjustments are calculated using the respective tax rate of each Group entity and are taken into consideration in adjusted earnings after taxes.

The following table shows profit or loss net of these expenses:

Profit and loss net of adjustments T061

in EUR thousands	2019 unadjusted	Integration costs	Step-up effects from purchase price allocations	'Rightsizing / Footprint'	Total adjustments	2019 adjusted
Revenue	1,100,096				0	1,100,096
Changes in inventories of finished goods and work in progress	3,045				0	3,045
Other own work capitalized	4,910				0	4,910
Raw materials and consumables used	– 477,628			213	213	– 477,415
Gross profit	**630,423**	**0**	**0**	**213**	**213**	**630,636**
Other operating income and expenses	– 144,249	310		2,920	3,230	– 141,019
Employee benefits expense	– 312,376	53		9,935	9,988	– 302,388
EBITDA	**173,798**	**363**	**0**	**13,068**	**13,431**	**187,229**
Depreciation	– 45,891		3,398	63	3,461	– 42,430
EBITA	**127,907**	**363**	**3,398**	**13,131**	**16,892**	**144,799**
Amortization	– 31,225		22,484		22,484	– 8,741
Operating profit (EBIT)	**96,682**	**363**	**25,882**	**13,131**	**39,376**	**136,058**
Financial costs – net	– 15,490				0	– 15,490
Profit before income tax	**81,192**	**363**	**25,882**	**13,131**	**39,376**	**120,568**
Income taxes	– 22,743	– 80	– 6,379	– 3,525	– 9,984	– 32,727
Profit for the period	**58,449**	**283**	**19,503**	**9,606**	**29,392**	**87,841**
Non-controlling interests	27				0	27
Profit attributable to shareholders of the parent	**58,422**	**283**	**19,503**	**9,606**	**29,392**	**87,814**
Earnings per share (in EUR)	**1.83**					**2.76**

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Profit and loss net of adjustments (continued) T061

in EUR thousands	2018 unadjusted	M&A related costs	Integration costs	Step-up effects from purchase price allocations	'Rightsizing / Footprint'	Total adjustments	2018 adjusted
Revenue	1,084,140					0	1,084,140
Changes in inventories of finished goods and work in progress	10,383					0	10,383
Other own work capitalized	5,197					0	5,197
Raw materials and consumables used	– 473,551			389	19	408	– 473,143
Gross profit	**626,169**	**0**	**0**	**389**	**19**	**408**	**626,577**
Other operating income and expenses	– 146,427	1,190	426		443	2,059	– 144,368
Employee benefits expense	– 282,768		152		1,771	1,923	– 280,845
EBITDA	**196,974**	**1,190**	**578**	**389**	**2,233**	**4,390**	**201,364**
Depreciation	– 32,175			3,993		3,993	– 28,182
EBITA	**164,799**	**1,190**	**578**	**4,382**	**2,233**	**8,383**	**173,182**
Amortization	– 31,254			22,557		22,557	– 8,697
Operating profit (EBIT)	**133,545**	**1,190**	**578**	**26,939**	**2,233**	**30,940**	**164,485**
Financial costs – net	– 11,668					0	– 11,668
Profit before income tax	**121,877**	**1,190**	**578**	**26,939**	**2,233**	**30,940**	**152,817**
Income taxes	– 30,089	– 305	– 148	– 6,903	– 572	– 7,928	– 38,017
Profit for the period	**91,788**	**885**	**430**	**20,036**	**1,661**	**23,012**	**114,800**
Non-controlling interests	– 85					0	– 85
Profit attributable to shareholders of the parent	**91,873**	**885**	**430**	**20,036**	**1,661**	**23,012**	**114,885**
Earnings per share (in EUR)	**2.88**						**3.61**

Notes to the Consolidated Statement of Comprehensive Income

8. Revenue from contracts with customers

Revenue recognized during the period related to the following:

Revenue by distribution channel T062

	EMEA		Americas		Asia-Pacific		Consolidated Group	
in EUR thousands	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Engineered Joining Technology (EJT)	359,776	368,671	205,001	219,958	100,681	95,947	665,458	684,576
Distribution Services (DS)	123,052	123,112	244,679	219,219	62,439	51,510	430,170	393,841
Other revenues	3,142	3,021	1,088	2,337	238	365	4,468	5,723
	485,970	**494,804**	**450,768**	**441,514**	**163,358**	**147,822**	**1,100,096**	**1,084,140**

Total revenues increased by 1.5% to EUR 1,100,096 thousand compared to the previous year (2018: EUR 1,084,140 thousand). The increase is due to negative organic growth which was compensated by positive currency effects and acquisitions.

Revenue by category T063

in EUR thousands	**2019**	2018
Revenues from the sale of goods	1,093,903	1,077,338
Revenues from engeneering services	0	425
Revenues from other services	1,750	1,204
Other revenue	4,443	5,173
	1,100,096	**1,084,140**

Other revenue mainly consists of revenue from the sale of production residues in metal production.

Revenues in 2019 include income of EUR 1,758 thousand from the reversal of reimbursement liabilities recognized in the previous period. The reversals represent the difference between the expected volume discounts and annual bonuses recognized for customers in the previous period and the actual payment in the fiscal year. In 2018, EUR 2,719 thousand in revenues from construction contracts are included.

For the analysis of sales by region, please refer to → NOTE 30. 'SEGMENT REPORTING.'

Contract assets and liabilities

Contract assets represent revenues from development services rendered, which were realized based on the ratio of costs already incurred to the estimated total costs. The contract liabilities represent advance payments received for goods to be supplied by NORMA Group. Contract assets and contract liabilities in the amounts of EUR 525 thousand and EUR 420 thousand respectively (2018: EUR 1,185 thousand and EUR 453 thousand respectively) are expected to be realized or settled within the next twelve months. The contract liabilities from advance payments received in the amount of EUR 453 thousand recognized as of January 1, 2019, were recognized as sales revenues, net of any sales taxes, in the fiscal year.

Transaction price of unsatisfied performance obligations

NORMA Group applies the practical expedient of IFRS 15 and does not disclose the transaction price allocated to unsatisfied performance obligations as of the balance sheet date, as the outstanding obligations are part of a contract with an initial term of up to twelve months.

9. Raw materials and consumables used

Raw materials and consumables used comprised the following:

Raw materials and consumables used T064

in EUR thousands	2019	2018
Cost of raw materials, consumables and supplies	– 444,876	– 438,985
Cost of purchased services	– 32,752	– 34,566
	– 477,628	**– 473,551**

The raw materials and consumables used lead to a decreased ratio of 43.4% (2018: 43.7%). In relation to the total value, raw materials and consumables used are, with a ratio of 43.1%, at the same level as last year (2018: 43.1%).

10. Other operating income

Other operating income comprised the following:

Other operating income T065

in EUR thousands	2019	2018
Currency gains operational	6,092	7,567
Reversal of provisions	1,516	616
Reversal of accruals	2,491	3,258
Grants related to employee benefits expense	27	23
Reimbursement of vehicle costs	874	873
Other income from disposal of fixed assets	246	139
Foreign exchange derivatives	412	700
Government grants	606	603
Refund other taxes	147	359
Others	1,219	1,451
	13,630	**15,589**

Income from the reversal of liabilities and unused provisions is mainly due to the reversal of personnel-related obligations.

11. Other operating expenses

Other operating expenses comprised the following:

Other operating expenses T066

in EUR thousands	2019	2018
Consulting and marketing	– 18,129	– 17,136
Expenses for temporary workforce and other personnel-related costs	– 32,554	– 32,958
Freights	– 31,363	– 29,109
IT and telecommunications	– 17,326	– 15,788
Rentals and other building costs	– 5,364	– 12,528
Travel and entertainment	– 10,907	– 9,591
Currency losses operational	– 6,330	– 8,475
Research & development	– 3,099	– 3,837
Vehicle costs	– 2,856	– 4,583
Maintenance	– 3,652	– 3,504
Commission payable	– 6,150	– 6,114
Non-income-related taxes	– 3,052	– 2,574
Insurance	– 3,161	– 2,532
Office supplies and services	– 2,734	– 2,495
Other administrative expenses	– 6,949	– 5,776
Others	– 4,253	– 5,016
	– 157,879	**– 162,016**

Other operating expenses for 2019 (EUR 157,879 thousand) were 2,6% lower than other operating expenses for 2018 (EUR 162,016 thousand). This is mainly because of a decrease for rent and other property costs in conjunction with the first time adoption of IFRS 16 of EUR 9,114 thousand. Without the total effects of IFRS 16, other operating expenses would have been EUR 11,296 thousand higher and would have increased by 4.4% to EUR 169,175 thousand compared to the previous year.

In relation to the total value, other operating expenses increased disproportionately lower with a ratio of 14.2% (2018: 14.7%). Without the first time adoption effects of IFRS 16, the ratio would be above the previous year level, amounting 15.3%.

12. Employee benefits expense

Employee benefits expense comprised the following:

Employee benefits expense T067

in EUR thousands	2019	2018
Wages and salaries and other termination benefits	– 256,715	– 230,815
Social security costs	– 42,339	– 39,748
Pension costs – defined contribution plans	– 11,692	– 11,016
Pension costs – defined benefit plans	– 1,630	– 1,189
	– 312,376	**– 282,768**

In 2019, employee benefits expense amounted to EUR 312,376 thousand compared to EUR 282,768 thousand in 2018. The increase of 10.5% is mainly due to an increase in the average headcount in 2019 compared to 2018. Furthermore, expenses for the rightsizing program, started in fourth quarter 2018, were reported. The additional employee expenses summed up to EUR 9,935 thousand in 2019 (2018: EUR 1,771 thousand). Currency effects had a negative effect on employee benefits expenses. In relation to the total value, employee benefits expense increased disproportionately higher with a ratio of 28.2% (2018: 25.7%). In 2018, the ratio was positively influenced by lower additions to accruals for employee bonuses.

In 2019, the average headcount was 6,798 (2018: 6,614).

13. Financial income and costs

Financial income and costs comprised the following:

Financial income and costs T068

in EUR thousands	2019	2018
Financial costs		
Interest expenses		
Bank borrowings incl. hedging instruments	– 13,340	– 13,282
Leases (2018: finance lease)	– 1,260	– 6
Expenses for interest accrued on provisions	– 82	8
Expenses for interest accrued on pensions	– 162	– 124
Foreign exchange result on financing activities	– 212	715
Result on valuation of derivatives	– 74	– 436
Other financial cost	– 1,820	– 1,246
	– 16,950	**– 14,371**
Financial income		
Interest income on short-term bank deposits	1,007	484
Other financial income	453	2,219
	1,460	**2,703**
Net financial cost	**– 15,490**	**– 11,668**

The interest expenses from bank borrowings include in 2019 EUR 14,067 thousand from borrowings (2018: EUR 13,344 thousand) and EUR 727 thousand are related to interest income from hedging derivatives (2018: interest expenses of EUR 62 thousand).

The increase of interest expenses for leasing is attributable to the first time adoption of IFRS 16.

In fiscal year 2019, net losses from the valuation of derivatives amount to EUR 74 thousand compared to net losses in the amount of EUR 436 thousand in fiscal year 2018.

The development of losses on valuation of derivatives as well as of foreign exchange result on financing activities results from the hedging of the US dollar financial liabilities and from the development of the US dollar compared to the prior year. The hedging relationship is classified as a fair value hedge, hence the valuation effects of the derivatives and of the financial liabilities are both reflected in the financial result. The net effect is disclosed in → NOTE 14. 'NET FOREIGN EXCHANGE GAINS / LOSSES.'

Other financial income mainly includes income from the adjustment of the liability from the option to acquire the outstanding non-controlling interests of a subsidiary. → NOTE 21.(E) 'FINANCIAL LIABILITIES AND NET DEBT'

Transaction costs in connection with financing are netted with the bank borrowings. They are amortized over the financing period of the respective debt using the effective interest method. As of December 31, 2019, the value of transaction costs recognized in the balance sheet and amortized over the maturities of the bank borrowings amounted to EUR 1,129 thousand (2018: EUR 810 thousand).

14. Net foreign exchange gains / losses

The exchange differences recognized in profit or loss are as follows:

Net foreign exchange gains / losses T069

in EUR thousands	Note	2019	2018
Currency gains operational	(10)	6,092	7,567
Currency losses operational	(11)	– 6,330	– 8,475
Foreign exchange result on financing activities	(13)	– 212	715
Result from foreign exchange rate derivatives	(10, 13, 21)	– 72	– 343
		– 522	– 536

15. Earnings per share

Earnings per share are calculated by dividing net income for the period attributable to NORMA Group's shareholders by the weighted average number of shares issued during the period under review. NORMA Group has only issued common shares. In 2019, as in the previous year, the average weighted number of shares was 31,862,400 (2018: 31,862,400).

As of December 31, 2019, and 2018, there were no dilutive effects on earnings per share.

Earnings per share in 2019 and 2018 were as follows:

Earnings per share T070

	2019	2018
Profit attributable to shareholders of the parent (in EUR thousands)	58,422	91,873
Number of weighted shares	31,862,400	31,862,400
Earnings per share (un)diluted (in EUR)	**1.83**	**2.88**

16. Income taxes

The breakdown of income taxes is as follows:

Income taxes T071

in EUR thousands	2019	2018
Current tax expenses	– 27,936	– 34,629
Deferred tax income	5,193	4,540
Total income taxes	**– 22,743**	**– 30,089**

The combined income tax rate for the German companies for 2019 amounted to 30.1% (2018: 30.1%), comprising corporate income tax at a rate of 15%, the solidarity surcharge of 5.5% on corporate income tax, and trade income tax at an average rate of 14.2%. The taxation of the foreign subsidiaries is calculated on the basis of the tax rate applicable in the respective country of domicile. Deferred taxes, calculated using the tax rates which apply respectively, are expected to apply in the various countries at the time of realization.

The income tax expense of the Group actually reported differs from the theoretical income tax expense based on the German combined income tax rate of 30.1% for 2019 as follows:

Tax reconciliation T072

in EUR thousands	2019	2018
Profit before tax	**81,192**	121,877
Group tax rate	30.1%	30.1%
Expected income taxes	– 24,439	– 36,685
Tax effects of:		
Tax losses and tax credits from the actual year for which no deferred income tax is recognized	– 674	– 861
Effects from the deviation of the Group tax rate resulting mainly from different foreign tax rates	5,658	9,203
Non-deductible expenses for tax purposes	– 2,773	– 1,692
Other tax-free income	432	1,088
Tax effect of changes in tax rates regarding deferred taxes	– 150	– 260
Income taxes related to prior years	557	158
Impairment of tax assets	– 21	– 9
Other	– 1.333	– 1,031
Income taxes	**– 22,743**	**– 30,089**

The item 'Other' consists mainly of other income-based taxes (e. g. withholding tax) in 2019 and 2018.

The income tax charged / credited directly to other comprehensive income during the year is as follows:

Income tax charged / credited to other comprehensive income T073

2019

in EUR thousands	Before tax amount	Tax charge / credit	Net of tax amount
Cash flow hedges gains / losses	– 2,363	680	– 1,683
Remeasurements of post-employment benefit obligations	– 2,066	547	– 1,519
Other comprehensive income	**– 4,429**	**1,227**	**– 3,202**

2018

in EUR thousands	Before tax amount	Tax charge / credit	Net of tax amount
Cash flow hedges gains / losses	948	– 267	681
Remeasurements of post-employment benefit obligations	– 265	51	– 214
Other comprehensive income	**683**	**– 216**	**467**

Notes to the Consolidated Statement of Financial Position

17. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities due to maturity is as follows:

Deferred tax assets and deferred tax liabilities (gross) T074

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	9,516	8,105
Deferred tax assets to be recovered within 12 months	7,785	7,274
Deferred tax assets	**17,301**	**15,379**
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	75,038	77,276
Deferred tax liabilities to be recovered within 12 months	2,450	4,631
Deferred tax liabilities	**77,488**	**81,907**

The movement in deferred income tax assets and liabilities during the year is as follows:

Movement in deferred tax assets and liabilities T075

in EUR thousands	2019	2018
Deferred tax liabilities (net) – as of January 1	**66,528**	**55,698**
Deferred tax income	– 5,193	– 4,540
Tax charged to other comprehensive income	– 1,227	216
Foreign exchange rate differences	705	1,123
First time adoption of IFRS 16	– 626	0
Acquisition of subsidiaries	0	14,031
Deferred tax liabilities (net) – as of December 31	**60,187**	**66,528**

The analysis of deferred income tax assets and deferred income tax liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets T076

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Intangible assets	4,146	2,556
Property, plant and equipment	585	692
Other assets	1,005	806
Inventories	2,560	1,812
Trade receivables	909	1,291
Retirement benefit obligations / pension liabilities	2,937	2,205
Provisions	490	491
Borrowings	176	1,347
Other liabilities, incl. derivatives	2,656	2,505
Trade and other payables	651	559
Tax loss carry forward and tax credits	3,430	2,962
Deferred tax assets (before valuation allowances)	**19,546**	**17,226**
Valuation allowance	– 2,245	– 1,847
Deferred tax assets (before offsetting)	**17,301**	**15,379**
Offsetting effects	– 7,926	– 8,808
Deferred tax assets	**9,375**	**6,571**

Deferred income tax liabilities T077

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Intangible assets	57,406	60,287
Property, plant and equipment	15,171	14,703
Other assets	1,603	3,801
Inventories	162	179
Trade receivables	198	325
Retirement benefit obligations / pension liabilities	6	0
Borrowings	200	6
Provisions	90	255
Other liabilities, incl. derivatives	394	30
Trade and other payables	3	41
Untaxed reserves	2,254	2,280
Deferred tax liabilities (before offsetting)	**77,488**	**81,907**
Offsetting effects	– 7,926	– 8,808
Deferred tax liabilities	**69,562**	**73,099**
Deferred tax liabilities (net)	**60,187**	**66,528**

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilized. As of December 31, 2019, and also in the previous year, deferred tax assets were recognized for all deductible temporary differences because sufficient taxable income will most likely be available to utilize these deductible temporary differences.

In 2019 and prior years, the Group had tax losses at several subsidiaries in several countries.

Deferred income tax assets are recognized for tax loss carry forwards as far as it is expected that the deferred tax assets will be utilized in the foreseeable future.

Deferred income tax assets for unused tax losses and unused tax credits developed as follows:

Expiry of recognized tax losses T078

in EUR thousands	Dec 31, 2019	Dec 31, 2018
up to 1 year	35	2,505
> 1 year up to 5 years	1,623	450
> 5 years	1,698	1,671
Unlimited carry forward	7,828	4,643
Total	**11,184**	**9,269**

The Group did not recognize deferred income tax assets in respect of tax loss carry forwards amounting to EUR 6,516 thousand on December 31, 2019 (Dec 31, 2018: EUR 6,189 thousand).

The expiration of tax loss carry forwards not recognized for tax purposes is as follows:

Expiry of not recognized tax losses T079

in EUR thousands	Dec 31, 2019	Dec 31, 2018
up to 1 year	0	1,546
> 1 year up to 5 years	0	0
> 5 years	0	0
Unlimited carry forward	6,516	4,643
Total	**6,516**	**6,189**

Regarding taxable temporary differences amounting to EUR 419,395 thousand on December 31, 2019 (Dec 31, 2018: EUR 365,100 thousand), associated with investments in subsidiaries, no deferred tax liabilities are recognized since the respective parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

18. Goodwill and other intangible assets

The acquisition costs as well as accumulated amortization and impairment of intangible assets consist of the following:

Development of goodwill and other intangible assets T080

in EUR thousands	As of Jan 1, 2019	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	As of Dec 31, 2019
Acquisition costs							
Goodwill	423,918	0	0	0	0	4,078	427,996
Customer lists	272,509	0	0	0	0	4,654	277,163
Licenses, rights	1,920	40	– 24	– 26	0	8	1,918
Software acquired externally	43,281	822	– 146	400	0	282	44,639
Trademarks	55,859	0	0	0	0	1,000	56,859
Patents & technology	70,395	816	0	0	0	590	71,801
Internally generated intangible assets	23,113	6,692	– 188	247	0	296	30,160
Intangible assets, other	8,551	853	– 26	– 621	0	– 41	8,716
Total	**899,546**	**9,223**	**– 384**	**0**	**0**	**10,867**	919,252
Amortization and impairment							
Goodwill	34,413	0	0	0	0	496	34,909
Customer lists	87,645	16,768	0	0	0	1,776	106,189
Licenses, rights	1,771	26	– 24	– 33	0	7	1,747
Software acquired externally	35,539	3,650	– 144	182	0	164	39,391
Trademarks	12,889	1,552	0	0	0	236	14,677
Patents & technology	35,899	4,895	0	0	0	500	41,294
Internally generated intangible assets	11,528	4,334	– 188	247	0	207	16,128
Intangible assets, other	6,963	0	– 26	– 396	0	– 118	6,423
Total	**226,647**	**31,225**	**– 382**	**0**	**0**	**3,268**	**260,758**

CONTINUE ON NEXT PAGE

Development of goodwill and other intangible assets (continued) T080

in EUR thousands	As of Jan 1, 2018	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	As of Dec 31, 2018
Acquisition costs							
Goodwill	389,962	0	0	0	23,822	10,134	423,918
Customer lists	243,447	0	0	0	20,228	8,834	272,509
Licenses, rights	1,900	7	0	5	0	8	1,920
Software acquired externally	41,056	1,576	– 44	171	244	278	43,281
Trademarks	51,667	0	0	0	1,865	2,327	55,859
Patents & technology	49,541	669	0	0	18,782	1,403	70,395
Internally generated intangible assets	16,948	5,758	0	16	0	391	23,113
Intangible assets, other	7,788	1,010	0	– 121	0	– 126	8,551
Total	**802,309**	**9,020**	**– 44**	**71**	**64,941**	**23,249**	**899,546**
Amortization and impairment							
Goodwill	33,245	0	0	0	0	1,168	34,413
Customer lists	67,753	17,500	0	0	0	2,392	87,645
Licenses, rights	1,711	50	0	0	0	10	1,771
Software acquired externally	30,864	4,444	– 38	0	0	269	35,539
Trademarks	10,941	1,430	0	0	0	518	12,889
Patents & technology	30,715	4,021	0	0	0	1,163	35,899
Internally generated intangible assets	7,625	3,729	– 3	0	0	177	11,528
Intangible assets, other	7,009	80	0	0	0	– 126	6,963
Total	**189,863**	**31,254**	**– 41**	**0**	**0**	**5,571**	**226,647**

Goodwill and other intangible assets – carrying amounts T081

in EUR thousands	Carrying amounts Dec 31, 2019	Dec 31, 2018
Goodwill	393,087	389,505
Customer lists	170,974	184,864
Licenses, rights	171	149
Software acquired externally	5,248	7,742
Trademarks	42,182	42,970
Patents & technology	30,507	34,496
Internally generated intangible assets	14,032	11,585
Intangible assets, other	2,293	1,588
Total	**658,494**	**672,899**

The item 'patents and technology' on December 31, 2019, consists of patents worth EUR 8,494 thousand (Dec 31, 2018: EUR 9,797 thousand) and technology worth EUR 22,013 thousand (Dec 31, 2018: EUR 24,699 thousand).

Internally generated intangible assets include development costs for technologies in the amount of EUR 9,071 thousand (Dec 31, 2018: EUR 8,078 thousand) as well as internally generated software in the amount of EUR 4,960 thousand (Dec 31, 2018: EUR 3,507 thousand).

The item 'Intangible assets, other' consists mainly of prepayments.

Significant individual intangible assets T082

in EUR thousands	Carrying amounts Dec 31, 2019	Dec 31, 2018	Remaining Useful Life (in years)
NDS – Customer lists	109,801	114,994	15

The change in goodwill, customer lists and patents & technology results from positive foreign exchange differences, mainly from the US dollar area.

The change in goodwill is summarized as follows:

Change in goodwill T083

in EUR thousands	
Balance as of December 31, 2018	**389,505**
Currency effect	3,582
Balance as of December 31, 2019	**393,087**

Besides the goodwill, there are intangible assets within trademarks with an indefinite useful life in the amount of EUR 28,396 thousand (2018: EUR 27,860 thousand) resulting from the acquisition of NDS in 2014. From a market perspective, NORMA Group assumed an indefinite useful life for these acquired trademarks, which mainly include the corporate brand NDS®, because these brands have been established in the market for a number of years and there is no foreseeable end to their useful life, therefore useful lives are indefinite. Trademarks with indefinite useful lives are fully allocated to the cash-generating unit (CGU) Americas.

Trademarks with an unknown term of use are subjected to an annual impairment test pursuant to IAS 36 on the basis of the recoverable amount pursuant to the procedure described in → NOTE 3. 'SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – IMPAIRMENT OF NON-FINANCIAL ASSETS.'

On December 31, 2019, and 2018, the intangible assets were unsecured.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to geographical areas. A summary of the goodwill allocation is presented below:

Goodwill allocation per segment T084

in EUR thousands	Dec 31, 2019	Dec 31, 2018
CGU EMEA	178,484	178,540
CGU Americas	180,030	176,500
CGU Asia-Pacific	34,573	34,465
	393,087	**389,505**

Goodwill for the CGU Americas increased in 2019 mainly due to currency effects.

The recoverable amount of a CGU is determined based on fair value less costs to sell, which is calculated by discounting projected cash flows. Based on the inputs used for this valuation technique, fair values are classified as level 3 fair values. → NOTE 3 'SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – FAIR VALUE ESTIMATION' These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed our expectations for the long-term average growth rate for the geographical area of the respective CGU.

The discount rates used are after tax rates and reflect the specific risk of each CGU. The respective before tax rates are 11.71% (2018: 10.61%) for the CGU EMEA, 9.82 % (2018: 8.86%) for the CGU Americas and 11.88% (2018: 10.74%) for the CGU Asia-Pacific.

The key assumptions used for fair value less costs to sell calculations are as follows:

Goodwill per segment – key assumptions T085

December 31, 2019	CGU EMEA	CGU Americas	CGU Asia-Pacific
Terminal value growth rate	1.00%	1.00%	1.00%
Discount rate	9.19%	8.14%	9.28%
Costs to sell	1.00%	1.00%	1.00%
December 31, 2018	**CGU EMEA**	**CGU Americas**	**CGU Asia-Pacific**
Terminal value growth rate	1.50%	1.50%	1.50%
Discount rate	8.40%	7.15%	8.44%
Costs to sell	1.00%	1.00%	1.00%

The assumptions are based on management's expectations regarding future developments.

A sensitivity analysis for the individual CGUs takes into account any changes in the key assumptions that are considered possible. The sensitivity analysis was performed in isolation for all significant influencing factors, i.e. a change in the fair value of a cash-generating unit is only caused by a reduction or increase in the respective influencing factor.

Impairment losses on other intangible assets

No significant impairment losses or reversals of impairment losses were recognised for intangible assets in fiscal year 2019.

19. Property, plant and equipment

The acquisition and manufacturing costs as well as accumulated depreciation of property, plant and equipment consist of the following:

Development of property, plant and equipment

T086

in EUR thousands	As of Dec 31, 2018	adjustments from changes in accounting policies (Note 2, basis of preparation)	As of Jan 1, 2019 (adjusted)	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	As of Dec 31, 2019
Acquisition costs									
Land and buildings	120,700	– 5,452	115,248	1,391	– 29	776		569	117,955
Machinery & tools	343,606		343,606	16,346	– 3,342	21,138		2,794	380,542
Other equipment	69,628		69,628	2,945	– 2,693	1,683		321	71,884
Assets under construction	36,716		36,716	24,938	– 72	– 23,597		317	38,302
Right of Use Assets									
Land and buildings	0	61,497	61,497	11,907	– 3,956			412	69,860
Machinery & tools	0	206	206	133	0				339
Forklifts and warehouse	0	2,949	2,949	408	– 299			11	3,069
Office and IT equipment	0	458	458	57	0			5	520
Company cars	0	3,321	3,321	1,465	– 388			26	4,424
Total	**570,650**	**62,979**	**633,629**	**59,590**	**– 10,779**	**0**	**0**	**4,455**	**686,895**
Depreciation and impairment									
Land and buildings	54,132	– 182	53,950	3,290	– 28			161	57,373
Machinery & tools	219,781		219,781	26,522	– 2,887			1,312	244,728
Other equipment	53,378		53,378	5,643	– 2,602			214	56,633
Assets under construction	33		33	0	– 7			– 7	19
Right of Use Assets									
Land and buildings	0	28,449	28,449	8,297	– 3,639			– 81	33,026
Machinery & tools	0	24	24	68	0			0	92
Forklifts and warehouse	0	1,258	1,258	656	– 274			0	1,640
Office and IT equipment	0	167	167	121	0			– 1	287
Company cars	0	1,283	1,283	1,294	– 333			10	2,254
Total	**327,324**	**30,999**	**358,323**	**45,891**	**– 9,770**	**0**	**0**	**1,608**	**396,052**

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Development of property, plant and equipment (continued) T086

in EUR thousands	As of Jan 1, 2018	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	As of Dec 31, 2018
Acquisition costs							
Land and buildings	111,560	2,332	– 312	1,912	5,112	96	120,700
Machinery & tools	302,020	15,459	– 1,367	17,059	8,121	2,314	343,606
Other equipment	65,565	2,998	– 1,205	1,171	1,030	69	69,628
Assets under construction	22,021	33,446	– 242	– 20,213	1,309	395	36,716
Total	**501,166**	**54,235**	**– 3,126**	**– 71**	**15,572**	**2,874**	**570,650**
Depreciation and impairment							
Land and buildings	51,181	3,098	– 53	0	0	– 94	54,132
Machinery & tools	196,162	23,365	– 951	0	0	1,205	219,781
Other equipment	48,641	5,708	– 959	0	0	– 12	53,378
Assets under construction	29	4	0	0	0	0	33
Total	**296,013**	**32,175**	**– 1,963**	**0**	**0**	**1,099**	**327,324**

Property, plant and equipment – carrying amounts T087

	Carrying amounts	
in EUR thousands	Dec 31, 2019	Dec 31, 2018
Land and buildings	60,582	66,568
Machinery & tools	135,814	123,825
Other equipment	15,251	16,250
Assets under construction	38,283	36,683
Total	**249,930**	**243,326**

On December 31, 2019, the item 'Machinery and tools' included tools valued at EUR 30,688 thousand (Dec 31, 2018: EUR 28,166 thousand).

No material impairment and no material write-ups were recognized on property, plant and equipment in 2019 and 2018.

On December 31, 2019, and 2018, property, plant and equipment were unsecured.

20. Leases

The following disclosures contain information about NORMA Group's leases following the first-time adoption of IFRS 16 in fiscal year 2019.

(i) Amounts recognized in the Consolidated Statement of Financial Position

The following items related to leases are shown in the Consolidated Statement of Financial Position:

Right of use assets – carrying amounts T088

in EUR thousands	Carrying amounts Dec 31, 2019
Land and buildings	36,834
Machinery & tools	247
Forklifts and warehouse	1,429
Office and IT equipment	233
Company cars	2,170
Total	**40,913**

Carrying amounts as of January 1, 2019 (moment of first time adoption) are shown under → NOTE 2 'BASIS OF PREPARATION'.

The maturities of the nominal values and the carrying amounts of the lease liabilities as of December 31, 2019, are as follows:

Maturity of lease liabilities Dec 31, 2019 T089

in EUR thousands	up to 1 year	> 1 year up to 2 years	> 5 years
Lease liabilities – Nominal value	11,369	26,366	16,983
Lease liabilities – Carrying amount	8,427	17,790	12,378

(ii) Amounts recognised in the income statement

The following amounts relating to leases are recognised in the income statement:

Leases in the statement of profit or loss T090

in TEUR	2019
Depreciation charge of right-of-use assets	**10,436**
Land and buildings	8,297
Machineries and technical equipments	68
Forklifts and warehouse equipments	656
Office and IT equipments	121
Company cars	1,294
Finance costs	**– 1,256**
Interest expenses	– 1,260
Currency gains / -losses	4
Other operating expenses	**4,463**
Expenses relating to short-term leases for which no RoU asset was recorded	3,614
Expenses relating to leases of low-value assets that are not shown above as short-term leases	849
Expenses relating to variable lease payments that were not included in the measurement of the lease liability	0

(iii) Amounts recognised in the cash flow statement

EUR 15,781 thousand in total are recognised as cash outflows in the cash flow statement because of right-of-use assets. Of this, EUR 11,318 thousand were recognised under cash flows from financing activities and EUR 4,463 thousand were recognised under cash flows from operating activities.

21. Financial instruments

The following disclosures provide an overview of the financial instruments held by the Group, detailed information about each type of financial instrument held and information about the accounting policies used.

Financial instruments according to classes and categories were as follows:

Financial instruments – classes and categories

T091

in EUR thousands	Note	Category IFRS 7.8 according to IFRS 9	Carrying amount Dec 31, 2019	Measurement basis IFRS 9: Amortized cost	Measurement basis IFRS 9: Fair value through profit or loss	Measurement basis IFRS 9: Derivatives used for hedging	Measure-ment basis IFRS 16	Fair value Dec 31, 2019
Financial assets								
Derivative financial instruments – hedge accounting	21. (f)							
Interest rate swaps – cash flow hedges		n/a	435			435		435
Foreign exchange derivatives – fair value hedges		n/a	15			15		15
Trade and other receivables	21. (a)	Amortized Cost	140,258	140,258				140,258
Trade receivable – ABS / Factoring program (mandatorily measured at FVTPL)	21. (b)	FVTPL	22,128		22,128			22,128
Other financial assets	21. (d)	Amortized Cost	4,792	4,792				4,792
Cash and cash equivalents	21. (c)	Amortized Cost	179,721	179,721				179,721
Financial liabilities								
Borrowings	21. (e)	FLAC	541,898	541,898				556,309
Derivative financial instruments – hedge accounting	**21. (f)**							
Interest rate swaps – cash flow hedges		n/a	911			911		911
Foreign exchange derivatives – fair value hedges		n/a	2			2		2
Trade and other payables	21. (e)	FLAC	143,119	143,119				143,119
Finance lease liabilities	20	n/a	38,595				38,595	n/a
Other liabilities	21. (e)	FLAC	19,126	19,126				19,126
Totals per category								
Financial assets at amortized cost			324,771	324,771				324,771
Financial assets at fair value through profit or loss (FVTPL)			22,128		22,128			22,128
Financial liabilities at amortized cost (FLAC)			704,143	704,143				718,554

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Financial instruments – classes and categories (continued)

T091

				Measurement basis IFRS 9				
in EUR thousands	Note	Category IFRS 7.8 according to IFRS 9	**Carrying amount Dec 31, 2018**	Amortized cost	Fair value through profit or loss	Derivatives used for hedging	Measurement basis IAS 17	**Fair value Dec 31, 2018**
Financial assets								
Derivative financial instruments – hedge accounting	21. (f)							
Interest rate swaps – cash flow hedges		n/a	2,571			2,571		2,571
Foreign exchange derivatives – cash flow hedges		n/a	151			151		151
Foreign exchange derivatives – fair value hedges		n/a	42			42		42
Trade and other receivables	21. (a)	Amortized Cost	128,485	128,485				128,485
Trade receivable – ABS / Factoring program (mandatorily measured at FVTPL)	21. (b)	FVTPL	14,653		14,653			14,653
Other financial assets	21. (d)	Amortized Cost	5,231	5,231				5,231
Cash and cash equivalents	21. (c)	Amortized Cost	190,392	190,392				190,392
Financial liabilities								
Borrowings	21. (e)	FLAC	569,091	569,091				582,624
Derivative financial instruments – hedge accounting	21. (f)							
Interest rate swaps – cash flow hedges		n/a	675			675		675
Foreign exchange derivatives – cash flow hedges		n/a	45			45		45
Foreign exchange derivatives – fair value hedges		n/a	38			38		38
Trade and other payables	21. (e)	FLAC	142,028	142,028				142,028
Other financial liabilities	21. (e)							
Other liabilities		FLAC	20,826	20,826				20,826
Finance lease liabilities		n/a	32				32	32
Totals per category								
Financial assets at amortized cost			324,108	324,108				324,108
Financial assets at fair value through profit or loss (FVTPL)			14,653		14,653			14,653
Financial liabilities at amortized cost (FLAC)			731,945	731,945				745,478

21. (a) Trade and other receivables

Trade and other receivables were as follows:

Trade and other receivables T092

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Trade receivables	153,521	135,771
Other receivables	8,865	7,367
	162,386	**143,138**

Other receivables mainly include banker's acceptance bills for trade receivables for customers in China. These financial assets are generally required to collect contractual cash flows and are allocated to the "hold" business model accordingly and are initially recognized at fair value plus transaction costs and are subsequently carried at amortized cost using the effective interest method less any impairment losses.

On the balance sheet date, trade receivables were as follows:

Trade receivables T093

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Trade receivables	155,158	137,425
Less allowances for doubtful accounts	– 1,637	– 1,654
	153,521	**135,771**

i. Classification as trade receivables
Trade receivables are amounts payable by customers for goods sold or services rendered in the ordinary course of business. If the receivables are expected to be settled within twelve months, they are classified as current assets. If this is exceptionally not the case, they are reported as non-current assets. Trade receivables are classified in accordance with IFRS 9. They are generally required to collect the contractual cash flows and are allocated to the "hold" business model accordingly. They are recognized initially at the amount of the unconditional consideration and are subsequently carried at amortized cost using the effective interest method less any impairment losses. If trade receivables contain a significant financing component, they are initially recognized at fair value.

ii. Impairment and write-offs of trade receivables
For trade receivables, the simplified approach, which is based on the expected credit losses over the respective terms, is used. Loss rates calculated on the basis of historical and forecast data are used, taking into account the business model, the respective customer and the economic environment of the geographical region.

For this purpose, NORMA Group considers in particular the credit default swaps of the respective client's home countries as well as industry-specific default probabilities derived from external sources. In addition, loss rates from customer-specific credit default swaps (CDS) are used, if available.

On this basis, the allowance for trade receivables and contract assets as of December 31, 2019 was determined as follows:

Credit risk exposure trade receivables T094

As of December 31, 2019

in EUR thousands	Credit loss rate < 1%	Credit loss rate ≥ 1% ≤ 2.5%	Credit loss rate > 2.5%	Total
Trade receivables – before allowances	78,072	48,907	6,051	133,030
ECL allowance	704	723	210	1,637
Trade receivables – after allowances	77,368	48,184	5,841	131,393

As of December 31, 2018

in EUR thousands	Credit loss rate < 1%	Credit loss rate ≥ 1% ≤ 2.5%	Credit loss rate > 2.5%	Total
Trade receivables – before allowances	66,895	47,694	8,183	122,772
ECL allowance	488	892	274	1,654
Trade receivables – after allowances	66,407	46,802	7,909	121,118

The impairment losses on trade receivables developed as follows from the opening balance sheet value as of January 1, 2019, to the closing balance sheet value as of December 31, 2019:

Impairment reconciliation T095

in EUR thousands	Impairments on trade receivables
Impairment allowance as of Jan 1, 2019 – based on IFRS 9	**1,654**
Additions	1,293
Reversals	– 1,240
Consumption	– 89
Translation effect	19
Impairment allowance as of Dec 31, 2019	**1,637**

Impairment losses on trade receivables, together with those on contract assets, are recognized in operating profit as net impairment losses. Unused amounts reversed are included in the same line item. The net expenses recognized in fiscal year 2019 from these impairment losses amounted to EUR 53 thousand (2018: 62 thousand).

Receivables with significant arrears, which may be more than 180 days due to the customer structure, or those for which insolvency or similar proceedings have been initiated, are individually tested for impairment. If, on the basis of an appropriate assessment, it cannot be assumed that these can be realized, they are written off directly. In the fiscal year, the following losses resulted from the write-off of trade receivables:

Gains / losses arising from derecognition IFRS 7.20A T096

in EUR thousands	2019	2018	Reasons for derecognition
Gains arising from derecognition	0	0	
Losses arising from derecognition	893	507	Write-off (IFRS 9.5.4.4)

Losses on the disposal of trade receivables through write-offs are recognized in operating profit as impairment losses, net. Unused amounts reversed are included in the same line item.

iii. Fair value of trade receivables
Trade receivables have short-term maturities, therefore the carrying amounts on the balance sheet date correspond to their fair values, as the effects of discounting are not material.

21. (b) Trade receivables transferred or available for transfer

i. Transferred trade receivables
Subsidiaries of NORMA Group in the EMEA and Americas segments transfer trade receivables to external purchasers as part of factoring and ABS transactions. The details and effects of the respective programs are presented below.

a) Factoring transactions
In the factoring agreement concluded in 2017, that has a maximum volume of receivables of EUR 18 million, NORMA Group subsidiaries in Germany and Poland sell trade receivables directly to external purchasers. As part of this factoring program, receivables of EUR 6.4 million were sold as of December 31, 2019, (Dec 31, 2018: EUR 8.6 million) whereof EUR 0.6 million (Dec 31, 2018: EUR 0.0 million) are purchase price retention that are maintained as a cintingency reserve and not paid out, but recognized as other financial asset.

The requirements for a receivables transfer were met in accordance with IFRS 9.3.2.1 since the receivables were transferred in accordance with IFRS 9.3.2.4 a). Verification in accordance with IFRS 9.3.2.6 shows that nearly all opportunities and risks were neither transferred nor retained. It follows in accordance with IFRS 9.3.2.16 that NORMA Group recognizes remaining continuing involvement.

NORMA Group is continuing to perform receivables management (servicing) for the receivables sold.

Although NORMA Group is only entitled to act as a servicer, the Company retains the right to dispose of the sold receivables, as purchasers do not have the right to resell the receivables acquired.

NORMA Group is continuing to recognize the sold trade receivable to the extent of its continuing involvement, i. e., at the maximum amount to which it continues to be liable for the late payment risk inherent in the receivables sold. Hence, NORMA Group is recognizing a corresponding financial liability.

The remaining continuing involvement in the amount of EUR 59 thousand (Dec 31, 2018: EUR 79 thousand) was recognized as a financial liability and considers the maximum potential loss for NORMA Group resulting from the late payment risk of receivables sold as of the reporting date. The fair value of the guarantee / interest payments to be assumed has been estimated at EUR 5 thousand (Dec 31, 2018: EUR 7 thousand) , taken through profit or loss and recognized under other liabilities.

In 2018, NORMA established a further factoring program. Under the factoring agreement concluded in December 2018 with a maximum receivables volume of USD 16 million, a subsidiary of NORMA Group in the US sells trade receivables directly to external purchasers. As part of this factoring program, receivables amounting to EUR 11.8 million were sold as of December 31, 2019 (Dec 31, 2018: EUR 15.4 million). Of this amount, EUR 2.4 million (Dec 31, 2018: EUR 3.2 million) were treated as purchase price retentions and not paid out, but rather held as security reserves and recognized as other financial assets.

The requirements for the derecognition of receivables in accordance with IFRS 9.3.2.1 are met, as the receivables are transferred in accordance with IFRS 9.3.2.4 a). The examination of IFRS 9.3.2.6 shows that essentially all opportunities and risks have been transferred.

NORMA Group continues to service the receivables sold.

Although NORMA Group is not entitled to dispose of the receivables sold in any other way than within the framework of receivables management, the Company retains control over the receivables sold as the buyers do not have the actual ability to resell the acquired receivables.

b) ABS transactions
In 2014, NORMA Group entered into a revolving asset purchase agreement (Receivables Purchase Agreement) with Weinberg Capital Ltd. (special purpose entity). Within the agreed structure, NORMA Group sold trade receivables in the context of an ABS transaction which was successfully initiated in December 2014. Receivables are sold by NORMA Group to a special purpose entity.

As of December 31, 2019, domestic NORMA Group entities had sold receivables in an amount of EUR 14.0 million (Dec 31, 2018: EUR 15.2 million) under this asset-backed securities (ABS) program with a maximum volume of EUR 25 million. From the receivables sold, EUR 0.6 million (Dec 31, 2018: EUR 0.6 million) were retained as loss reserves and not paid out. These assets were recognized as other financial assets. The basis for this transaction is the transfer of trade receivables of individual NORMA Group subsidiaries to a special purpose entity with a framework of undisclosed assignment. This special purpose entity (SPE) is not consolidated under IFRS 10 because neither the power over the SPE is attributable to NORMA Group nor does NORMA Group have an essential self-interest and no connection between power and variability of the returns of the special purpose entity exists.

The requirements for a receivables transfer according to IFRS 9.3.2.1 are met, since the receivables are transferred according to IFRS 9.3.2.4 a). Verification in accordance with IFRS 9.3.2.6 shows that a substantial share of all risks and rewards were neither transferred nor retained. Therefore, according to IFRS 9.3.2.16, NORMA Group's continuing involvement must be recognized.

This continuing involvement in the amount of EUR 251 thousand (Dec 31, 2018: EUR 272 thousand) includes the maximum amount that NORMA Group could conceivably have to pay back under the default guarantee and the expected interest payments until the payment is received for the carrying amount of the receivables transferred. The fair value of the guarantee / interest payments to be assumed has been estimated at EUR 205 thousand (Dec 31, 2018: EUR 215 thousand), taken through profit or loss and recognized under other liabilities.

NORMA Group entered into another agreement with Weinberg Capital Ltd. (program special purpose entity) in fiscal year 2018 by concluding a further revolving receivables purchase agreement on the sale of trade receivables. The agreed structure provides for the sale of trade receivables of NORMA Group as part of an ABS transaction and was successfully initiated in December 2018. The receivables are sold to a special purpose entity by NORMA Group.

As part of this ABS program with a volume of up to USD 30 million, US American Group companies of NORMA Group sold receivables amounting to EUR 19.5 million as of December 31, 2019 (Dec 31, 2018: EUR 22.0 million), of which EUR 0.8 million (Dec 31, 2018: EUR 0.9 million) were not paid out as purchase price retentions, but rather held as security reserves and recognized as other financial assets. The basis for the transaction is the assignment of trade receivables of individual NORMA Group companies to a program special purpose entity as part of a silent assignment. According to IFRS 10, this program special purpose entity is not to be consolidated, as NORMA Group is not assigned any decision-making power, nor is there any material self-interest or link between decision-making power and the variability of returns from the program special purpose entity.

The requirements for derecognition of receivables in accordance with IFRS 9.3.2.1 are met, as the receivables are transferred in accordance with IFRS 9.3.2.4 a). The audit of IFRS 9.3.2.6 shows that almost all opportunities and risks have neither been transferred nor retained. In accordance with IFRS 9.3.2.16, NORMA Group must therefore recognize the remaining continuing involvement.

A continuing involvement of EUR 619 thousand (Dec 31, 2018: EUR 813 thousand) was recognized as other financial liability and comprises the maximum amount that NORMA Group might have to repay under the assumed default guarantee and the expected interest payments until receipt of payment in respect of the carrying amount of the receivables transferred. The fair value of the guarantee or of the interest payments to be assumed was included in the carrying amount and recognized as other liabilities in the amount of EUR 227 thousand (Dec 31, 2018: EUR 287 thousand).

ii. Trade receivables available for transfer

In the opinion of the Group, trade receivables included in these programs but not yet disposed of at the end of the reporting period cannot be allocated to either the "hold" or the "hold and sell" business models. They are therefore included in the fair value through profit and loss (FVTPL) category.

21. (c) Cash and cash equivalents

Cash and cash equivalents are measured at their nominal value and include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and which are subject only to insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated Statement of Financial Position.

21. (d) Other financial assets

Other financial asstes were as follows:

Other financial assets T097

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Receivables from ABS program	1,426	1,521
Receivables from factoring	3,010	3,204
Other assets	356	506
	4,792	**5,231**

Receivables from the ABS program and from factoring include reserves for the trade receivables sold. → NOTE 21. (B) 'TRADE RECEIVABLES TRANSFERRED OR AVAILABLE FOR TRANSFER'

Other financial assets are generally required to collect the contractual cash flows and are accordingly allocated to the "hold" business model. They are initially recognized at fair value plus transaction costs and are subsequently carried at amortized cost using the effective interest method less impairment.

21. (e) Financial liabilities and net debt

i. Trade and other liabilities

Trade and other payables are as follows:

Trade and other payables T098

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Trade payables and other payables	109,385	109,193
Reverse factoring liabilities	21,335	19,200
Refund liabilities	12,399	13,635
	143,119	**142,028**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NORMA Group participates in a reverse factoring program. The liabilities included in this program are reported under trade payables and similar liabilities, as this corresponds to the economic content of the transactions.

All trade payables and liabilities from reverse factoring programs are due to third parties within one year. As a result, these have short-term maturities, therefore the carrying amounts on the balance sheet date correspond to their fair values, as the effects of discounting are not material.

Refund liabilities

Reimbursement liabilities are recognized for volume discounts and similar bonus agreements payable to customers. These arise from retrospective volume rebates or similar agreements that are based on total sales or on a specific product sale of a 12-month or shorter period. Refund liabilities are recognized for discounts expected to be payable to the customer for sales completed by the end of the reporting period. For further details, please refer to → NOTE 3 'SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES.'

All reimbursement liabilities are due to third parties within one year. The carrying amounts on the balance sheet date therefore correspond to their fair values, as the effects of discounting are not material.

ii. Bank borrowings

The borrowings were as follows:

Borrowings T099

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Non-current		
Bank borrowings	495,927	455,759
	495,927	**455,759**
Current		
Bank borrowings	45,971	113,332
	45,971	**113,332**
Total borrowings	**541,898**	**569,091**

Borrowings are recognized initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The maturity of the syndicated bank facilities and the promissory note on December 31, 2019, is as follows:

Maturity bank borrowings 2019 T100

in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Syndicated bank facilities, net	0	0	247,740	
Promissory note, net	29,000	99,739	108,072	41,500
Commercial paper	15,000			
Total	**44,000**	**99,739**	**355,812**	**41,500**

The maturity of the syndicated bank facilities and the promissory note on December 31, 2018, is as follows:

Maturity bank borrowings 2018 T101

in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Syndicated bank facilities, net	4,839	4,839	174,590	0
Promissory note, net	106,103	29,000	161,635	86,500
Total	**110,942**	**33,839**	**336,225**	**86,500**

a) Fair value of bank borrowings

The fair value calculation of the fixed-interest promissory note, which is recognized at amortized cost and for which the fair value is stated in the notes, was based on the market yield curve according to the zero coupon method considering credit spreads (level 2). Interest accrued on the reporting date is included.

b) Financial covenant

The Group is subject to the financial covenant total net debt cover (net debt in relation to adjusted Group EBITDA), which is monitored on an ongoing basis. This financial covenant is based on the Group's Consolidated Financial Statements as well as on special definitions of the bank facility agreements.

In the event of non-compliance with a financial ratio, the credit agreement provides for several possibilities of cure in the form of exemption provisions of the shareholder measures. If there is a breach of a condition which is not remedied, the syndicated loan may possibly be called in.

There were no covenant breaches in 2019 and 2018.

iii. Other financial liabilities

Other financial liabilities were as follows:

Other financial liabilities T102

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Non-current		
Lease liabilities	n/a	16
Other liabilities	1,630	1,976
	1,630	**1,992**
Current		
Lease liabilities	n/a	16
Acquisition liability	0	546
Liabilities from ABS and factoring	16,043	17,141
Other liabilities	1,453	1,163
	17,496	**18,866**
Total other financial liabilities	**19,126**	**20,858**

a) Lease liabilities as of Dec 31, 2018

To a minor extent, the Group leases property, plant and equipment and land under finance leases with terms of between 1 and 5 years.

The future aggregate minimum lease payments under non-cancellable finance leases and their respective present values are as follows:

Future minimum lease payments non-cancellable finance leases T103

in EUR thousands	Dec 31, 2018
Gross finance lease liabilities – minimum lease payments	
Up to 1 year	17
> 1 year up to 5 years	18
> 5 years	0
	35
Future finance charges on finance lease	**3**
Present value of finance lease liabilities	
Up to 1 year	16
> 1 year up to 5 years	16
> 5 years	0
	32

The fair values of finance lease liabilities are calculated as the present values of the payments associated with the debts based on the applicable yield curve and NORMA Group's credit spread curve (level 2).

The information on NORMA Group's leasing liabilities for fiscal year 2019 is presented under → NOTE 20. 'LEASES'.

b) Liabilities from the ABS and factoring

The liabilities from the ABS and factoring include liabilities from continuing involvement in the amount of EUR 929 thousand (Dec 31, 2018: EUR 1,164 thousand), liabilities from fair values of default and interest guarantees in the amount of EUR 438 thousand (Dec 31, 2018: EUR 509 thousand) recorded under the ABS and factoring programs and liabilities from customer payments for receivables already sold under the ABS and factoring programs in the amount of EUR 14,676 thousand (Dec 31, 2018: EUR 15,468 thousand) as part of the debtor / receivables management performed by NORMA Group.

c) Other liabilities

As of December 31, 2019, other non-current liabilities include liabilities of EUR 1,631 thousand (2018: EUR 1,976 thousand) for the option to acquire the remaining minority interest in connection with the acquisition of Fengfan Fastener (Shaoxing) Co., Ltd. (Fengfan) in the second quarter of 2017. This option gives NORMA Group the right to acquire the remaining 20% of the shares in Fengfan. The risks and rewards of the remaining shares are not transferred to NORMA Group due to the contractual structure. Consequently, the present value of the estimated future payment of EUR 3,946 thousand at the time of acquisition is reported under other financial liabilities. Changes in the estimate of the amount to be paid are recognized in the income statement under the financial result in the Consolidated Statement of Comprehensive Income. Current liabilities include liabilities from bills of exchange amounting to EUR 146 thousand and other liabilities.

iv. Maturity of financial liabilities

The financial liabilities of NORMA Group have the following maturity:

Maturity of financial liabilities T104

Dec 31, 2019

in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Borrowings	45,971	99,208	355,247	41,472
Trade and other payables	143,119			
Other financial liabilities	17,496		1,630	
	206,586	**99,208**	**356,877**	**41,472**

Dec 31, 2018

in EUR thousands	up to 1 year	> 1 year up to 2 years	> 2 years up to 5 years	> 5 years
Borrowings	113,332	33,348	335,977	86,434
Trade and other payables	142,028			
Finance lease liabilities	16	4	12	
Other financial liabilities	18,850		1,976	
	274,226	**33,352**	**337,965**	**86,434**

v. Net debt

Net debt of NORMA Group is as follows:

Net debt T105

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Bank borrowings, net	541,898	569,091
Derivative financial liabilities – hedge accounting	913	758
Lease liabilities (2018: finance lease liabilities)	38,595	32
Other financial liabilities	19,126	20,826
Financial debt	**600,532**	**590,707**
Cash and cash equivalents	179,721	190,392
Net debt	**420,811**	**400,315**

At EUR 600,532 thousand, the financial liabilities of NORMA Group were 1.7% higher than on December 31, 2018 (EUR 590,707 thousand). The decrease in loans is attributable to the net repayment due to the refinancing in December 2019 → NOTE 5. 'FINANCIAL RISK MANAGEMENT'. Contrary, the effects of exchange rate changes on the US dollar tranches of the syndicated loans and the promissory note loan increased the loans item. In the area of derivatives, there was an increase in the negative market values of hedging derivatives.

The increase of lease liabilities is due to the first time recognition of liabilites for recognised right of use assets because of the first time adoption of IFRS 16 in fiscal year 2019 (EUR 38,595 thousand).

On the other hand, other liabilities decreased due to the payment of liabilities resulting from ABS and factoring and the adjustment of the recognised liabilities for the option to acquire minority interests in the amount of EUR 1,631 thousand (2018: 1,976 thousand) in connection with the acquisition of Fengfan.

Net debt increasd by EUR 20,496 thousand, an increase of 5.1%, to 420,811 compared to the previous year (2018: 400,315). This is because of the first time adoption effects of IFRS 16 as described before. In addition, cash neutral exchange rate effects on foreign currency loans and interest expenses increased net debt in fiscal year 2019.

21. (f) Derivative financial instruments

Derivative financial instruments held for hedging purposes are carried at fair value. They are fully classified in level 2 of the fair value hierarchy.

The derivative financial instruments are as follows:

Derivative financial instruments T106

	Dec 31, 2019		Dec 31, 2018	
in EUR thousands	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	435	911	2,571	675
Foreign exchange derivatives – cash flow hedges	0	0	151	45
Foreign exchange derivatives – fair value hedges	15	2	42	38
Total	**450**	**913**	**2,764**	**758**
Less non-current portion				
Interest rate swaps – cash flow hedges	120	684	2,180	605
Non-current portion	**120**	**684**	**2,180**	**605**
Current portion	**330**	**229**	**584**	**153**

Further details on the use of hedging instruments can be found in → NOTE 5. 'FINANCIAL RISK MANAGEMENT.'

i. Effects of accounting for cash flow hedges on the net assets, financial position and results of operations

The effects of foreign currency and interest rate-related hedging instruments on the net assets, financial position and results of operations are as follows:

The effects of cash flow hedge accounting on financial position and performance

T107

in EUR thousands	Net book value as of Dec 31, 2019 (+Derivative financial assets / -Derivative financial liabilities)	Nominal amount	Average hedging rate	Hedging ratio	Maturity	Change in fair value of the hedging item since 1 Jan	Change in fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period	Book value of hedged item as of Dec 31, 2019
Hedging interest rate risk CFH		**160,353**				**– 1,646**	**1,646**	**160,353**
Interest rate swap USD	435	60,600	1.25	1:1	2020-2021			
Interest rate swap USD	– 684	76,753	2.01	1:1	2021			
Interest rate swaps EUR	– 227	23,000	1.54	1:1	2020			

in EUR thousands	Net book value as of Dec 31, 2018 (+ Derivative financial assets / -Derivative financial liabilities)	Nominal amount (+Buy / -Sell)	Average hedging rate	Hedging ratio [1]	Maturity	Change in fair value of the hedging item since Jan 1	Change in fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Currency risk hedging CFH							
Currency forwards EUR – CZK	105	– 9,600	26.29	1:1	≤ 1 year	115	– 115
Currency forwards EUR – PLN	17	– 600	4.42	1:1	≤ 1 year	8	– 8
Currency forwards EUR – GBP	30	– 6,000	0.90	1:1	≤ 1 year	53	– 53
Currency forwards EUR – CNY	– 33	2,500	8.05	1:1	≤ 1 year	10	– 10

1_The forward foreign exchange contracts are denominated in the same currency as the highly probable future transactions, therefore the hedge ratio is 1: 1

in EUR thousands	Net book value as of Dec 31, 2018 (+ Derivative financial assets / -Derivative financial liabilities)	Nominal amount	Average hedging rate	Hedging ratio	Maturity	Change in fair value of the hedging item since Jan 1	Change in fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period	Book value of hedged item as of Dec 31, 2018
Hedging interest rate risk – interest rate swap		**193,042**				**1,300**	**– 1,300**	**193,042**
Interest rate swap USD	2,571	126,403	1.57	1:1	2019–2021			
Interest rate swap USD	– 70	43,639	0.00	1:1	2021			
Interest rate swaps EUR	– 605	23,000	1.54	1:1	2020			

The effective part, as well as the accrued and recognized costs of hedging recognized in other comprehensive income excluding taxes developed as follows:

Change in hedging reserve before tax

T108

in EUR thousands	Reserve for costs of hedging	Spot component of foreign exchange derivatives	Interest rate swap	Total
Balance as of January 1, 2018	**0**	**279**	**660**	**939**
Foreign currency translation effects		– 2		– 2
Reclassification to profit or loss		– 279	– 63	– 342
Net fair value changes		59	1,300	1,359
Accrued and recognized costs of hedging	– 67	0		– 67
Balance as of December 31, 2018	**– 67**	**57**	**1,897**	**1,887**
Foreign currency translation effects		0		0
Reclassification to profit or loss		11	– 727	– 716
Net fair value changes		– 68	– 1,646	– 1,714
Accrued and recognized costs of hedging	67			67
Balance as of December 31, 2019	**0**	**0**	**– 476**	**– 476**

Amounts due to interest rate swaps recognized in the hedging reserve in equity will be released in profit or loss before the repayment of the loans.

In fiscal year 2019 and 2018, no ineffective portion of cash flow hedges relating to foreign exchange derivatives and interest rate swaps was recognized in profit or loss.

ii. Effects of accounting for fair value hedges on the net assets, financial position and results of operations

The effects of foreign currency-related hedging instruments on the net assets, financial position and results of operations are as follows:

The effects of fair value hedge accounting on financial position and performance T109

in EUR thousands	Net book value as of Dec 31, 2019 (+Derivative financial assets / -Derivative financial liabilities)	Nominal amount (+Buy / -Sell)	Average hedging rate	Hedging ratio	Maturity	Change in fair value of the hedging item since Jan 1	Change in fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Currency risk hedging FVH							
Currency forwards PLN – EUR	15	940	4.36	1:1[1]	≤ 1 year	15	– 15
Currency forwards JPY – SGD	– 2	574	80.28	1:1[1]	≤ 1 year	– 2	2

1_The foreign exchange forward contracts for USD-EUR hedging are denominated in the same currency and have the same volume as the hedged net foreign exchange risk from external USD loans and intragroup monetary items in USD, therefore the hedge ratio is 1:1

in EUR thousands	Net book value as of Dec 31, 2018 (+Derivative financial assets / -Derivative financial liabilities)	Nominal amount (+Buy / -Sell)	Average hedging rate	Hedging ratio	Maturity	Change in fair value of the hedging item since Jan 1	Change in fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
Currency risk hedging FVH							
Currency forwards USD – EUR	– 20	– 8,734	1.16	1:1 [1]	≤ 1 year	28	– 28
Currency forwards GBP – EUR	– 10	2,236	0.89	1:1 [2]	≤ 1 year	17	– 17
Currency forwards SEK – EUR	23	3,413	10.33	1:1 [2]	≤ 1 year	25	– 25
Currency forwards PLN – EUR	19	3,022	4.36	1:1 [2]	≤ 1 year	11	– 11
Currency forwards JPY – SGD	– 7	556	79.41	1:1 [2]	≤ 1 year	4	– 4

1_The foreign exchange forward contracts for USD-EUR hedging are denominated in the same currency and have the same volume as the hedged net foreign exchange risk from external USD loans and intragroup monetary items in USD, therefore the hedge ratio is 1:1
2_The forward exchange contracts are denominated in the same currency and volume as the hedged risk from intra-group monetary items, therefore the hedge ratio is 1:1

An overview of the gains and losses arising from the hedging of fair value changes that were recognized in the financial result is shown below:

Gains and losses fair-value hedges T110

in EUR thousands	2019	2018
Losses (–) / Gains (+) on hedged items	– 39	531
Losses (–) / Gains (+) on hedging instruments	– 44	– 892
	– 83	– 361

21. (g) Financial instruments at fair value

The tables below provide an overview of the classification of financial assets and liabilities measured at fair value in the fair value hierarchy under IFRS 13 as of December 31, 2019, as well as December 31, 2018:

Financial instruments – fair value hierarchy T111

in EUR thousands	Level 1 [1]	Level 2 [2]	Level 3 [3]	Total as of Dec 31, 2019
Recurring fair value measurements				
Assets				
Interest rate swaps – cash flow hedges		435		435
Foreign exchange derivatives – fair value hedges		15		15
Trade receivable – ABS / factoring program (mandatorily measured at FVTPL)		22,128		22,128
Total	**0**	**22,578**	**0**	**22,578**
Liabilities				
Interest rate swaps – cash flow hedges		911		911
Foreign exchange derivatives – fair value hedges		2		2
Total	**0**	**913**	**0**	**913**

CONTINUE ON NEXT PAGE

Financial instruments – fair value hierarchy (continued) T111

in EUR thousands	Level 1 [1]	Level 2 [2]	Level 3 [3]	Total as of Dec 31, 2018
Recurring fair value measurements				
Assets				
Interest rate swaps – cash flow hedges		2,571		2,571
Foreign exchange derivatives – cash flow hedges		151		151
Foreign exchange derivatives – fair value hedges		42		42
Trade receivable – ABS / Factoring program (mandatorily measured at FVTPL)		14,653		14,653
Total	**0**	**17,417**	**0**	**17,417**
Liabilities				
Interest rate swaps – cash flow hedges		675		675
Foreign exchange derivatives – cash flow hedges		45		45
Foreign exchange derivatives – fair value hedges		38		38
Total	**0**	**758**	**0**	**758**

1_Fair value measurement based on quoted prices (unadjusted) in active markets for these or identical assets or liabilities.
2_Fair value measurement for the asset or liability based on inputs that are observable on active markets either directly (i. e. as priced) or indirectly (i. e. derived from prices).
3_Fair value measurement for the asset or liability based on inputs that are not observable market data.

No transfers between the different levels occurred in 2019 and 2018.

The fair value of interest swaps is calculated as the present value of estimated future cash flows. The fair value of forward foreign exchange contracts is determined using a present value model based on forward exchange rates.

Trade receivables held for sale as part of the factoring and ABS transaction and measured at fair value through profit or loss have short-term maturities. In addition, the calculated credit risk of the counterparty is not material, therefore the carrying amounts at the balance sheet date correspond to their fair values.

21. (h) Net gains and losses on financial instruments

The net gains or losses on financial instruments (by measurement category) in accordance with IFRS 7.20 (a) are as follows:

Financial instruments – net gains and losses T112

in EUR thousands	2019	2018
Net gains or net losses on financial assets		
measured at amortized costs	61	191
Net gains or net losses on financial liabilities		
measured at amortized cost	– 13,968	– 11,481
	– 14,457	**– 11,290**

Net gains and losses on financial assets measured at amortized cost include impairment losses on trade receivables and interest income from short-term deposits with banks. Net gains and losses on financial liabilities measured at cost include interest expense and fees from loans and borrowings.

Currency effects from the translation of financial assets and liabilities according to IAS 21 are shown within → NOTE 14 'NET FOREIGN EXCHANGE GAINS / LOSSES.'

21. (i) Total interest income and expense from financial instruments

Interest expenses / income from financial assets and liabilities (IFRS 7.20(b)) T113

in EUR thousands	2019	2018
Interest income		
financial assets at cost	1,007	484
Interest expenses		
financial liabilities at cost	– 14,280	– 13,578

22. Inventories

Inventories were as follows:

Inventories T114

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Raw materials, consumables and supplies	49,795	48,220
Work in progress	17,659	20,978
Finished goods and goods for resale	105,795	108,909
	173,249	**178,107**

On December 31, 2019, impairments were made on inventories amounting to EUR 7,672 thousand (Dec 31, 2018: EUR 6,561 thousand).

On December 31, 2019, and 2018, the inventories were not collateralized with the exception of the customary business reservations of title.

23. Other non-financial assets

Other non-financial assets were as follows:

Other non-financial assets T115

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Deferred costs	3,450	3,679
VAT assets	10,550	8,237
Prepayments	5,024	4,289
Consideration payable to a customer	3,388	2,933
Other assets	2,313	1,250
	24,725	**20,388**

24. Equity

Subscribed capital

The subscribed capital of the Company on December 31, 2019, and 2018 amounted to EUR 31,862 thousand and was fully paid in. It is divided into 31,862,400 shares with no par value and a notional value of EUR 1. The liability of the shareholders for the obligations of the company to its creditors is limited to this capital. The amount of the subscribed capital is not permitted to be distributed by the Company to its shareholders.

Authorized and conditional capital

The Management Board is entitled to increase the share capital by up to EUR 12,744,960 until May 19, 2020, by issuing up to 12,744,960 new no-par value registered shares in exchange for cash and / or contributions in kind either once or several times by resolution of the Annual General Meeting held on May 20, 2015, with the approval of the Supervisory Board, whereby the subscription rights of shareholders may be restricted (Authorized Capital 2015).

The share capital is being increased by up to EUR 3,186,240 by resolution of the Annual General Meeting on May 20, 2015, by issuing up to 3,186,240 new no-par value registered shares to grant convertible bonds and / or bonds with warrants (Conditional Capital 2015).

The resolutions of the Annual General Meeting of April 6, 2011, Authorized Capital 2011 and Conditional Capital 2011, were repealed.

Capital reserve

The capital reserve contains:

- amounts (premiums) received for the issuance of shares,
- premiums paid by shareholders in exchange for the granting of a preference for their shares,
- amounts resulting from other capital contributions of the owners.

Retained earnings

Retained earnings consisted of the following:

Development of retained earnings T116

in EUR thousands	Retained earnings	Remeasurements of post-employment benefit obligations	IPO costs directly netted with equity	Reimbursement of IPO costs by shareholders	Acquisition of non-controlling interest	Effects from the application of IAS 19R	Effects of IFRS 9	Effects of IFRS 16	Total
Balance as of December 31, 2017 (as reported)	**306,623**	**– 2,496**	**– 4,640**	**4,681**	**– 6,930**	**839**	**0**	**0**	**298,077**
Balance as of Jan 1, 2018	**306,623**	**– 2,496**	**– 4,640**	**4,681**	**– 6,930**	**839**	**– 600**	**0**	**297,477**
Profit for the year	91,873								91,873
Dividends paid	– 33,456								– 33,456
Acquisition of non-controlling interests					342				342
Effect before taxes		– 265							– 265
Tax effect		51							51
Balance as of December 31, 2018 (as reported)	**365,040**	**– 2,710**	**– 4,640**	**4,681**	**– 6,588**	**839**	**– 600**	**0**	**356,022**
Balance as of Jan 1, 2019	**365,040**	**– 2,710**	**– 4,640**	**4,681**	**– 6,588**	**839**	**– 600**	**– 2,033**	**353,989**
Profit for the year	58,422								58,422
Dividends paid	– 35,049								– 35,049
Effect before taxes		– 2,066							– 2,066
Tax effect		547							547
Balance as of December 31, 2019	**388,413**	**– 4,229**	**– 4,640**	**4,681**	**– 6,588**	**839**	**– 600**	**– 2,033**	**375,843**

A dividend of EUR 35,049 thousand (EUR 1.10 per share) was paid to the shareholders of NORMA Group after the Annual General Meeting in May 2019.

Other reserves

Other reserves consisted of the following:

Development of other reserves T117

in EUR thousands	Cash flow hedges	Foreign exchange rate differences on translating foreign operations	Total
Balance as of January 1, 2018	**657**	**– 9,021**	**– 8,364**
Effect before taxes	948	10,200	11,148
Tax effect	– 267		– 267
Balance as of December 31, 2018	**1,338**	**1,179**	**2,517**
Effect before taxes	– 2,363	9,016	6,653
Tax effect	680		680
Balance as of December 31, 2019	**– 345**	**10,195**	**9,850**

25. Share-based payments

Management incentive schemes

The Matching Stock Program

The Matching Stock Program (MSP) for the Management Board provides a long-term incentive to commit to the success of the Group. The MSP is a share-based option. To this end, the Supervisory Board specifies a number of share options to be granted each fiscal year with the proviso that the Management Board member make a corresponding personal investment in the Group. In line with the new Management Board contracts, the MSP was closed. The last allotment of options was in fiscal year 2017.

The shares involved in the share options are those shares allocated or acquired and qualified as part of the MSP defined in the Management Board contract. The number of share options is calculated by multiplying the qualified shares held at the time of allotment by the option factor specified by the Supervisory Board. A new option factor is set for every tranche. The first tranche was allocated on the day of the IPO.

The other tranches will be allocated on March 31 each following year. The holding period is four years (on March 31, 2021, for the 2017 tranche, on March 31, 2020, for the 2016 tranche and on March 31, 2019, for the 2015 tranche).

Non-forfeitable claims out of the options are earned pro rata over the respective performance period. The exercise price for the outstanding tranches will be the weighted average of the respective closing price of the Group's share on the 60 trading days directly preceding the allocation of each tranche. Dividend payments by the Group during the vesting period are deducted from the exercise price of each tranche.

The options of a tranche can only be exercised within a period of two years following the expiration of the holding period. In order for an option to be exercised, the weighted average of the last ten trading days must be at least 1.2 times that of the exercise price. The pay-out is limited to 2% of the average (adjusted) EBITA (tranches 2014, 2015, 2016 and 2017) or to 2% of the average (adjusted) EBITDA (tranche 2013) during the holding period (cap). When the option is exercised, the Group can decide whether to settle the option in shares or cash. NORMA Group classified the stock options as a cash settlement analogues to the previous year.

The determination of fair value, which is the basis for determining the pro rata provision on the balance sheet date, was carried out using a Monte Carlo method. The expected volatilities are set to be the historical volatility of the three-year period before the valuation date. Due to the cash settlement, the options are valued on each balance sheet date and the resulting changes in fair value are recognized through profit or loss, whereby the prorated expenses were ratably recognized over the performance period.

The option rights granted under the MSP changed as follows in the 2019 and 2018 fiscal years:

Development of the MSP option rights T118

	Tranche MSP 2015	Tranche MSP 2016	Tranche MSP 2017
Expected duration until exercise in years	1.25	2.25	1.25
Proportional fair value per outstanding "share units" in EUR as of December 31, 2019	347,045.00	306,021.00	179,494.00
Fair value per "share unit" in EUR as of December 31, 2019	3.57	4.11	4.25
Exercise price in EUR	40.09	42.62	38.50
Balance as of December 31, 2017	**97,322**	**74,465**	**51,607**
Tentatively granted "share units"			
Exercised			
Lapsed			
Balance as of December 31, 2018	**97,322**	**74,465**	**51,607**
Balance as of December 31, 2018	**97,322**	**74,465**	**51,607**
Tentatively granted "share units"			
Exercised			
Lapsed			9,375
Balance as of December 31, 2019	**97,322**	**74,465**	**42,232**

In fiscal year 2019, income in the amount of EUR 115 thousand (2018: income of EUR 526 thousand) resulting from the MSP were recognized in employee benefits expense against a corresponding net reversal within the provisions. Furthermore, no payment was made for the exercised option rights (2018: disbursement from the tranche 2014 EUR 2,468 thousand).

The total provision for the MSP amounts to EUR 833 thousand as of December 31, 2019 (Dec 31, 2018: EUR 948 thousand).

Long-term incentive plan

In fiscal year 2013, NORMA Group installed a share-based, long-term, variable compensation component for executives and certain other groups of employees (Long-Term Incentive Plan).

The Long-Term Incentive Plan (LTI) is a share-based payment, cash settled plan that takes into account both the performance of the Company and the share price development.

The participants receive a preliminary number of share units (virtual shares) at the start of the performance period based on a percentage of the respective base salary multiplied by a conversion rate. The conversion rate is determined based on the average share price of the previous 60 trading days of the calendar year prior to the grant date. Once four years have elapsed, the number of share units granted at the start of the performance period is adjusted based on the performance the Company has achieved, incorporating both the targets defined during the performance period and the Company / regional factor.

The goal achievement factor, measured by adjusted EBITA, as well as the Company / regional factor are applied as performance targets. The goal achievement factor is based on the adjusted EBITA of NORMA Group. The absolute adjusted EBITA target is determined for every year of the performance period based on the budgeted value. After conclusion of the four-year period, the yearly recorded adjusted EBITA values are defined as a percentage in relation to the target values and averaged out over the four years. Allocation occurs above a goal achievement ratio of 90%. Between 90% and 100% goal achievement, every percentage point amounts to 10 percentage points of goal achievement factor. Between 100% and 200% goal achievement, the goal achievement factor grows by 1.5 percentage points per percentage point of goal achievement.

The Company factor is determined by the Group Senior Management based on the Company's development, as well as the development in relation to comparable companies. In addition to this, the development of free cash flows is taken into account when determining the factor. At the discretion of the Group Senior Management, unanticipated developments can also be taken into account and the Company factor corrected either downward or upward accordingly. The factor can assume values between 0.5 and 1.5.

The factor takes into account the results of the region as well as the region-specific characteristics and is used as an adjustment factor for plan participants with regional responsibility.

The value of the share units is then determined at the end of the fourth calendar year based on the average share price of the last 60 days of trading in this fourth year. In case the calculated Long-term Incentive pay-out exceeds 250% of the initial grant value, the maximum pay-out is capped at 250%. The value determined is paid out to the participants in cash in May of the fifth year.

The LTI is a Group-wide and global compensation instrument with a long-term orientation. Due to the coupling to the development not only of the stock price, but also the Company's performance, the LTI provides an additional incentive to create value through value-based action, aligned with the goals of NORMA Group.

The determination of fair value, which is the basis for determining the pro rata provision on the balance sheet date, was performed using a Monte Carlo simulation. Due to the cash settlement of the virtual share units, the fair value is measured on each balance sheet date and the resulting changes in the fair value are recognized in income or loss. The allocation of the expenses is made on a pro rated basis over the performance period.

The share units granted under the LTI changed as follows in the 2019 and 2018 fiscal years:

Development of LTI T119

	3rd Tranche LTI 2015	4th Tranche LTI 2016	5th Tranche LTI 2017	6th Tranche LTI 2018	7th Tranche LTI 2019
Expected duration until exercise in years	n/a	n/a	1.00	2.00	3.00
Fair value per "share unit" in EUR as of December 31, 2019	n/a	35.62	37.38	36.59	35.72
Share price when granted in EUR	36.89	48.57	39.77	56.27	48.25
Balance as of December 31, 2018	**30,930**	**26,464**	**37,631**	**28,808**	**0**
Tentatively granted "share units"	–	–			38,352
Exercised	30,930	–	–	–	–
Lapsed		940	2,582	2,568	
Balance as of December 31, 2019	**0**	**25,524**	**35,049**	**26,240**	**38,352**

	2rd Tranche LTI 2014	3rd Tranche LTI 2015	4th Tranche LTI 2016	5th Tranche LTI 2017	6th Tranche LTI 2018
Expected duration until exercise in years	n/a	n/a	1.00	2.00	3.00
Fair value per "share unit" in EUR as of December 31, 2017	n/a	48.25	42.47	41.47	40.70
Share price when granted in EUR	36.40	36.89	48.57	39.77	56.27
Balance as of December 31, 2017	**18,567**	**31,029**	**27,394**	**41,184**	**0**
Tentatively granted "share units"	–	–	–		29,259
Exercised	18,567	–	–	–	–
Lapsed	–	99	930	3,553	451
Balance as of December 31, 2018	**0**	**30,930**	**26,464**	**37,631**	**28,808**

In fiscal year 2019, expenses resulting from the LTI in the amount of EUR 334 thousand (2018: EUR 360 thousand) were recorded under personnel expense and within a corresponding provision. Furthermore, a payment amounting to EUR 1,045 (2018: tranche 2014: EUR 1,045 thousand) was made for exercised options (tranche 2014).

In total, the provision for the LTI amounts to EUR 2,271 thousand as of December 31, 2019 (Dec 31, 2018: EUR 2,982 thousand).

26. Retirement benefit obligations

Retirement benefit obligations result mainly from two German pension plans and a Swiss post-employment benefit plan.

The German defined benefit pension plan for NORMA Group employees was closed for new entrants in 1990 and provides benefits in case of retirement, disability, and death as life-long pension payments. The benefit entitlements depend on years of service and salary. The portion of salary that is above the income threshold for social security contribution leads to higher benefit entitlements compared to the portion of the salary up to that threshold. Even if no further benefits can be earned from these old commitments, NORMA Group is still exposed to certain actuarial risks associated with defined benefit plans, such as longevity and compensation increases. Due to the amount of the obligation and the composition of the plan participants, approximately 96% being pensioners, a significant change in the actuarial assumptions would have no significant effects on NORMA Group.

Employees hired after 1990 are eligible under a defined contribution scheme. The contributions are paid into an insurance contract providing lump sum payments in case of retirements and deaths.

Furthermore, a plan for members of the Management Board was established in fiscal year 2015. This second German defined benefit plan is based on a direct commitment to an annual retirement payment for members of the Management Board of NORMA Group. The annual retirement payment is measured as a percentage of the pensionable income. The pension entitlement arises when the contract has expired, but not before reaching the age of 65, or if that individual is unable to work. The percentage depends on the number of years of service as a Management Board member. The percentage amounts to 4% of the last fixed annual salary prior to leaving for each completed year of service. The percentage can increase to a maximum of 55%. Furthermore, a survivor's pension will be provided as well.

The obligations arising from the plan are subject to certain actuarial risks associated with defined benefit plans, such as longevity and compensation increases. Please see the Remuneration Report for further details with regard to this plan → REMUNERATION REPORT.

Besides the German plans, there is a further benefit plan in Switzerland resulting from the Swiss 'Berufliches Vorsorgegesetz' law (BVG). According to the BVG, each employer has to grant post-employment benefits for qualifying employees. The plan is a capital-based plan under which the Company has to make contributions equivalent to at least the limits specified in the plan conditions for employee contributions. These plans are administered by foundations that are legally separated from the entity and subject to the BVG. The Group has outsourced the investment process to a foundation, which sets the strategic asset allocation in its group life portfolio. All regulatory granted obligations out of the plan are reinsured by an insurance company. This covers risks of disability, death and longevity. Furthermore, there is a 100% capital and interest guarantee for the retirement assets invested. In the case of a shortfall, the employer and plan participants' contribution may be increased based on the decisions of the relevant foundation board. Strategies of the foundation boards to make up for potential shortfalls are subject to approval by the regulator.

Besides the plans described in Germany and Switzerland, NORMA Group also participates in a multi-employer pension plan in the US for the benefit of employees of one of its US-based plants. NORMA Group's obligation to participate in the fund arises from the agreement with the employees' labor organization. The multi-employer pension plan is governed by US federal law under which the plan funds are held in trust and the plan administration and procedures substantially governed by federal regulation. The multi-employer pension plan is a defined benefit plan, and would normally be treated as such based on its associated actuarial estimates; however, the plan trustees do not provide the participating employers with sufficient information to individually account for the plan (or their portioned participation therein) as a defined benefit plan. For this reason, the plan is being treated in accordance with the rules for defined contribution pension plans (IAS 19.34). The share of contributions that NORMA Group paid to the pension schemes in the previous fiscal year amounts to EUR 1.4 million (2018: EUR 1.3 million). Contributions to the plan are recognized directly in personnel expenses for the period. Future changes to the contributions, if any, would be determined through negotiations with the workers' organization, as they may be slightly modified from time to time by regulation, and except for which NORMA Group has no other fixed commitment to the plan. Conditionally, in the unlikely event that NORMA Group withdraws from the fund or a significant employer in the fund experiences a major solvency event, additional future contribution payment obligations could arise. The funded status of the multi-employer plan is reported annually by the US Department of Labor, and is influenced by various factors, including investment performance, inflation, changes in demographics and changes in the participants' levels of performance. Based on the information provided by the plan administrator, the plan is undercapitalized. The value of the undercapitalization amounts to USD 1,195 million for all plan participants (over 150 companies). The portion of

NORMA Group to this shortfall is 3.0% (based on information provided for 2018). The expected employer contributions to the pension schemes for the following year 2020 amount to EUR 1,486 thousand.

Reconciliation of defined benefit obligations (DBO) and plan assets

The amounts included in the Group's Consolidated Financial Statements arising from its post-employment defined benefit plans are as follows:

Components pension liability T120

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Present value of obligations	20,495	17,786
Fair value of plan assets	4,605	4,982
Liability in the balance sheet	**15,890**	**12,804**

The reconciliation of the net defined benefit liability (liability in the balance sheet) is as follows:

Reconciliation of the net defined benefit liability T121

in EUR thousands	2019	2018
As of January 1	**12,804**	**12,127**
Current service cost	1,630	1,189
Administration costs	17	16
Interest expenses	162	124
Remeasurements:		
Return on plan assets excluding amounts included in net interest expenses	23	– 94
Actuarial (gains) losses from changes in demographic assumptions	– 17	– 29
Actuarial (gains) losses from changes in financial assumptions	1,592	120
Experience (gains) losses	468	268
Employer contributions	– 229	– 224
Benefits paid	– 640	– 836
Business combinations, disposals and other	6	98
Foreign currency translation effects	74	45
As of December 31	**15,890**	**12,804**

A detailed reconciliation of the changes in the DBO is provided in the following table:

Reconciliation of the changes in the DBO T122

in EUR thousands	2019	2018
As of January 1	**17,786**	**15,537**
Current service cost	1,630	1,189
Administration costs	17	16
Interest expenses	210	157
Remeasurements:		
Actuarial (gains) losses from changes in demographic assumptions	– 17	– 29
Actuarial (gains) losses from changes in financial assumptions	1,592	120
Experience (gains) losses	468	268
Plan participants contribution	108	120
Benefits paid	– 709	– 865
Transfers	– 807	– 86
Business combinations, disposals and other	6	1,174
Foreign currency translation effects	211	185
As of December 31	**20,495**	**17,786**

The total defined benefit obligation at the end of fiscal year 2019 includes EUR 11,963 thousand for active employees, EUR 243 thousand for former employees with vested benefits and EUR 8,288 thousand for retirees and surviving dependents.

The transfer in the amount of EUR 807 thousand (2018: EUR 86 thousand) relates to the benefit plan in Switzerland and is a result of the legally required transfer of net defined benefit obligation to the new employer upon the departure of an employee.

Experience gains and losses recognized in fiscal year 2019 are also a result of the described transfers within the benefit plan in Switzerland and a result of changes in the number of participants of the Manangement Board within the plan in Germany.

A detailed reconciliation of the changes in the fair value of plan assets is provided in the following table

Reconciliation of changes in the fair value of plan assets T123

in EUR thousands	2019	2018
As of January 1	4,982	**3,410**
Interest income	48	33
Remeasurements:		
Return on plan assets excluding amounts included in net interest expenses	– 23	94
Employer contributions	229	224
Plan participants contributions	108	120
Benefits paid	– 69	– 29
Transfers	– 807	– 86
Business combinations, disposals and other	0	1,076
Foreign currency translation effects	137	140
Fair value of plan assets at end of year	4,605	**4,982**

Disaggregation of plan assets

The allocation of the plan assets of the benefit plans is as follows:

Disaggregation of plan assets T124

in EUR thousands	2019	2018
Asset class		
Insurance contracts	4,543	4,937
Cash deposit	9	38
Equity securities	53	7
Total	**4,605**	4,982

Cash deposits and equity securities have quoted prices in active markets. The values for insurance contracts represent the redemption value. No quoted prices in an active market are available for these.

Actuarial assumptions

The principal actuarial assumptions are as follows:

Actuarial assumptions T125

in %	2019	2018
Discount rate	0.43	1.13
Inflation rate	1.52	1.51
Future salary increases	1.90	2.28
Future pension increases	1.60	1.59

The biometric assumptions are based on the 2018 G Heubeck life-expectancy tables for the German plan and on the life-expectancy tables of the BVG 2015 G for the Swiss plan. The tables are generation tables and hence differ according to gender, status and year of birth.

Sensitivity analysis

If the discount rate were to differ by + 0.25% / – 0.25% from the interest rate used on the balance sheet date, the defined benefit obligation for pension benefits would be an estimated EUR 634 thousand lower or EUR 794 thousand higher. If the future pension increase used were to differ by + 0.25% / – 0.25% from Management's estimates, the defined benefit obligation for pension benefits would be an estimated EUR 370 thousand higher or EUR 356 thousand lower. The reduction / increase in the mortality rates by 10% results in an increase / deduction in life expectancy depending on the individual age of each beneficiary. That means, for example, that the life expectancy of a male NORMA Group employee age 55 years as of December 31, 2019, increases / decreases by approximately one year. In order to determine the longevity sensitivity, the mortality rates were reduced / increased by 10% for all beneficiaries. The effect on DBO as of December 31, 2019, due to a 10% reduction / increase in mortality rates would result in an increase of EUR 966 thousand or a decrease of EUR 945 thousand.

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method) has been applied as when calculating the post-employment benefit obligation recognized in the Consolidated Statement of Financial Position. Increases and decreases in the discount rate or rate of pension progression which are used in determining the DBO do not have a symmetrical effect on the DBO due to the compound interest effect created when determining the net present value of the future benefit.

If more than one of the assumptions are changed simultaneously, the combined impact due to the changes would not necessarily be the same as the sum of the individual effects due to the changes. If the assumptions change at a different level, the effect on the DBO is not necessarily in a linear relation.

Future cash flows

Employer contributions expected to be paid to the post-employment defined benefit plans in fiscal year 2020 are EUR 235 thousand (2018: EUR 240 thousand).

The expected payments from the plans for post-employment benefits are distributed as follows for the next 10 financial years, whereby the last 5 years are shown as a total:

Expected payments from post-employment benefit plans T126

in EUR thousands	2019
Expected benefit payments	
2020	850
2021	817
2022	826
2023	953
2024	867
2025 – 2029	5,208

in EUR thousands	2018
Expected benefit payments	
2019	836
2020	1,074
2021	827
2022	834
2023	960
2024 – 2028	4,674

The weighted average duration of the defined benefit obligation is 14.64 years (2018: 12.0 years).

27. Provisions

The development of provisions is as follows:

Development of provisions T127

in EUR thousands	As of Jan 1, 2019	Additions	Amounts used	Unused amounts reversed	Interest accrued	Changes in consolidation	Transfers	Foreign currency translation	As of Dec 31, 2019
Guarantees	1,560	917	– 562	– 257	0	0	0	12	1,670
Severance	25	89	– 56	– 40	0	0	6	0	24
Early retirement	2,412	477	– 1,115	0	6	0	0	0	1,780
Other personnel-related obligations	9,703	4,681	– 4,476	– 1,105	76	0	– 2	27	8,904
Outstanding invoices	1,012	994	– 1,049	– 6	0	0	0	18	969
Others	1,298	859	– 881	– 108	0	0	0	12	1,180
Total provisions	**16,010**	**8,017**	**– 8,139**	**– 1,516**	**82**	**0**	**4**	**69**	**14,527**

in EUR thousands	As of Jan 1, 2018	Additions	Amounts used	Unused amounts reversed	Interest accrued	Changes in consolidation	Transfers	Foreign currency translation	As of Dec 31, 2018
Guarantees	1,128	690	– 156	– 161	0	51	0	8	1,560
Severance	408	56	– 368	– 98	0	0	24	3	25
Early retirement	3,075	743	– 1,405	0	0	0	– 1	0	2,412
Other personnel-related obligations	12,164	3,302	– 5,541	– 234	– 8	0	– 5	25	9,703
Outstanding invoices	730	1,000	– 747	– 3	0	0	0	32	1,012
Others	1,279	705	– 513	– 120	0	34	– 74	– 13	1,298
Total provisions	**18,784**	**6,496**	**– 8,730**	**– 616**	**– 8**	**85**	**– 56**	**55**	**16,010**

Provisions – split current / non-current T128

in EUR thousands	Dec 31, 2019 Total	thereof current	thereof non-current	Dec 31, 2018 Total	thereof current	thereof non-current
Guarantees	1,670	1,464	206	1,560	1,363	197
Severance	24	24	0	25	25	0
Early retirement	1,780	671	1,109	2,412	0	2,412
Other personnel-related obligations	8,904	4,709	4,195	9,703	5,500	4,203
Outstanding invoices	969	969	0	1,012	1,012	0
Others	1,180	706	474	1,298	850	448
Total provisions	**14,527**	**8,543**	**5,984**	**16,010**	**8,750**	**7,260**

Early retirement contracts

Employees at NORMA Group in Germany can in general engage in an early retirement contract ('Altersteilzeit'). In the first phase, the employee works 100% ('Arbeitsphase'). In the second phase, he / she is exempt from work ('Freistellungsphase'). The employees receive half of their pay for the total early retirement-phase as well as top-up payments (including social security costs paid by the employer). The duration of the early retirement is a maximum of six years.

Accounting for early retirement ('Altersteilzeit') is based on actuarial valuations taking into consideration assumptions such as a discount rate of – 0.24 % p.a. (2018: 0.02% p.a.) as well as the 2018 G life-expectancy tables by Dr. Klaus Heubeck. For signed early retirement contracts, a liability has been recognized. The liability includes top-up payments ('Aufstockungsbeträge') as well as deferred salary payments ('Erfüllungsrückstände'). The expected payments out of the early retirement provisions amount to EUR 671 thousand for fiscal year 2020.

Guarantees

Provisions for guarantees include provisions due to circumstances where a final agreement has not yet been reached and provisions based on experience (customer claim quota, amount of damage, etc.). Future price increases are considered if material.

Severance payments

Provisions for severance payments include expected severance payments for NORMA Group employees due to circumstances where a final agreement has not yet been reached. The provisions will be paid out in the following fiscal year and are therefore reported under current provisions.

Other personnel-related provisions

Other personnel-related provisions are as follows:

Provisions – other personnel-related T129

in EUR thousands	Notes	Dec 31, 2019 Total	Dec 31, 2019 thereof current	Dec 31, 2019 thereof non-current	Dec 31, 2018 Total	Dec 31, 2018 thereof current	Dec 31, 2018 thereof non-current
LTI – Board Members		59	59	0	706	617	89
LTI – Management	(25)	2,271	348	1,923	2,982	852	2,130
STI – Board Members		2,198	2,198	0	1,706	1,706	0
Matching Stock Program (MSP)	(25)	833	347	486	948	268	680
NORMA-VA-Bonus		913	913	0	1,256	1,256	0
Anniversary provisions		1,203	0	1,203	1,098	0	1,098
Other personnel-related		1,427	844	583	1,007	801	206
		8,904	**4,709**	**4,195**	**9,703**	**5,500**	**4,203**

The Company's Long-Term Incentive Plan (LTI) for the Management Board consists of two different long-term compensation elements. The variable compensation is designed differently depending on the time when a Board member took office. For the Board members in office before 2015, it consists of an EBITA component and an operating free cash flow before external use (FCF) component, each of which is observed over a period of three years (performance period). A new three-year performance period begins every year. Both components are calculated by multiplying the average annual adjusted EBITA and FCF values actually achieved in the performance period by the adjusted EBITA and FCF bonus percentages specified in the employment contract. In the second step, the actual value of a component is compared to the medium-term plan approved by the Supervisory Board to evaluate the Company's performance and adjustments are made to the LTI plan. The LTI plan is limited to two and a half times the amount that would be arrived at on the basis of the figures in the Company's medium-term plan. If the actual value is lower than the planned value, the LTI plan is reduced on a straight-line basis down to a minimum of EUR 0 if the three-year targets are missed by a significant amount. Due to the calculation of the variable remuneration based on future results of the Group, uncertainties exist regarding the amount of the future outflows. Parts of the long-term compensation component will be paid out in the first half of the following fiscal year and are therefore reported under the current provisions.

When entering service as of reporting year 2015, the variable compensation of the Management Board consists of the NORMA VA Bonus. This variable remuneration for the members of the Management Board who are not part of the MSP provides a long-term incentive for the Management Board to work hard to make the Company successful. The LTI is an appreciation bonus that is based on the Group's performance. The Board member receives a percentage of the calculated increase in value. The NORMA Value Added Bonus corresponds to the percentage of the average increase in value from the current and the three previous fiscal years. The annual increase in value is calculated using the following formula:

$$\textbf{NORMA Value Added} = (\text{adjusted EBIT} \times (1 - t)) - (\text{WACC} \times \text{invested capital})$$

The calculation of the first component is based on the consolidated earnings before interest and taxes (Group EBIT) for the fiscal year and the average corporate tax rate (t). The second component is calculated from the Group cost of capital (WACC) multiplied by the capital invested. The Group's weighted average cost of capital (WACC) is derived from the base interest rate, the market risk premium and the beta factor. The base interest rate is derived from the interest rate structure data of Deutsche Bundesbank (three-month average - October 1 to December 31). The market risk premium represents the difference between the expected return of a risky market portfolio and the risk-free interest rate. NORMA uses the recommendation of the Institut der Wirtschaftsprüfer (IDW) to determine this risk premium. The beta factor represents the individual risk of a share compared to a market index. It is first determined as the average value of the unindebted beta factors of the peer group and then adjusted to NORMA's individual capital structure. The cost of equity is calculated by adding the risk-free interest rate and the weighted country risk of NORMA Group with the product of the market risk premium and the indebted beta factor of the peer group. The credit spread used to calculate the cost of debt was determined on the basis of the terms of the current external financing of NORMA Group. Invested capital is calculated from consolidated equity plus net financial liabilities as of January 1 of the fiscal year. The NORMA Value Added Bonus is limited to a fixed annual salary. 75% or 90% of the amount attributable to the LTI is paid to each Management Board member the following year. The Company then uses the remaining 25% or 10% attributable to the LTI to purchase shares of NORMA Group SE in the name and on behalf of the individual Board members. Alternatively, the Company may pay out this balance to the Board member. In this case, the Management Board obligates itself to purchase shares of NORMA Group SE with the balance of this amount within 120 days after the annual financial statements are approved at the Supervisory Board meeting. The Management Board member may not dispose of the shares for four years. Dividends and subscription rights will be made freely available to the Management Board member. If a Board member takes office in the current fiscal year or does not work for the Company for a full twelve months in a fiscal year, the LTI will be reduced proportionally (pro rata). Upon termination of the employment contract, a Management Board member may dispose of his shares only after 12 months of leaving the Company. With the termination of the executive position upon request of the Management Board or on the basis of an important reason, future claims for the variable part of the LTI lapse.

The LTI for Management (Long-Term Incentive Plan) is a variable compensation component based on the share price of NORMA Group. A detailed description can be found in → NOTE 25 'SHARE-BASED PAYMENTS.'

The STI of the Management Board (Short-Term Incentive Plan) results from short term variable cash payment. A description can be found in the → REMUNERATION REPORT.

As of December 31, 2019, provisions for the Matching Stock Program (MSP) for NORMA Group's Management Board amount to EUR 833 thousand (2018: EUR 948 thousand). There was no payment for exercised options in fiscal year 2019. In fiscal year 2018, EUR 2,468 thousand were paid for exercised options from the 2014 tranche → NOTE 25 'SHARE-BASED PAYMENTS'.

Anniversary provisions are based on actuarial valuations taking into account assumptions such as a discount rate of 0.57 % p. a. as well as the 2018 G Heubeck life-expectancy tables.

Other personnel-related provisions mainly include payable income tax and social security contributions in foreign countries.

Other non-personnel-related provisions

Provisions for outstanding invoices in the amount of EUR 969 thousand (2018: EUR 1,012 thousand) include expected obligations for the audit and advisory services. There are uncertainties regarding the amount and timing of the outflows. However, it is expected that this results in payments within a year.

Other provisions mainly include obligations for other taxes.

28. Other non-financial liabilities

Other non-financial liabilities are as follows:

Other non-financial liabilities T130

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Non-current		
Government grants	266	391
Other liabilities	90	40
	356	**431**
Current		
Government grants	1.230	1.068
Non-income tax liabilities	2.119	2.398
Social liabilities	4.484	4.521
Personnel-related liabilities (e.g. vacation, bonuses, premiums)	28.118	18.671
Other liabilities	714	326
	36.665	**26.984**
Total other non-financial liabilities	**37.021**	**27.415**

The increase in personnel-related liabilities is mainly due to the increase in liabilities from employee bonuses and outstanding severance payments in connection with the rightsizing program.

NORMA Group received government grants of which EUR 1,496 thousand were not recognized in profit or loss. They consist of grants in cash as well as land. The grants are bound to capital expenditures, employees and the supply of equity of the respective local entities. NORMA Group recognizes the government grants as income over the period in which related expenses occur. In 2019, EUR 606 thousand were recognized as income (2018: EUR 603 thousand).

Other Notes

29. Information on the Consolidated Statement of Cash Flows

In the statement of cash flows, a distinction is made between cash flows from operating activities, investing activities and financing activities.

Net cash provided by operating activities is derived indirectly from profit for the period. The profit for the period is adjusted to eliminate non-cash expenses such as depreciation and amortization as well as expenses and payments for which the cash effects are investing or financing cash flows and to eliminate other non-cash expenses and income. Net cash provided by operating activities of EUR 137,083 thousand (2018: EUR 130,843 thousand) represents changes in current assets, provisions and liabilities (excluding liabilities in connection with financing activities).

As in the prior year, the Group participates in a reverse factoring program, a factoring program and an ABS program. Liabilities in the reverse factoring program are reported under trade and other payables. As of December 31, 2019, reverse factoring liabilities in the amount of EUR 21,335 thousand are recognized (Dec 31, 2018: EUR 19,200 thousand). → NOTE 21. (E) 'TRADE AND OTHER PAYABLES' The cash flows from the reverse factoring, the factoring and the ABS program are shown under the cash flow from operating activities as this corresponds to the economic substance of the transactions.

The total amount of trade receivables sold within the factoring and ABS program can be found in → NOTE 21. (B) 'TRADE RECEIVABLES AVAILABLE FOR TRANSFER'.

Net cash provided by operating activities includes in 2018 cash outflows from the payments of the cash-settled share-based payments in the amount of EUR 1,045 thousand (2018: EUR 3,513 thousand), which result from the MSP tranche (2018: tranche 2014) for the Management Board of NORMA Group and from the Long-Term Incentive Plan (LTI) for NORMA Group employees.

The correction of expenses due to measurement of derivatives in the amount of EUR 73 thousand (2018: expense in the amount of EUR 436 thousand) relates to fair value gains and losses recognized within the income statement assigned to the cash flows from financing activities.

Other non-cash income (–) / expenses (+) in net cash provided by operating activities mainly include foreign exchange rate gains and losses on external debt and intragroup monetary items in the amount of EUR – 341 thousand (2018: EUR – 716 thousand).

Furthermore, other non-cash income (–) / expenses (+) include non-cash interest expenses from the amortization of accrued costs, amounting to EUR 356 thousand (2018: EUR 303 thousand).

Cash flows resulting from interest paid are disclosed as cash flows from financing activities.

Cash flows from investing activities include net cash outflows from the acquisition and disposal of property, plant and equipment and intangible assets amounting to EUR 57,033 thousand (2018: EUR 59,711 thousand) including the change of liabilities from investments in property, plant and equipment and intangible assets amounting to EUR 2,941 thousand (2018: EUR – 2,412 thousand). From the investments in non-current assets of EUR 54,843 thousand (2018: EUR 63,255 thousand), expenditures in the amount of EUR 33,009 thousand (2018: EUR 42,793 thousand) relate to growth and expenditures amounting to EUR 21,834 thousand (2018: EUR 20,462 thousand) to maintenance and continuous improvements.

In fiscal year 2018, net payments for acquisitions of subsidiaries in the amount of EUR – 69,797 thousand which result from the payments due to the acquisition of Kimplas and Statek as well as from payments in connection with the acquisition of Fengfan acquired in the second quarter of 2017 are also included in the cash flows from investing activities.

Cash flows from financing activities mainly comprise outflows resulting from the payment of the dividend to shareholders of NORMA Group, amounting to EUR 35,049 thousand (2018: EUR 33,456 thousand), cash outflows resulting from interest paid (2019 EUR 15,070 thousand; inclusively interest paid for lease liabilities of EUR 1,260 thousand; 2018: 13,676) as well as repayments of derivatives in the amount of EUR 83 thousand (2018: proceeds of EUR 409 thousand).

Furthermore, net repayments for loans amounting to EUR 32,936 thousand (2018: net proceeds of EUR 64,734 thousand) → NOTE 5. (C) 'LIQUIDITY RISKS' dividend payments to non-controlling interests in the amount of EUR 43 thousand (2018: EUR 134 thousand), repayments for liabilities of ABS and factoring in the amount of EUR 791 thousand (2018: proceeds of EUR 15,467 thousand) and repayments for lease liabilities in the amount of EUR 10,058 thousand (2018: EUR 123 thousand), disclosed as cash flows from financing activities. → NOTE 20. 'LEASES' AND 21. (E) 'FINANCIAL LIABILITIES AND NET DEBT'

In addition, payments for the acquisition of shares in a subsidiary from the acquisition of non-controlling interests in the amount of EUR 1,121 thousand are included in the cash flow from financing activities in fiscal year 2018.

The changes in balance sheet items that are presented in the Consolidated Statement of Cash Flows cannot be derived directly from the balance sheet, as the effects of currency translation are non-cash transactions and changes in the consolidated Group are shown directly in the net cash used in investing activities.

Cash is comprised of cash on hand and demand deposits of EUR 174,918 thousand on December 31, 2019 (Dec 31, 2018: EUR 185,870 thousand), as well as cash equivalents with a value of EUR 4,803 thousand (Dec 31, 2018: EUR 4,522 thousand).

Cash from China, India, Russia, Brazil and Malaysia (Dec 31, 2019: EUR 43,364 thousand, Dec 31, 2018: EUR 29,999 thousand) cannot currently be distributed due to restrictions on capital movements.

Reconciliation of debt movements to cash flows from financing activities

The following table represents the reconciliation from the opening balance sheet values of the financial statements of debt arising from financing activities for the relevant closing balance sheet items and which led to changes in equity.

Reconciliation of changes in assets and liabilities to cash flows from financing activities

T131

		Financial liabilites					Derivatives held to hedge financial liabilities (assets (-) / liabilites(+))		Equity			
in EUR thousands	Note	Short-term loans payable	Long-term loans payable	Borrowings from the ABS / factoring programs	Lease liabilities	Liabilities from put / call option for NCI	Interest rate swaps – cash flow hedge	Foreign currency derivatives – fair value hedge	Retained earnings	Other Reserves	Non-controlling interests	Total
Balance as of December 31, 2018		**113,332**	**455,759**	**15,467**	**32**	**1,976**	**– 1,897**	**– 4**	**356,022**	**2,517**	**1,717**	**944,921**
Changes in cash flow from financing activities												
Loan proceeds	(21. (e))	15,000	248,664									263,664
Loan repayments	(21. (e))	– 114,830	– 180,979	– 791								– 296,600
Inflow (+)/ outflow (–) from hedging derivatives	(21. (f))							– 83				– 83
Interest paid		– 13,774			– 1,260		727					– 14,307
Repayment of debts from leases	(21. (e))				– 10,058							– 10,058
Dividends paid	(24)								– 35,049		– 43	– 35,092
Total change in cash flow from the financing activities	(29)	**– 113,604**	**67,685**	**– 791**	**– 11,318**	**0**	**727**	**– 83**	**– 35,049**	**0**	**– 43**	**– 92,476**
Effects of changes in exchange rates		**3,031**	**1,627**		**– 10**						**– 123**	**4,525**
Changes in the fair value							**1,646**	**74**		**– 1,645**		**75**
Other changes						**– 378**						
Based on debt												
Interest expense		13,712	356		1,260	33			n/a	– 727	n/a	14,634
First time adoption of IFRS 16					34,661							34,661
New leases					13,970				n/a	n/a	n/a	13,970
Transfer		29,500	– 29,500						n/a	n/a	n/a	0
Other changes related to debt		**43,212**	**– 29,144**	**0**	**49,891**	**33**	**0**	**0**	**n/a**	**– 727**	**n/a**	**63,265**
Other changes related to equity	(24)	**n/a**	**n/a**	**n/a**	**n/a**		**n/a**	**n/a**	**54,870**	**9,705**	**25**	**54,870**
Balance as of December 31, 2019		**45,971**	**495,927**	**14,676**	**38,595**	**1,631**	**476**	**– 13**	**375,843**	**9,850**	**1,576**	**975,180**

30. Segment reporting

Segment reporting T132

	EMEA		Americas		Asia-Pacific		Total segments		Central functions		Consolidation		Consolidated Group	
in EUR thousands	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Total revenue	523,199	543,126	460,320	451,171	166,639	151,293	1,150,158	1,145,590	26,545	26,554	–76,607	–88,004	1,100,096	1,084,140
thereof inter-segment revenue	37,229	48,322	9,552	9,657	3,281	3,471	50,062	61,450	26,545	26,554	–76,607	–88,004		
Revenue from external customers	**485,970**	**494,804**	**450,768**	**441,514**	**163,358**	**147,822**	**1,100,096**	**1,084,140**	**0**	**0**	**0**	**0**	**1,100,096**	**1,084,140**
Contribution to consolidated Group sales	44%	46%	41%	41%	15%	13%	100%	100%						
Adjusted gross profit [1]	296,828	306,174	257,378	254,089	76,007	67,234	630,213	627,497	n/a	n/a	422	–920	630,635	626,577
Adjusted EBITDA [1]	**90,815**	**95,534**	**79,606**	**87,175**	**28,012**	**22,977**	**198,433**	**205,686**	**–11,116**	**–4,025**	**–89**	**–297**	**187,228**	**201,364**
Adjusted EBITDA margin [1, 2]	17.4%	17.6%	17.3%	19.3%	16.8%	15.2%							17.0%	18.6%
Depreciation without PPA depreciation [3]	–17,201	–13,162	–15,585	–8,886	–7,909	–4,712	–40,695	–26,760	–1,734	–1,422			–42,429	–28,182
Adjusted EBITA [1]	**73,614**	**82,372**	**64,021**	**78,289**	**20,103**	**18,265**	**157,738**	**178,926**	**–12,850**	**–5,447**	**–89**	**–297**	**144,799**	**173,182**
Adjusted EBITA margin [1, 2]	14.1%	15.2%	13.9%	17.4%	12.1%	12.1%							13.2%	16.0%
Assets [4]	632,012	624,446	655,301	649,757	258,943	250,416	1,546,256	1,524,619	301,560	361,153	–333,476	–414,086	1,514,340	1,471,686
Liabilities [5]	204,606	198,342	271,858	291,204	53,732	54,814	530,196	544,360	631,795	671,394	–277,105	–346,509	884,886	869,245
CAPEX	25,003	28,275	18,041	21,103	12,352	11,707	55,396	61,085	1,510	2,170	n/a	n/a	56,906	63,255
Number of employees [6]	3,612	3,613	1,735	1,727	1,340	1,160	6,687	6,500	111	114	n/a	n/a	6,798	6,614

1_For details regarding the adjustments, refer to → NOTE 7.
2_Based on segment sales.
3_Depreciation from purchase price allocations.
4_Including allocated goodwill, taxes are shown in the column 'consolidation'.
5_Taxes are shown in the column 'consolidation'.
6_Number of employees (average headcount).

NORMA Group segments the Group at a regional level. The reportable segments of NORMA Group are EMEA, the Americas and Asia-Pacific. NORMA Group's vision includes regional growth targets. Distribution Services are focused regionally and locally. EMEA, the Americas and Asia-Pacific have linked regional intercompany organizations with different functions. As a result, the Group's management reporting and controlling system has a regional focus. The product portfolio does not vary significantly between these segments.

Revenues of each segment are generated from the three product categories clamps (CLAMP), joining elements (CONNECT) and fluid systems / connectors (FLUID).

NORMA Group measures the performance of its segments through profit or loss indicators which are referred to as 'adjusted EBITDA' and 'adjusted EBITA'.

'Adjusted EBITDA' comprises revenue, changes in inventories of finished goods and work in progress, other own work capitalized, raw materials and consumables used, other operating income and expenses, and employee benefits expense, adjusted for material one-time effects. EBITDA is measured in a manner consistent with that used in the Consolidated Statement of Comprehensive Income.

'Adjusted EBITA' includes, in addition to EBITDA, the depreciation adjusted for depreciation from purchase price allocations.

In 2019 and 2018, expenses for special impacts were adjusted. An overview of those adjustments and a reconciliation from unadjusted to adjusted income statement is explained under → NOTE 7. 'ADJUSTMENTS'

Inter-segment revenue is recorded at values that approximate third-party selling prices.

Segment assets comprise all assets less (current and deferred) income tax assets. Taxes are shown in the reconciliation. Segment assets and liabilities are measured in a manner consistent with that used in the Consolidated Statement of Financial Position. Assets of the 'Central Functions' include mainly cash and intercompany receivables.

Segment liabilities comprise all liabilities less (current and deferred) income tax liabilities. Taxes are shown in the consolidation. Segment assets and liabilities are measured in a manner consistent with that used in the Consolidated Statement of Financial Position. Liabilities of the 'Central Functions' include mainly borrowings.

Capex equals additions to non-current assets (property, plant and equipment and other intangible assets).

Current and deferred tax assets and liabilities are shown in the consolidation. On December 31, 2019, EUR 19,155 thousand (Dec 31, 2018: EUR 14,256 thousand) in tax assets and EUR 73,274 thousand (Dec 31, 2018: EUR 79,679 thousand) in tax liabilities were shown in the consolidation.

External sales per country, measured according to the place of domicile of the company which manufactures the products, are as follows:

External sales per country T133

in EUR thousands	2019	2018
Germany	186,834	203,820
USA, Mexico, Brazil	450,768	441,514
Other countries	462,494	438,806
	1,100,096	**1,084,140**

Non-current assets per country include non-current assets less deferred tax assets, derivative financial instruments, and shares in consolidated related parties and are as follows:

Non-current assets per country T134

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Germany	134,946	132,109
USA, Mexico, Brazil	470,872	449,366
Sweden	48,303	48,501
Other countries	313,776	299,932
Consolidation	– 14,595	– 10,401
	953,302	**919,507**

31. Contingencies

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business (e.g. warranty obligations).

NORMA Group does not believe that any of these contingent liabilities will have a material adverse effect on its business or any material liabilities will arise from contingent liabilities.

32. Commitments

Capital commitments

Capital expenditure (nominal value) contracted for on the balance sheet date but not yet incurred is as follows:

Commitments T135

in EUR thousands	Dec 31, 2019	Dec 31, 2018
Property, plant and equipment	5,386	8,774

There are no material commitments concerning intangible assets.

33. Related party transactions

Sales and purchases of goods and services

In 2019 and 2018, no management services were bought from related parties.

There were no material sales or purchases of goods and services from non-consolidated companies, from the shareholders of NORMA Group, from key management or from other related parties in 2019 and 2018.

Compensation of members of the Management Board

Compensation of the members of the Management Board according to IFRS is as follows:

Compensation of members of the Management Board (IFRS) T136

in EUR thousands	2019	2018
Short-term benefits	3,458	3,989
Other long-term benefits	0	10
Termination benefits	902	763
Share-based payment	– 31	– 526
Total compensation according to IFRS	**4,329**	**4,164**

In the 2019 financial year, additional termination benefits amounting to EUR 1,480 thousand (2018: EUR 298 thousand) were recognised.

Provisions for the compensation of the members of the Management Board are as follows:

Provisions for compensation of the Management Board members T137

in EUR thousands	Note	Dec 31, 2019	Dec 31, 2018
LTI – Management Board	(27)	59	706
STI – Management Board	(27)	2,198	1,706
Matching Stock Program (MSP)	(25)	833	948
NORMA VA Bonus	(27)	913	1,256
Total		**4,003**	**4,616**

Details regarding the individual provisions can be found in the respective notes.

Besides the provisions shown above, a defined benefit obligation exists for the Management Board. The present value of the obligation amounts to EUR 4,114 thousand as of December 31, 2019 (Dec 31, 2018: EUR 1,776 thousand). → NOTE 26. 'RETIREMENT BENEFIT OBLIGATIONS'.

Details regarding the compensation of the Management Board can be found un the → REMUNERATION REPORT P. 103

34. Additional disclosures pursuant to section 315e (1) of the German Commercial Code (HGB)

Compensation of Board members

The remuneration of the Management Board and Supervisory Board was as follows:

Compensation of Board members T138

in EUR thousands	2019	2018
Total Management Board	3,458	3,989
Total Supervisory Board	488	446
	3,946	**4,435**

In the 2019 financial year, additional termination benefits amounting to EUR 1,480 thousand were recognised.

The remuneration of the members of the Management Board was as follows:

Compensation of members of the Management Board T139

	Dr. Michael Schneider		Dr. Friedrich Klein (since Oct 1, 2018)		Bernd Kleinhens (until July 31, 2019)		John Stephenson (until Jan 31, 2018)		Total	
in EUR thousands	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fixed compensation	423	387	334	83	310	524	0	24	1,067	1,018
Variable compensation	572	590	409	106	572	1,011	0	0	1,553	1,707
Long-term incentives	438	591	219	74	181	591	0	8	838	1,264
Total compensation	**1,433**	**1,568**	**962**	**263**	**1,063**	**2,126**	**0**	**32**	**3,458**	**3,989**

In the fiscal year 2019, expenses for the termination of Mr. Kleinhen's activities, in total EUR 1,480 thousand, are recognised (2018: EUR 298 thousand expenses for Mr. Deggim for termination of his activities).

Besides these expenses, expenses for a defined benefit obligation were recognized in 2019 as follows → NOTES 26. 'RETIREMENT BENEFIT OBLIGATIONS':

Section 314 para 1 No 6a HGB: retirement benefit obligations T140

	Dr. Michael Schneider		Dr. Friedrich Klein (since Oct 1, 2018)		Bernd Kleinhens (until July 31, 2019)		Total	
in EUR thousands	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Present value of the obligation	1,843	1,005	367	53	n/a	371	2,210	1,429
Amount spent / deferred	838	526	314	53	277	371	1,429	950

The defined benefit obligation of pension commitments to prior members of the Management Board and their dependants was EUR 847 thousand as of December 31, 2019 (2018: EUR 0 thousand)

Fees for the auditor

Fees for the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt / Main were expensed as follows:

Fees for the auditor T141

in EUR thousands	**2019**	2018
Auditing services	603	662
Other confirmation services	35	38
Other services	37	116
	675	**816**

In addition to auditing services, the auditor provided confirmation services for financial covenants audit. Other services include audit of the Nonfinancial Statement.

Headcount

The average headcount breaks down as follows:

Average headcount T142

Number	2019	2018
Direct labor	3,291	3,226
Indirect labor	1,294	1,239
Salaried	2,213	2,149
	6,798	6,614

The category 'direct labor' consists of employees who are directly engaged in the production process. The numbers fluctuate according to the level of output. The category 'indirect labor' consists of personnel that does not directly produce products, but rather supports production. Salaried employees are employees in administrative / sales / central functions.

Consolidation

Name, place of domicile and share in capital pursuant to section 313 (2) No. 1 HGB of the consolidated group of companies is presented in → NOTE 4. 'SCOPE OF CONSOLIDATION'.

Proposal for the distribution of earnings

The Management Board and Supervisory Board of NORMA Group SE propose to the Annual General Meeting, which has been postponed from May 14, 2020, to June 30, 2020, to suspend the dividend for fiscal year 2019. This proposal takes into account the forecast for fiscal year 2020 that has been adjusted in connection with COVID-19.

Corporate Governance (section 161 AktG)

The Management Board and Supervisory Board have issued a Corporate Governance Declaration pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz) and made it available to shareholders on the website of NORMA Group. WWW.NORMAGROUP.COM/CORP/EN/INVESTORS/

35. Exemptions under section 264, paragraph 3 of the German Commercial Code (HGB)

In 2019, the following German subsidiaries made use of disclosure exemptions pursuant to section 264, paragraph 3 of the German Commercial Code (HGB):

- NORMA Group Holding GmbH, Maintal
- NORMA Distribution Center GmbH, Marsberg
- NORMA Germany GmbH, Maintal
- NORMA Verwaltungs GmbH, Maintal
- STATEK Stanzereitechnik GmbH, Maintal

36. Events after the balance sheet date

The global spread of the novel COVID-19 has increased continuously in the first weeks and months of fiscal year 2020. The forecast prepared in this Consolidated Management Report was made before the drastic spread of COVID-19 and thus at a time when the economic effects of the virus could not yet be reflected. In light of this situation, there are noticeable uncertainties with regard to the negative effects on future macroeconomic development in the further course of the current financial year. However, the Management Board of NORMA Group assumes that, should it be impossible to contain this pandemic in a timely manner, its further spread will lead to significant losses and negative effects on the markets relevant to NORMA Group and thus also on the business development of NORMA Group.

Appendix to the Notes to the Consolidated Financial Statements

Voting rights notifications

According to section 160 (1) No. 8 AktG, information regarding voting rights that have been notified to the Company pursuant to section 33 (1) or (2) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) must be disclosed.

The following table gives an overview of all voting rights notifications that have been sent to the Company as of March 9, 2020. It contains the information of the last notification of each shareholder. The percentage and shares may have changed in the meantime.

All notifications of shareholder voting rights in the year under review and beyond are available on the website of NORMA Group.
WWW.NORMAGROUP.COM/CORP/EN/INVESTORS/

Voting rights notifications T143

Notifying party	Achievement of voting rights	Touched or exceeded reporting threshold	Share in %	Shares	Pursuant to WpHG
Allianz Global Investors GmbH, Frankfurt / Main, Germany [1]	Feb 18, 2020	more than 15%	15.20%	4,843,141	section 33, 34 WpHG
T. Rowe Price International Ltd, London, United Kingdom [2]	Feb 11, 2020	more than 5%	5.01%	1,596,572	section 33, 34 WpHG
T. Rowe Price International Discovery Fund, Baltimore, Maryland, USA [2]	Feb 05, 2020	more than 3%	3.08%	982,752	section 33, 34 WpHG
BNP Paribas Asset Management Holding S.A., Paris, France	Feb 04, 2020	less than 3%	0.00%	0	section 33, 34 WpHG
BNP Paribas Asset Management France S.A.S., Paris, France	Feb 04, 2020	more than 3%	3.90%	1,242,634	section 33, 34 WpHG
Allianz Global Investors Fund SICAV, Senningerberg, Luxembourg [1]	July 19, 2019	more than 3%	3.30%	1,050,330	section 33, 34 WpHG
AXA S.A., Paris, France	June 25, 2019	less than 3%	2.99%	953,618	section 33, 34 WpHG
Ministry of Finance on behalf of the State of Norway, Oslo, Norway [3]	May 13, 2019	less than 3%	2.68%	852,437	section 33, 34 WpHG
Atlantic Value General Partner Limited, London, United Kingdom	May 05, 2019	more than 3%	3.10%	986,195	section 33, 34 WpHG
The Capital Group Companies, Inc., Los Angeles, California, USA	Apr 03, 2019	less than 3%	2.85%	907,240	section 33, 34 WpHG
Threadneedle Management Luxembourg SA, Bertrange, Luxembourg [4]	Feb 28, 2019	more than 5%	5.004%	1,594,389	section 33, 34 WpHG
Impax Asset Management Group plc, London, United Kingdom	Feb 12, 2019	more than 5%	5.08%	1,617,656	section 33, 34 WpHG
Allianz SE, Munich, Germany	Oct 25, 2018	more than 3%	3.04%	968,681	section 33, 34 WpHG

1_The 15.20% of Allianz Global Investors GmbH (Frankfurt / Main, Germany) contain the 3.30% of the self-reportable Allianz Global Investors Fund SICAV (Sennigerberg, Luxembourg).
2_Looking at the entire corporate chain, T. Rowe Price Group Inc. (Baltimore, USA) through its subsidiaries T. Rowe Price International Ltd (London, United Kingdom) and T. Rowe Price International Funds and T. Rowe Price International Discovery Funds (both Baltimore, USA) holds 5.01%.
3_The Ministry of Finance on behalf of the State of Norway holds 2.68% direct voting rights and 0.51% indirect voting rights through instruments, for a total of 3.18%.
4_Looking at the entire corporate chain, Ameriprise Financial Inc. (Wilmington, USA) holds a total of 8.35%. The two subsidiaries Threadneedle Asset Management Limited (London, Great Britain) and Threadneedle Management Luxembourg SA (Bertrange, Luxembourg) hold 6.79% and 5.004%, respectively.

Corporate bodies of NORMA Group SE

Members of the Management Board

Dr. Michael Schneider
PhD in Economics
Chief Executive Officer (CEO) since November 14, 2019 and Chief Financial Officer (CFO) since November 14, 2019 ad interim

- Member of the Supervisory Board of Leitwerk AG, Appenweier, Germany
- Member of the Supervisory Board of accuris AG, Munich, Germany

Dr. Friedrich Klein
Master's degree in Mechanical Engineering
Chief Operating Officer (COO), since October 1, 2018

Bernd Kleinhens
Master's degree in Mechanical Engineering,
Chief Executive Officer (CEO)
until July 31, 2019

Members of the Supervisory Board

Lars M. Berg (Chairman)
- Consultant
- Chairman of the Supervisory Board of Greater Than AB, Stockholm, Sweden (listed on the stock exchange)

Erika Schulte (Vice chairwoman)
- Managing Director of Hanau Wirtschaftsförderung GmbH, Hanau, Germany
- No seats on other boards or comparable committees

Rita Forst
- Consultant
- Member of the Supervisory Board (Non-Executive Director) of AerCap Holdings N.V., Dublin, Ireland (listed on the stock exchange) – since April 2019
- Member of the Advisory Board of Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich, Germany (not listed on the stock exchange)
- Member of the Supervisory Board of ElringKlinger AG, Dettingen, Germany (listed on the stock exchange)
- Member of the Advisory Board of Westport Fuel Systems Inc., Vancouver, Canada (listed on the stock exchange)
- Member of the Advisory Board of Metalsa, S.A. de C.V., Monterrey, Mexico (not listed on the stock exchange) – until May 2019

Günter Hauptmann
- Consultant
- Member of the Advisory Board of Moon TopCo GmbH, Poing, Germany (not listed on the stock exchange)

Dr. Knut J. Michelberger
- Consultant
- Member of the Supervisory Board of Weener Plastics Group, Ede, The Netherlands (not listed on the stock exchange)
- Member of the Advisory Board (Deputy Chairman) of Racing TopCo GmbH, Troisdorf, Germany (not listed on the stock exchange)
- Member of the Advisory Board of Kaffee Partner Holding GmbH, Osnabrück, Germany (not listed on the stock exchange)
- Member of the Advisory Board of Tegimus Holding GmbH, Frankfurt, Germany (not listed on the stock exchange)
- Member of the Advisory Board of Moon TopCo GmbH, Poing, Germany (not listed on the stock exchange)
- Member of the Advisory Board of Rena Technologies GmbH, Gütenbach, Germany (not listed on the stock exchange) – until January 2019

Mark Wilhelms
- Chief Financial Officer at Stabilus S.A., Luxembourg
- No seats on other boards or comparable committees

Maintal, March 9, 2020 / March 23, 2020

NORMA Group SE

The Management Board

Dr. Michael Schneider
Chief Executive Officer (CEO)

Dr. Friedrich Klein
Chief Operating Officer (COO)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Consolidated Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Maintal, March 9, 2020 / March 23, 2020

NORMA Group SE

The Management Board

Dr. Michael Schneider
Chief Executive Officer (CEO)

Dr. Friedrich Klein
Chief Operating Officer (COO)

Independent Auditor's Report

To NORMA Group SE, Maintal

Report on the Audit of the Consolidated Financial Statements and of the Consolidated Management Report

Audit opinions

We have audited the Consolidated Financial Statements of NORMA Group SE, Maintal, and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2019 and the Consolidated Statement of Comprehensive Income, consolidated statement of profit or loss, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the financial year from 1 January to 31 December 2019, and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Consolidated Management Report of NORMA Group SE for the financial year from 1 January to 31 December 2019. We have not audited the content of those parts of the Consolidated Management Report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying Consolidated Financial Statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019 and
- the accompanying Consolidated Management Report as a whole provides an appropriate view of the Group's position. In all material respects, this Consolidated Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Consolidated Management Report does not cover those parts of the Consolidated Management Report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the Consolidated Financial Statements and of the Consolidated Management Report.

Basis for the audit opinions

We conducted our audit of the Consolidated Financial Statements and of the Consolidated Management Report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Consolidated Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the Consolidated Financial Statements and on the Consolidated Management Report.

Key audit matters in the audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

1. Recoverability of goodwill

Our presentation of this key audit matter has been structured in each case as follows:

a) Matter and issue

b) Audit approach and findings

c) Reference to further information

Hereinafter we present the key audit matters:

Recoverability of goodwill

a) In the Consolidated Financial Statements of NORMA Group SE a total amount of EUR 393.1 million, representing around 26% of total assets, is reported under the balance sheet item "Goodwill". The Company allocates goodwill to the groups of cash-generating units, which correspond to the Group's operating segments. Goodwill is tested for impairment ("impairment test") on an annual basis or if there are indications that goodwill may be impaired, to determine any possible need for write-downs. For the purposes of the impairment test the carrying amount of the relevant cash-generating unit is compared with its fair value less costs of disposal. This measurement is generally based on the present value of the future cash flows of the relevant cash-generating unit to which the respective goodwill is allocated. Present values are calculated using discounted cash flow models. For this purpose, the Group's five-year financial plan prepared by the executive directors and adopted by the Supervisory Board forms the starting point for future projections based on assumptions about long-term rates of growth. In doing so, expectations relating to future market developments and country-specific assumptions about the performance of macroeconomic indicators are also taken into account. The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

b) As part of our audit, we evaluated the methodology used for the purposes of performing the impairment test, among other things. We also assessed whether the future cash inflows underlying the measurements and the discount rates used on the whole provide an appropriate basis for the impairment tests of the individual cash-generating units. We assessed the appropriateness of the future cash inflows used in the calculation, inter alia, by comparing this data with the current budgets in the five-year financial plan prepared by the executive directors and approved by the Supervisory Board, and by reconciling it with general and sector-specific market expectations. In addition, we assessed whether the basis for including the costs of Group functions was appropriate. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. Furthermore, in addition to the analyses carried out by the Company we performed our own sensitivity analyses and, taking into account the information available, determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement parameters and assumptions used by the executive directors are comprehensible.

c) The Company's disclosures on goodwill are contained in sections 3 and 18 of the Notes to the Consolidated Financial Statements.

Other information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the Consolidated Management Report:

- the group statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Principles of the group" of the Consolidated Management Report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report– excluding cross-references to external information – with the exception of the audited Consolidated Financial Statements, the audited Consolidated Management Report and our auditor's report.

Our audit opinions on the Consolidated Financial Statements and on the Consolidated Management Report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the Consolidated Financial Statements, with the Consolidated Management Report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated

Responsibilities of the executive directors and the Supervisory Board for the Consolidated Financial Statements and the Consolidated Management Report

The executive directors are responsible for the preparation of the Consolidated Financial Statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the Consolidated Financial Statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined 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 executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the Consolidated Management Report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the Consolidated Financial Statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Consolidated Management Report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Consolidated Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the Consolidated Financial Statements and of the Consolidated Management Report.

Auditor's responsibilities for the audit of the Consolidated Financial Statements and of the Consolidated Management Report

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 whether the Consolidated Management Report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the Consolidated Financial Statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the Consolidated Financial Statements and on the Consolidated Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 and this Consolidated Management Report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and of the Consolidated Management Report, 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 audit opinions. 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 of the Consolidated Financial Statements and of arrangements and measures (systems) relevant to the audit of the Consolidated Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive 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 the auditor's report to the related disclosures in the Consolidated Financial Statements and in the Consolidated Management Report or, if such disclosures are inadequate, to modify our respective audit opinions. 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 be able 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 present the underlying transactions and events in a manner that the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the Consolidated Financial Statements and on the Consolidated Management Report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Consolidated Management Report with the Consolidated Financial Statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the Consolidated
- Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, 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.

Other legal and regulatory requirements

Further information pursuant to article 10 of the EU audit regulation

We were elected as group auditor by the annual general meeting on 21 May 2019. We were engaged by the Supervisory Board on 29 November 2019. We have been the group auditor of the NORMA Group SE, Maintal, without interruption since the financial year 2010.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit-committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Reference to supplementary audit

We issue this audit report on the amended financial statements and the amended management report on the basis of our audit, duly completed as at 9 March 2020, and our supplementary audit completed as at 23 March 2020, related to the amendments of disclosures in the notes to the financial statements and the management report. Due to the consideration of new facts concerning the consequences of the coronavirus the forecast and the proposal of the distributions of earnings have been amended. We refer to the presentation of the amendments by the executive directors in the amended notes to the financial statements, section "Events after the balance sheet date" and "Proposal of the distributions of earnings", as well as the amended Consolidated Management Report, section "Forecast Report".

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Stefan Hartwig.

Frankfurt / Main, March 9, 2020

Limited to the amendments stated in the "Reference to Supplementary Audit" section above: 23 March 2020.

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Stefan Hartwig	**sgd. ppa. Richard Gudd**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)