Economic Report

External factors of influence

Economic factors

NORMA Group is active in many different industries and regions. Seasonal and economic fluctuations in individual countries or industries can have varying effects on customer demand and the order situation at NORMA Group. At the same time, NORMA Group is less vulnerable to temporary declines in demand in individual industries or countries thanks to its diversified product portfolio and broad customer base. Temporary production peaks can be absorbed due to flexible production structures and the use of temporary workers.

Trade conflicts put the global economy under considerable pressure in 2019

After a slight downturn just a year earlier, the global economy began a sharp descent in 2019. The main negative factors were the escalation of the trade conflict between the superpowers USA and China as well as the outcome of the Brexit negotiations, which could not be predicted for a long time. As a result, both global trade and investment activity weakened noticeably. By contrast, strong domestic demand and the continued easing of monetary policy by the world's central banks supported the economy. These measures included the turnaround in interest rates initiated by the US Federal Reserve (FED) at the end of July 2019 and the European Central Bank's (ECB) continued zero-interest policy and related bond repurchases. Overall, according to the International Monetary Fund (IMF), the global economy grew by 2.9% in 2019 (2018: + 3.6%).

At country level, growth momentum flattened further in 2019, especially in China, as a result of US restrictions and subdued international trade. Although industrial production grew relatively strongly by 5.7% (2018: 6.2%), the production of automobiles and industrial robots declined significantly overall. According to official figures, economic growth in China was 6.1% in 2019 (previous year: 6.6%). In the emerging markets of Southeast Asia (ASEAN-5), the gross domestic product fell to 4.7% (2018: 5.2%). In India as well, the economy came to a standstill due to massive liquidity problems in the financial sector and managed to grow by only 4.8%, following a strong performance the previous year (2018: + 6.8%). Brazil (+ 1.2%) and Russia (+ 1.1%) also showed only moderate growth. Against this backdrop, the expansion rate of the emerging and developing countries declined to 3.7% in 2019 (2018: 4.5%).

The difficult environment also became clearly evident in the US. The domestic economy there lost momentum in 2019, although private consumption remained buoyant and government consumption increased. The main reason for this was the lack of follow-up impetus following the 2019 tax reform, even despite several key interest rate cuts by the US Federal Reserve (FED). Although US industrial production was supported by the energy sector and in particular the high-tech industries (communications equipment, semiconductors), it remained weak overall in 2019 (– 0.8%), with capacity utilization falling by an average of 90 basis points to 77.8%. Production also declined significantly in the automotive and consumer goods sectors. In contrast, the economy in Japan, for example, grew moderately by 1.0% (2018: 0.3%) according to the IMF, and economic growth in the United Kingdom also increased by another 1.3% despite the Brexit negotiations that continued throughout the year

GDP growth rates (real) T014

in %	2019	2018	2017
World [1]	+ 2.9	+ 3.6	+ 3.8
USA [2]	+ 2.3	+ 2.9	+ 2.4
China [3]	+ 6.1	+ 6.6	+ 6.9
Euro zone [4]	+ 1.2	+ 1.9	+ 2.4
Germany [5]	+ 0.6	+ 1.5	+ 2.5

Sources: 1_IMF; 2_US Trade Ministry; 3_National Bureau of Statistics (NBS); 4_Eurostat, 5_German Federal Statistical Office (Destatis)

Noticeable economic slowdown in the euro zone, domestic demand remained strong in 2019

The negative international environment in 2019 was also reflected in a further economic slump in Europe. This had a particularly negative impact on the export-oriented industrial sectors in the euro zone. Nevertheless, domestic demand remained stable, primarily supported by low inflation, attractive interest rates, high employment figures and, to some extent, fiscal policy stimuli. As a result, consumer-related and service sectors as well as the construction industry proved to be quite strong. According to the statistical office Eurostat, the euro zone economy grew by 1.2% overall in 2019 (2018: 1.9%). Ireland and the Eastern European countries again recorded the strongest growth. The economy also developed strongly in Scandinavia, the Netherlands and Belgium. In France and Spain, economic momentum remained largely stable, especially as industry is heavily geared towards consumer goods, whereas the economy in Italy stagnated, particularly due to structural deficits.

Industrial production in the euro zone declined in 2019, with the downward trend intensifying from June 2019 onwards and leading to a noticeable slump. This is attributable on the one hand to weak exports and subdued domestic demand in Europe and on the other to a declining willingness to invest. The effects of this were felt above all by manufacturers of intermediate goods, energy and capital goods, whereas the production of durable and non-durable goods increased. All in all, capacity utilization in the euro zone deteriorated significantly within a year. It fell by 230 basis points to 81.3% in the final quarter of 2019.

German economy showed a mixed picture in 2019: lively domestic demand combined with weak industry

Due to its close ties to the economies of other world markets, Germany was hit harder than other euro zone countries by the global weakness in demand and uncertainties that repeatedly flared up. Particular pressure was felt in the capital goods, intermediate goods and the automotive sector. In this environment, the German economy grew only very weakly at 0.6% according to the Federal Statistical Office (Destatis) (2018: + 1.5%). Economic development was divided: On the one hand, domestic demand proved lively and resilient, so that with an average of 45.3 million people (+ 0.9%) in 2019, a new record in employment was achieved, which meant that private consumption, but also government consumption and construction investments regained momentum compared to the previous year. On the other hand, investments in equipment lost considerable momentum compared to the previous year by posting growth of only + 0.4% (2018: + 4.4%), and exports lost considerable momentum at + 0.9% (2018: + 2.1%).

Industrial production also continued to decline at an accelerated pace in 2019, after a significant decline at the end of the previous year, and slid into a deep recession. Thus, production output in each month was up to 6.0% (June) below the level of the respective month of the previous year. As a result, according to Eurostat, capacity utilization declined noticeably in the fourth quarter to 82.7% (Q4 2018: 87.1%).

Currency rate effects

Due to NORMA Group's international activities, exchange rate fluctuations also influence its business. While fluctuations between non-euro currencies have only little impact on the operating result of the NORMA Group as a result of regional production, exchange rate fluctuations against the euro as the reporting currency may have a greater impact on its results. Due to high US dollar exposure, fluctuations in the EUR / USD exchange rate in particular affect earnings. → RISK AND OPPORTUNITY REPORT, P. 89

In fiscal year 2019, NORMA Group generated around 44% of its sales in US dollars. The development of the US dollar against the euro resulted in a positive sales effect in fiscal year 2019. Furthermore, changes in the exchange rates of the following currencies had a negative effect on sales development: British pound, Swiss franc, Indian rupee, Chinese renminbi, Malaysian ringgit, Thai baht and Russian rubel.

Industry-specific factors

Mechanical engineering in a recession almost worldwide, China also clearly in a downturn

The global mechanical engineering industry is experiencing a cyclical downturn which, according to the German Engineering Federation (VDMA), is being exacerbated and overshadowed by a variety of obstacles and structural changes. Examples of these changes include the upheaval within the automotive industry, China's economic reorientation and increasing protectionism. As a result, global machinery sales stagnated in 2019 (2019: + 5%; 2018: + 5%). China was also hit by global obstacles. In fact,- industrial growth declined by half to around + 4%. Excluding China, the world market shrank by 2% in real terms in 2019 and was thus in a recession. The sales trend in the ASEAN-5 countries was weak and, in some cases, declined even further. Development was also negative in Japan (– 6%) and South Korea (– 3%). The picture in Latin America was noticeably heterogeneous: Sales in Argentina collapsed massively due to the recession, while the market in Chile grew at double-digit rates. The economies of Brazil and Mexico improved slightly. In the US, the headwind became stronger due to weak industrial growth, with industrial sales dropping by a total of 1% after two strong years.

In Europe, the strongly export-oriented mechanical engineering sector also came under noticeable pressure in 2019, with industry sales shrinking by 1% in both Europe as a whole and the euro zone according to the VDMA. Italy (– 1%), Spain (– 2%), Portugal (– 15%) and the United Kingdom (– 4%) suffered losses, some of which were substantial. This contrasted with positive trends in Scandinavia and the EU countries in Eastern Europe. In Germany, the order situation for mechanical engineering companies was significantly worse in 2019, with orders down by around 9% (domestic – 9%, foreign – 9%). According to VDMA estimates, this resulted in a 2% decline in both German mechanical engineering output and sales in 2019.

Automotive industry 2019 with massive production losses for cars and trucks in some areas

The profound technological upheaval has continued at an even faster pace. The pressure on vehicle original equipment manufacturers (OEMs) and suppliers is noticeable, particularly as high development input is required in conjunction with growing pressure on margins and falling sales. In addition, the merger of PSA and FCA initiated in 2019 further drove market concentration. According to LMC Automotive (LMCA), global sales of light vehicles (LV, up to 6 t) fell by around 4.5% to just under 90.2 million vehicles in 2019. According to the Association of German Automobile Manufacturers, a total of 80.1 million passenger cars were sold in the smaller global passenger car market. The resulting market decline of 5% reached a new high and was thus more pronounced than the decline during the financial and economic crisis ten years ago. As a result, LV production was cut by 5.0% worldwide. With the exception of Japan (+ 0.1%), all major regions recorded significant losses, including China (– 7.7%), the US (– 3.9%), Mexico (– 3.3%) and India (– 10.6%). Due to the economic situation, truck and bus manufacturers also felt the effects of headwinds in many regions, especially in Asia. According to the latest data from LMCA, 3.2% fewer trucks were manufactured worldwide than in the previous year, with the US (+ 6.7%) and Japan (+ 4.9%) increasing their truck production against the prevailing negative trend.

In Europe (EU28 + EFTA), sales increased by 1.2% to 15.8 million passenger cars (West: + 0.7%, East: + 6.2%), according to the European Automobile Manufacturers Association ACEA (Association des Constructeurs Européens d'Automobiles), despite continuing market pressure. The most significant increase was recorded in Germany (+ 5.0%). Sales also rose in France (+ 1.9%) and Italy (+ 0.3%), while demand declined noticeably in the United Kingdom (– 2.4%) and Spain (– 4.8%). In contrast, according to the LMCA, production in Europe's export-oriented automotive industry was cut back by 3.3% to just under 21.4 million LV due to global market weakness. Production of light vehicles in Germany dropped by as much as 7.2%. Production figures also declined in the UK, France and Italy, in some cases massively. Due to the lower export figures, the production of commercial vehicles in Europe also declined slightly by 1.7% according to the LMCA. According to the ACEA, around 2.6 million trucks were sold in the truck segment in Europe (+ 2.5%), with sales in Western Europe increasing (+ 2.8%) and stagnating in Eastern Europe. In contrast, demand was lively in Germany (+ 6.1%), France (+ 4.3%) and the UK (+ 3.0%). More trucks were also shipped in Italy (+ 1.9%) and Spain (+ 0.3%). Demand was particularly strong for light trucks (up to 3.5 t) and especially for buses, while sales of heavy trucks (>16 t) stagnated.

Construction industry in Asia and Europe experiences strong tailwind in 2019, Germany booming

The construction industry in China, India and Southeast Asia is benefiting strongly from urbanization and political impulses, including infrastructure expansion. According to the statistics office NBS, China's investments in buildings grew nominally by 9.9% (of which residential construction: + 13.9%), and investments in the water industry by 1.4%. The construction industry in Europe continued its upswing thanks to a high demand for new construction and renovation as well as the favorable financing environment. According to estimates by the industry network Euroconstruct (including the ifo Institute), construction output in Europe rose by 2.3% in real terms in 2019 (2018: 3.2%). Nearly all of the 19 key individual markets for the sector recorded growth, with construction activity in Ireland and Hungary even showing double-digit increases. Finland and Sweden were the only exceptions. Construction output in Western Europe thus increased by 2.0% in real terms (2018: 2.6%), while Eastern Europe's construction industry even grew by 7.3% in 2019 (2018: 12.8%).

In Germany, construction investments in 2019 rose by 3.8% in real terms, after an increase of 2.5% the previous year (Destatis). According to the German Institute for Economic Research (DIW), the volume of residential construction grew by a total of 7.6% to EUR 247 billion (2018: + 8.6%). The volume of new construction grew by 7.4%. Construction work on existing buildings (extension / conversion, modernization, maintenance), which accounts for roughly two-thirds of the construction volume of apartments, increased by 7.7% (2018: + 7.9%). The construction volume of other building construction (excluding dwellings) rose by 6.6% (2018: + 6.2%). In civil engineering, too, construction output grew vigorously by posting an 8.0% increase (2018: + 8.7%), driven in particular by a positive development in public civil engineering (+ 9.0%).

US construction industry and water management experience tailwind in 2019 for infrastructure and renovation

In 2019, a total of 5.6% more private residential units were completed in the US than in the previous year. Nevertheless, the picture for the construction industry was mixed: private construction spending shrank by 2.5% in nominal terms, with a very significant decline in the sub-segment of private residential construction (– 4.7%), while public construction spending rose sharply (+ 7.1%). The increase mainly concerned the highways and roads segment (+ 8.8%) and the water supply sector (7.2%) and was mainly driven by a high demand for renovation and modernization. Investments in the infrastructure of sewage and rainwater plants also benefited from this development. Supported by lower mortgage interest rates, demand for irrigation systems for agriculture, sports facilities, parks and gardens also benefited. According to the industry experts at JBREC (John Burns Real Estate Consulting), demand in the market segments relevant to NORMA Group's NDS activities increased by 6.5% overall.

Legal and regulatory influencing aspects

In the context of the international focus of its business and against the backdrop of its acquisition strategy, various legal and tax-related regulations are relevant to NORMA Group, which include product safety and product liability laws, construction, environmental and employment-related regulations as well as foreign trade and patent laws. → RISK AND OPPORTUNITY REPORT, P. 89

In addition, NORMA Group's product strategy is influenced by increasing density of regulations in environmental law and ongoing discussion on emission-reducing drive technologies in the automotive industry. New regulations on emissions and fleet management provisions, as well as the strong trend towards hybrid and fully electric drive models have a positive impact on NORMA Group's business. After all, the increasing complexity of systems in vehicles – due to downsizing or hybrid vehicles, for example – also increases the number of interfaces and thus the demand for reliable joining technology. In addition, the increasing electrification of the automotive industry presents OEMs with new challenges and opens up new opportunities and business fields for NORMA Group, especially in the area of thermal management.
→ RESEARCH AND DEVELOPMENT, P. 55

With the acquisition of National Diversified Sales (NDS) in 2014 and the acquisition of the Indian water company Kimplas in 2018, the various regulatory initiatives in the field of water management as well as public measures to improve the supply of water to the population have also gained considerable influence for NORMA Group.

Significant developments in fiscal year 2019

Personnel changes in the Management Board

Bernd Kleinhens, Chairman of the Management Board of NORMA Group, resigned from the Management Board by mutual agreement effective July 31, 2019. Dr. Michael Schneider then took over the duties of Chairman of the Management Board in addition to his role as Chief Financial Officer.

The Supervisory Board appointed Dr. Schneider new Chairman of the Management Board of NORMA Group SE in November 2019. Besides serving as Chairman of the Management Board, Dr. Michael Schneider will retain his role as Chief Financial Officer until further notice. In November 2019, the Supervisory Board initiated the search for a suitable candidate for the position of Chief Financial Officer and will most likely decide on the position in the months to come.

Strategic measures aimed at optimizing Group structures

NORMA Group has grown rapidly in recent years, both organically and through acquisitions. This has also been accompanied by rapid growth in the production landscape and organizational structures. These will be optimized in order to enable the Company to respond promptly and flexibly to changing conditions. In order to further streamline processes and systems within the Group and thus lay the foundations for further growth levels, the Management Board of NORMA Group announced the implementation of a rightsizing program back in February 2019 aimed at the long-term optimization of Group structures. The program includes optimization measures in all regions – EMEA, the Americas and Asia-Pacific – and is designed to focus NORMA Group's business model on the demands of the future strategic growth fields of electromobility and water management. The measures that have either already been implemented or are planned are expected to make a positive contribution to annual earnings (adjusted EBITA) of around EUR 10 million to EUR 15 million from 2021 on. Total costs of the project are currently EUR 15 million.

In light of the persistently difficult market environment and as a consequence of NORMA Group's – weaker than expected – sales and earnings performance in fiscal year 2019, the Management Board in its new composition also launched the "Get on Track" change program in November 2019 that was approved by the Supervisory Board. This program includes extensive improvement measures and addresses the following three main aspects in particular: optimizing site capacities in all regions, streamlining the product portfolio, mainly through more active portfolio management, and improving structures and processes along the entire value chain.

The change program is expected to lead to cost savings from 2020 on that are expected to increase to between EUR 40 million and EUR 45 million annually by 2023. A cumulative total cost volume of around EUR 45 million to EUR 50 million is expected for the implementation and realization of the measures by 2023. The costs of this project will not be adjusted.

Optimiziation of Group financing

NORMA Group managed to refinance its credit lines in fiscal year 2019, thereby creating financial security and flexibility for the future. The new credit agreement has an initial volume of EUR 250 million. Furthermore, a revolving facility of EUR 50 million and an accordion facility were also concluded, whereas the accordion facility does not have a maximum threshold. In addition, for the first time, the financing agreements also include a sustainability component that links the financing terms to NORMA Group's activities in the area of Corporate Responsibility. By further improving its sustainability rating, the Company now has the chance to reduce the interest burden of its financing. The credit agreement was concluded for a term of five years and includes the option to extend it twice for a further year each time. The financing is comprised of tranches denominated in euros and US dollars. → FINANCIAL POSITIONS, P. 69

Comparison of target and actual values

NORMA Group published a forecast in its 2018 Annual Report on the development of the Group's most important financial figures in fiscal year 2019. In the course of the fiscal year under review, the Management Board was forced several times to concretize or adjust its forecast for Group sales growth, the adjusted EBITA margin and the net operating cash flow due to changes in the general economic conditions. The following explanations provide an overview of the forecast adjustments and a comparison of the projected values with the Group's actual results.

Adjustments to the forecast during the year

The Management Board of NORMA Group concretized the forecast for the Group's adjusted EBITA margin in April 2019 on the basis of sales in the first quarter of 2019 and the expected results for the full year. At that time, the Management Board still expected the adjusted EBITA margin to be within the range of 15% to 17% as forecasted in March 2019, although this figure was expected to be at the lower end of the range. This was due to the difficult economic and political environment, which proved to be much more volatile than expected, especially in the EMEA and Asia-Pacific regions.

The market environment in the global automotive business continued to deteriorate in the summer of 2019. The negative impact from the global trade disputes and sanctions and the resulting reluctance to invest were reflected in a continued decline in business, particularly in the EMEA and Asia-Pacific regions. In addition, the costs for the introduction of an ERP system at a site in Latin America also had a negative impact on Group earnings. These developments prompted the Management Board to revise its forecast for organic sales growth, earnings development and net operating cash flow downwards in July 2019. Instead of organic growth of around 1% to 3%, the Management Board now expected organic growth within a corridor of around – 1% to around 1%, an adjusted EBITA margin of over 13% (previous forecast: at the lower end of the corridor between 15% and 17%) and net operating cash flow of EUR 90 million (previous forecast: EUR 100 million). In the course of the reporting on the second quarter of 2019, the Management Board also revised its forecast for NOVA and adjusted earnings per share and now assumed NOVA of EUR 30 million to EUR 40 million (previous forecast: EUR 50 million to EUR 60 million) and a sharp decline in adjusted earnings per share (previous forecast: moderate increase).

In October 2019, the Management Board lowered its forecast for organic sales growth for the regions and the Group and has since then expected an organic decline in Group sales of around 4% to 2%. The main reason for this was the sharp downturn in the EJT business in the US, which was partly due to strikes at key customers in the passenger car and truck industries. In addition, the EMEA and Asia-Pacific regions also fell slightly short of expectations. With regard to NORMA Value Added (NOVA), the Management Board now expected a bandwidth of between EUR 20 million and EUR 30 million for the full year 2019.

The → TABLE 015 on P. 63 provides an overview of the target and actual values as well as the forecast adjustments during the year.

Deviations from the target values

NORMA Group's organic growth in Group sales of – 2.0% is within the range of – 4% to – 2%, which was revised downwards in October 2019, but significantly below the original forecast of around 1% to 3% published in March 2019.

Development was mixed with regard to cost factors. While adjusted cost of materials ratio and adjusted other operating income and expenses as a percentage of sales improved, the adjusted personnel cost ratio deteriorated significantly due to the increased number of employees, severance payments to a former member of the Management Board and lower sales revenues. Among other factors, other operating expenses positively reflect the effects of the first-time application of IFRS 16.

The adjusted EBITA margin for fiscal year 2019 was at 13.2% (excluding IFRS 16: 13.1%), which was also significantly below the initially forecast range of 15% to 17%, but within the forecast of over 13% that was revised downwards in July 2019.

This development was also reflected in adjusted earnings per share, which, at EUR 2.76, were within the range of the forecast adjusted over the course of the year (sharp decline), but thus contrary to the original expectations (moderate increase).

Net operating cash flow amounted to EUR 122.9 million (without IFRS 16: EUR 111.6 million) in fiscal year 2019 and was thus above the original forecast of around EUR 100 million (without IFRS 16), whereas this was also revised downwards to around EUR 90 million (without IFRS 16) in fiscal year 2019.

NOVA amounted to EUR 17.3 million (without IFRS 16: EUR 17.3 million) in fiscal year 2019 and clearly failed to meet the original forecast of EUR 50 million to EUR 60 million as well as the forecast adjusted in October 2019 to EUR 20 million to EUR 30 million. One of the reasons for this was the increase in the market risk premium that was given exogenously on the recommendation of the German Institute of Public Auditors (IDW).

The other key financial figures were in line with the forecast published in the 2018 Annual Report.

Actual business development compared to the forecast [1]

T015

	Results in 2018 [1]	March 2019 [2]	April 2019	July / Aug. 2019	Oct. / Nov. 2019	Results in 2019 (without IFRS 16) [2]
Group sales	EUR 1,084.1 million	n/a	n/a	n/a	n/a	EUR 1,100.1 million.
Organic growth of Group sales	7.7% organic growth, additionally EUR 16.5 million from acquisitions	moderate organic growth of around 1% to 3%, additionally around EUR 13 million from acquisitions	no adjustment	organic growth of – 1% to 1%	organic decline of around – 4% to – 2%	– 2.0% organic growth, additionally EUR 13.3 million from acquisitions
Organic sales growth EMEA	2.0%	moderate organic growth	no adjustment	no adjustment	moderate organic decline	– 2.3%
Organic sales growth Americas	12.4%	moderate organic growth	no adjustment	moderate organic decline	noticable organic decline	– 3.1%
Organic sales growth Asia-Pacific	14.9%	strong organic growth	no adjustment	moderate organic growth	moderate organic decline	2.3%
Sales growth EJT	7.3%	moderate growth	no adjustment	noticable decline	no adjustment	– 2.8%
Sales growth DS	5.8%	moderate growth	no adjustment	no adjustment	no adjustment	9.2%
Adjusted cost of materials ratio	43.6%	roughly at the same level as in previous years	no adjustment	no adjustment	moderate decline	43.4%
Adjusted personnel expense ratio	25.9%	roughly at the same level as in previous years	no adjustment	moderate increase	noticable increase	27.5%
Adjusted EBITA margin	16.0%	between 15% and 17%	the lower end of the range of 15% to 17%	moren than 13%	no adjustment	13.2% (13.1%)
NOVA	between EUR 50 million and EUR 60 million	no adjustment	no adjustment	between EUR 30 million and EUR 40 million.	between EUR 20 million and EUR 30 million.	EUR 17.3 million. (EUR 17.3 million)
Financial result	EUR – 11.7 million	up to EUR – 15.0 million	no adjustment	no adjustment	no adjustment	EUR – 15.5 million (EUR – 14.2 million)
Adjusted tax ratio	24.9%	around 25% to 27%	no adjustment	no adjustment	no adjustment	27.1%
Earnings per share	EUR 3.61 (adjusted) EUR 2.88 (reported)	moderate increase	no adjustment	strong decline	no adjustment	EUR 2.76 (adjusted) EUR 1.83 (reported)
Net operating cash flow	EUR 124.4 million	around EUR 100 million	no adjustment	around EUR 90 million	no adjustment	EUR 122.9 million (EUR 111.6 million)
Investments in R&D (related to EJT sales)	4.5%	around 5% of EJT sales	no adjustment	no adjustment	no adjustment	4.7%
Investment rate (without acquisitions)	5.8%	operational investments of around 5% of Group sales	no adjustment	no adjustment	no adjustment	5.0%
Dividend / Payout ratio	EUR 1.10 [2] 30.5%	approx. 30% to 35% of adjusted annual Group earnings	no adjustment	no adjustment	no adjustment	EUR 0 [3] 0 [3]
Number of invention applications	32	more than 20	no adjustment	no adjustment	no adjustment	22
Number of defective parts per million (PMP)	7	less than 20	no adjustment	no adjustment	no adjustment	6
Average number of quality-related customer complaints per month	7	less than 8	no adjustment	no adjustment	no adjustment	6

1_The adjustments relate to adjustments for acquisitions as well as the initiated "Rightsizing" program announced in February 2019. → NOTES, P. 148
2_Changes in key figures resulting from the first-time application of IFRS 16 were not taken into account in the forecast for the 2019 fiscal year. The deviations in the key figures due to the first application of IFRS 16 is shown in brackets in the table.
3_In accordance with the Management Board's proposal for the appropriation of net profit, subject to the approval by the Annual General Meeting on June 30, 2020.

General statement by the Management Board on the course of business and economic situation

For NORMA Group, fiscal year 2019 was a year with many unforeseeable challenges, which had a negative impact on some parts of the Group and thus a negative impact on the Group's sales and earnings in the past year. These contrary developments affected the automotive industry in particular, which suffered significant production and sales losses worldwide in fiscal year 2019. This development had a particularly negative impact on NORMA Group's EJT business, which consequently showed an organic decline in sales of 4.5%. Despite the relatively good development of the DS business – and in particular of the water business – this could not be compensated for by organic sales growth of 2.7%. With the additional sales revenues from the acquisitions of Kimplas and Statek, which contributed 1.2% to total sales growth and positive currency effects of 2.3%, Group sales growth in fiscal year 2019 amounted to 1.5%. In addition to this sales growth that was significantly lower than initially expected, additional cost increases in the areas of personnel and materials had a negative impact on earnings. These circumstances led to an adjusted EBITA margin of 13.2% (2018: 16.0%) and adjusted earnings per share of EUR 2.76 (2018: EUR 3.61). This development was significantly below the Management Board's expectations and meant the forecast needed to be revised over the course of the year.

The Management Board is cautious for the current year due to the continuing risks and difficult conditions in some of the industries that are important to NORMA Group and expects a noticeable decline in organic sales for fiscal year 2020. In addition, the Management Board expects an adjusted EBITA margin of more than 13% as a result of the change program that has been introduced. → FORECAST REPORT, P. 82

Earnings, assets and financial position

Adjustments

NORMA Group adjusts certain expenses for the operational management of the Company. The following adjusted results shown reflect the Management Board's view.

In fiscal year 2019, net expenses of EUR 13.4 million in total were adjusted within EBITDA (2018: EUR 4.4 million). These relate primarily to other operating expenses (EUR 2.9 million) and employee benefit expenses (EUR 9.9 million) as well as to the cost of materials (EUR 0.2 million) from the "Rightsizing" project initiated in the fourth quarter of 2018 in order to optimize the Group's structures. The adjustments within expenses for employee benefits relate to costs for project hours of internal employees of the core workforce, costs for project employees who were hired temporarily and costs for severance payments. The adjustments in fiscal year 2018 are described in the Notes to the Consolidated Financial Statements. → NOTES, P. 148

Furthermore, expenses for integration in connection with the acquisitions of Kimplas and Statek were adjusted within other operating expenses (EUR 0.3 million) and within employee benefits (EUR 0.1 million).

In addition to the adjustments described above, depreciation on property, plant and equipment from purchase price allocations of EUR 3.4 million (2018: EUR 3.9 million) was shown as adjusted within EBITA and amortization of intangible assets from purchase price allocations of EUR 22.5 million (2018: EUR 21.1 million) was shown as adjusted within EBIT. An impairment loss of EUR 1.4 million 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.

Notional income taxes resulting from the adjustments are calculated using the tax rates of the respective local companies concerned and included in adjusted earnings after taxes.

The following table shows the result adjusted for these effects:

Adjustments [1] T016

in EUR million	2019 adjusted	Adjustments	2019 reported
Group sales	1,100.1	0	1,100.1
EBITDA	187.2	13.4	173.8
EBITDA margin (in %)	17.0		15.8
EBITA	144.8	16.9	127.9
EBITA margin (in %)	13.2		11.6
EBIT	136.1	39.4	96.7
Financial income	– 15.5	0	– 15.5
Profit for the period	87.8	29.4	58.4
EPS (in EUR)	2.76	0.93	1.83

1_Deviations may occur due to commercial rounding.

Effects from the first-time application of IFRS 16

The effects of the first-time application of IFRS 16 on the Consolidated Statement of Financial Position 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 Notes to the Consolidated Financial Statements. → NOTES, P. 119 FF.

The following table shows the effects on key performance indicators of NORMA Group.

Effects from the first-time adoption of IFRS 16 on key financial control parameters [1] T017

in EUR million	2019 adjusted	Effects of IFRS 16	2019 adjusted without IFRS 16
Adjusted EBITA	**144.8**	**1.0**	**143.8**
Adjusted EBITA margin (in %)	13.2	0.1	13.1
Net operating cash flow	**122.9**	**11.3**	**111.6**
in % related to sales	11.2	1.1	10.1
NORMA Value Added (NOVA)	**17.3**	**0**	**17.3**

1_Deviations may occur due to commercial rounding.

Earnings position

The development described below explains the changes in the main items of the income statement in the year under review, adjusted for the above-mentioned special effects. → NOTES, P. 148

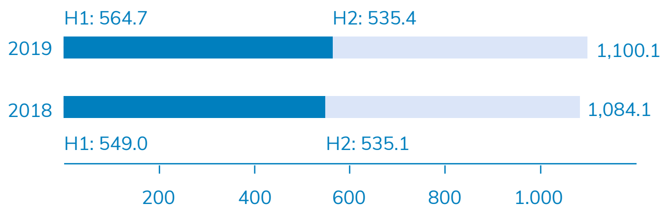
Sales development

Slight growth in Group sales, organic sales down
In fiscal year 2019, NORMA Group's sales increased by 1.5% to EUR 1,100.1 million (2018: EUR 1,084.1 million). This figure includes a 2.0% decline in organic sales (2018: + 7.7%) and acquisition-related growth of 1.2% (2018: 1.6%). Currency effects in connection with exchange rate changes had a positive effect of 2.3% (2018: – 2.8%).

The decline in organic sales growth is mainly due to the weak development of the global automotive industry and the resulting drop in demand for joining technology. The main reasons for this were the WLTP issue in Europe, which still persisted at the beginning of the year, the ongoing trade dispute between the US and China and the restructuring in the industry caused by the technological changes. In addition, the negative development of the truck business in the US towards the end of the past fiscal year also had a dampening effect.

The Distribution Services (DS) business unit was the main growth driver in fiscal year 2019, which was positively influenced in particular by the good development of the US water business. In addition, the companies Kimplas and Statek, which were acquired in fiscal year 2018, made a positive contribution to sales growth.

Development of sales 2019 G011
in EUR million



Effects on Group sales [1] T018

	in EUR million	Share in %
Group sales 2018	1,084.1	
Organic growth	– 21.6	– 2.0
Acquisitions	13.3	1.2
Currency effects	24.4	2.3
Group sales 2019	**1,100.1**	**1.5**

1_Deviations may occur due to commercial rounding.

Heterogeneous growth in the three regional segments
Growth in the individual regional segments varied greatly in fiscal year 2019.

The Asia-Pacific region recorded the strongest growth in fiscal year 2019, with sales of EUR 163.4 million (2018: EUR 147.8 million), an increase in sales of 10.5% and organic growth of 2.3%. This was primarily due to the strong growth in the second half of the year, which was characterized by a revival of business and obtaining new orders in China. Additional revenues from the acquisition of Kimplas (EUR 10.3 million) and positive currency effects also contributed to growth in the region.

The Americas region achieved slight growth of 2.1% year-on-year by posting sales of EUR 450.8 million (2018: EUR 441.5 million). This was driven in particular by the good development of the NDS water business in the US as well as positive currency effects in connection with the development of the US dollar.

The EMEA region recorded a 1.8% decline in sales to EUR 486.0 million (2018: EUR 494.8 million) in fiscal year 2019 due to the weak development in both the European automotive business and stagnation in the DS segment. → SEGMENT REPORTING, P. 71

EJT business affected by weakness in the automotive sector, DS business grows significantly

Sales in the EJT segment amounted to EUR 665.5 million in fiscal year 2019 (2018: EUR 684.6 million), down 2.8% on the previous year. The main reason for this was the poor conditions in the automotive sector with declining production and sales figures in all three regional segments. While the EJT business in the Asia-Pacific region recovered noticeably in the second half of the year and showed organic growth for the year as a whole, the situation in the EMEA and Americas regions essentially remained unchanged in the third and fourth quarters. The collapse of the US market for commercial vehicles and strikes by key customers in the passenger car and truck sectors placed additional pressure on the business.

Distribution Services revenues amounted to EUR 430.2 million in 2019, an increase of 9.2% over the previous year (2018: EUR 393.8 million). The strong US water business as well as the companies Kimplas and Statek acquired in fiscal year 2018 contributed to DS sales growth. Acquisition-related sales growth in the DS segment amounted to 3.3%.

Development of sales channels T019

	EJT		DS	
	2019	2018	2019	2018
Group sales (in EUR million)	665.5	684.6	430.2	393.8
Growth (in %)	– 2.8	7.3	9.2	5.8
Share of sales (in %)	61	63	39	37

Development of earnings

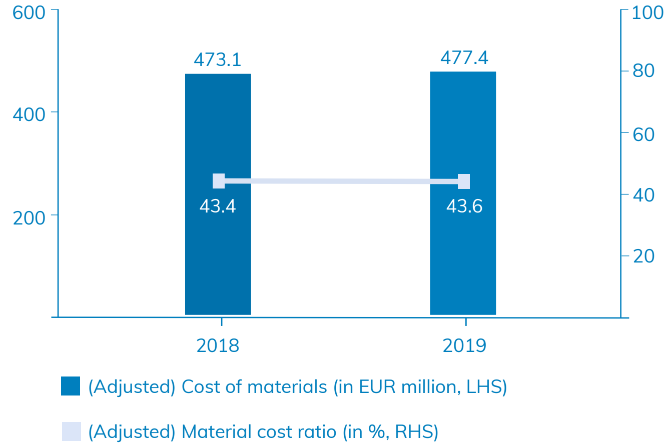
Adjusted cost of materials ratio slightly improved

Adjusted cost of materials amounted to EUR 477.4 million in fiscal year 2019, up 0.9% year-on-year (2018: EUR 473.1 million). The adjusted cost of materials ratio (cost of materials in relation to sales) was 43.4%, a slight improvement over the previous year (2018: 43.6%). Taking into account the change in inventories of finished goods and work in progress (2019: EUR 3.0 million; 2018: EUR 10.4 million), the cost of materials ratio was 43.1%, representing a year-on-year increase (2018: 42.7%).

Adjusted gross margin decreased

Adjusted gross profit amounted to EUR 630.6 million in fiscal year 2019, an increase of 0.6% from EUR 626.6 million the previous year. At 57.3%, the adjusted gross margin was 50 basis points below the level of the previous year (2018: 57.8%).

Adjusted cost of materials and cost of materials ratio G012



Adjusted personnel cost ratio increased

Adjusted personnel expenses amounted to EUR 302.4 million in fiscal year 2019, a 7.7% increase over the previous year (2018: EUR 280.8 million). Besides an increase in the number of employees, severance payments to a former member of the Management Board also contributed to the increase in personnel expenses compared to the previous year. Furthermore, the reduced allocations to provisions for bonus payments for employees in fiscal year 2018 led to a lower basis of comparison in the previous year. The adjusted personnel cost ratio resulting from the ratio of adjusted personnel expenses to sales amounted to 27.5% in fiscal year 2019 and was thus significantly higher than in the previous year (2018: 25.9%).

Adjusted other operating income and expenses decreased compared to sales

The balance of adjusted other operating income and expenses amounted to EUR – 141.0 million in fiscal year 2019, representing a decline of 2.3% over the previous year (2018: EUR – 144.4 million). This was due in particular to the effects of the first-time application of IFRS 16. In relation to sales, the balance of adjusted other operating income and expenses fell to 12.8% (2018: 13.3%) compared to the previous year.

Other operating income includes in particular currency gains from operating activities of EUR 6.1 million (2018: EUR 7.6 million) as well as income from the release of liabilities and provisions in the amount of EUR 4.0 million (2018: EUR 3.9 million). → OTHER OPERATING INCOME, P. 152

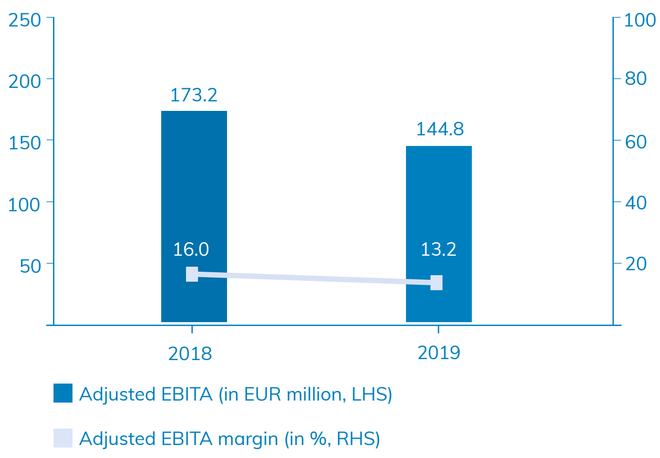
Other operating expenses include currency losses from operating activities of EUR 6.3 million (2018: EUR 8.5 million). In addition, IT and telecommunications costs (+ 9.7%) and freight costs (+ 7.7%) in particular increased compared to the previous year, while expenses for rents and building costs fell by 57.2% due to the first-time application of IFRS 16. → OTHER OPERATING EXPENSES, P. 152

Adjusted operating earnings impacted by weak sales growth and a high personnel cost ratio

Adjusted operating earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) amounted to EUR 187.2 million in fiscal year 2019 and were thus 7.0% below the previous year's level of EUR 201.4 million, despite the positive effects of IFRS 16 (EUR 11.4 million). The weaker sales growth and the higher personnel cost ratio had a negative effect on the adjusted EBITDA. The adjusted EBITDA margin resulting from the ratio to sales amounted to 17.0% and was thus significantly below the level of the previous year (2018: 18.6%).

Adjusted EBITA amounted to EUR 144.8 million in 2019, a decrease of 16.4% compared to the previous year (2018: EUR 173.2 million). The resulting underlying EBITA margin was 13.2% (16.0%).

Adjusted EBITA and adjusted EBITA margin G013



Return on capital employed (ROCE) T020

in EUR million	2019	2019 (without IFRS 16)	2018
Adjusted EBIT	136.1	135.0	164.5
Average capital employed	1,043.8	1,008.3	941.0
	13.0%	**13.4%**	**17.5%**

Return on capital employed (ROCE)

The return on capital employed (ROCE), which is calculated by dividing adjusted EBIT by the average capital employed during the year, amounted to 13.4% in fiscal year 2019 and thus decreased compared to the previous year (2018: 17.5%).

NORMA Value Added significantly lower

NORMA Value Added (NOVA), the relevant benchmark for the long-term remuneration of the Management Board, amounted to EUR 17.3 million in fiscal year 2019, a significant decrease compared to the previous year (2018: EUR 60.8 million). The reasons for this were the weak operating result (adjusted EBIT), higher invested capital than in the previous year due to the acquisitions of Kimplas and Statek, and a higher tax rate. In addition, the calculation of NOVA is based, among other factors, on a higher weighted average cost of capital (WACC) of 8.1% in fiscal year 2019 (2018: 7.1%) as a result of an increased market risk premium. → CONTROL SYSTEM AND CONTROL PARAMETERS, P. 52

Financial result impacted by the effects of IFRS 16

The financial result was down on the previous year at EUR – 15.5 million (2018: EUR –11.7 million) in fiscal year 2019, mainly influenced by the first-time application of IFRS 16 and the associated increase in interest expense from leasing liabilities by EUR 1.3 million. In addition, the financial result includes net currency gains / losses (including income / expenses from the measurement of currency hedging derivatives) of EUR – 0.2 million (2018: EUR 0.7 million), as a result of the hedging of the financial liabilities denominated in US dollars and the year-on-year development of this currency. At EUR 13.3 million, the net interest expense was at the the prior-year's level (2018: EUR – 13.3 million). → NOTES, P. 152

Higher revised and adjusted income tax rate

Revised income taxes amounted to EUR 32.7 million in fiscal year 2019 (2018: EUR 38.0 million), resulting in a revised and adjusted tax rate of 27.1% (2018: 24.9%). The increase in the tax rate compared to the previous year is mainly due to additional income taxes ("state taxes") to be paid in some US states as well as taxes paid retroactively for previous years in the US and non-creditable withholding taxes in Singapore.

Lower adjusted profit for the period

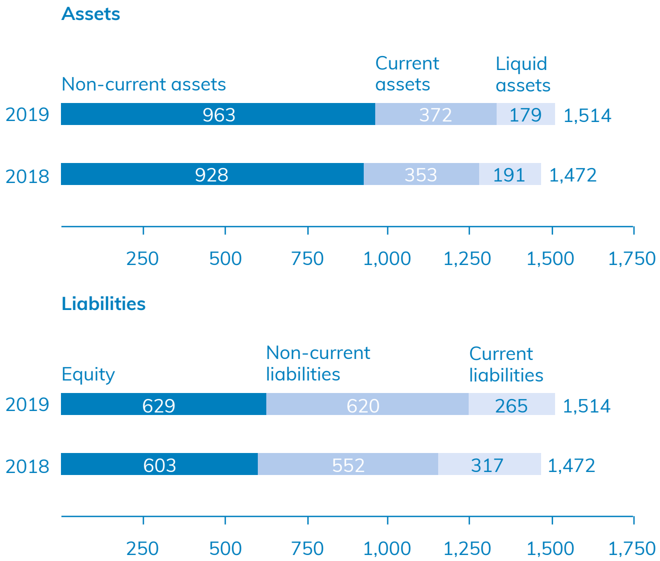
Adjusted profit for the period after taxes amounted to EUR 87.8 million in fiscal year 2019 and thus decreased by 23.5% compared to the previous year (2018: EUR 114.8 million). Based on the unchanged number of shares of 31,862,400 compared to the previous year, adjusted earnings per share after deduction of the profit for the period for non-controlling interests amounted to EUR 2.76 (2018: EUR 3.61).

Asset position

Higher total assets

Total assets as of December 31, 2019 amounted to EUR 1,514.3 million and were thus 2.9% higher compared to the previous year (Dec 31, 2018: EUR 1,471.7 million). A major reason for this was the first-time application of IFRS 16, which led to an extension of the balance sheet due to the rights of use from operating leases that had to be capitalized for the first time and the corresponding lease liability.

Asset and capital structure [1] G014
in EUR million



1_Deviations may occur due to commercial rounding.

Assets increased

NORMA Group's non-current assets amounted to EUR 962.8 million as of December 31, 2019, up 3.7% on the previous year (Dec 31, 2018: EUR 928.3 million). In particular, the effect of the first-time application of IFRS 16 was reflected in an increase in property, plant and equipment.

A total of EUR 54.8 million was invested in fixed assets in fiscal year 2019 (2018: EUR 63.3 million). Moreover, EUR 31.4 million were additionally recorded to fixed assets for the capitalization of the rights of use from leased assets for leased land and buildings.

The share of non-current assets to total assets amounted to 63.6% as of the balance sheet date (Dec 31, 2018: 63.1%). → NOTES, P. 157

Current assets amounted to EUR 551.5 million as of the balance sheet date, up 1.5% on the previous year (Dec 31, 2018: EUR 543.4 million). Trade receivables (including other receivables) increased by EUR 19.2 million to EUR 162.4 million. This increase is partly due to the reduction of ABS and factoring programs compared to the previous year's reporting date.

In contrast, cash and cash equivalents declined by EUR 10.7 million or 5.6% to EUR 179.7 million. At 36.4%, the share of current assets in total assets remained nearly unchanged from the previous year's reporting date (Dec 31, 2018: 36.9%).

Working capital increased

(Trade) working capital (inventories plus receivables less liabilities, both primarily from trade payables and trade receivables) amounted to EUR 192.5 million as of December 31, 2019, which was 7.4% higher than in the previous year (Dec 31, 2018: EUR 179.2 million). It was mainly influenced by a disproportionately high increase in trade receivables as a result of the ABS and factoring programs that were scaled back in fiscal year 2019.

The working capital ratio in relation to sales was 17.5% as of December 31, 2019 (Dec 31, 2018: 16.5%).

Increased equity ratio

Consolidated equity amounted to EUR 629.5 million as of December 31, 2019, an increase of 4.5% compared to the previous year (2018: EUR 602.4 million). The increase in equity was largely due to the result for the period of EUR 58.4 million, but also positive currency translation differences of EUR 9.0 million. The dividend payment of EUR 35.0 million in the second quarter of 2019 reduced equity. The first-time application of IFRS 16 resulted in a reduction of EUR 2.0 million in the opening balance sheet value of equity. The equity ratio was 41.6% (2018: 40.9%) at the end of fiscal year 2019, an increase over the previous year.

Higher net debt

Net debt (financial liabilities, including derivative hedging instruments in the amount of EUR 0.9 million, less cash and cash equivalents) amounted to EUR 420.8 million at the end of the reporting period and thus rose by 5.1% compared to the previous year (Dec 31, 2018: EUR 400.3 million).

This was mainly due to the first-time application of IFRS 16, while the cash neutral currency effects on foreign currency loans and current interest expenses increased net debt in the first six months of 2019.

Financial liabilities

Financial liabilities increased by 1.7% to EUR 600.5 million (Dec 31, 2018: EUR 590.7 million). In the area of financial liabilities, loan liabilities declined to EUR 541.9 million (Dec 31, 2018: EUR 569.1 million). This decline is mainly due to the net repayment in connection with the refinancing in December 2019. Leasing liabilities increased by EUR 38.6 million due to the liabilities from capitalized leases recognized for the first time in 2019 in accordance with IFRS 16. → NOTES, P. 171 FF.

Gearing (net debt in relation to equity) as of the 2019 balance sheet date was 0.7 and thus unchanged from the previous year.

Leverage (net debt without hedging derivatives in relation to adjusted EBITDA of the last twelve months) increased to 2.2 compared to the previous year (Dec 31, 2018: 1.9).

Unrecognized assets

NORMA Group's rights to its brands and patents on the brands it owns, but customer relationships, if acquired externally, are also recognized in the balance sheet as intangible assets. However, the reputation of these brands and how well known they are among the NORMA Group's customers also play important roles in the success of its business. Well-established customer relationships that are based on NORMA Group's long-standing distribution network are equally important. The know-how and experience of NORMA Group employees also play important roles in the Company's success. The many years of research and development expertise and project management know-how are also seen as competitive advantages for NORMA Group. These values are not recognized in the balance sheet.

Financial position

Financing measures

NORMA Group monitors risks from changes in exchange and interest rates on a regular basis and aims to limit them by using derivative hedging instruments among other tools. Furthermore, NORMA Group generally strives to achieve a diversification of its financing instruments in order to reduce risks. These also include prolongation of repayment obligations and an even distribution of the maturity profile. Most of the supply and service relationships between individual currencies are simultaneously hedged over the course of the year.

NORMA Group successfully refinanced its bank credit lines in fiscal year 2019, thereby creating additional financial security and even greater flexibility for the future. The new credit agreement has an initial total volume of EUR 300 million. This includes a revolving facility of EUR 50 million and a flexible accordion facility. The refinancing was concluded with a bank consortium consisting of ten international banks. A sustainability component links the financing conditions to NORMA Group's commitment to corporate responsibility. The new financing was used to repay maturing promissory note tranches and refinance the existing bank loan agreement, significantly reducing NORMA Group's overall gross debt (liabilities to financial institutions). In addition, a commercial paper program was established that can be used for short-term liquidity management. As of December 31, 2019, EUR 15 million of this program had been utilized.

As of the reporting date December 31, 2019, the revolving line of credit in the amount of EUR 50 million in the syndicated loan had not been used. The accordion facility that was negotiated as part of this loan agreement had also not been drawn as of the reporting date of December 31, 2019. Both instruments are available to NORMA Group at least until 2024, which ensures a maximum of financing flexibility.

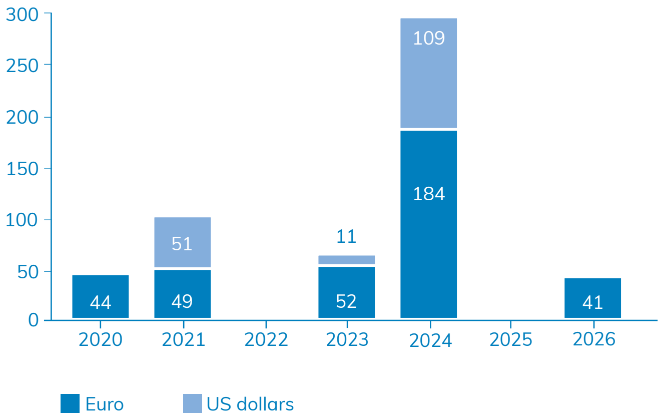
NORMA Group uses interest rate hedges to reduce interest rate risks that could result from the external financing components.

As of December 31, 2019, the average interest rate on total gross debt was 2.1%. NORMA Group's maturity profile for all three promissory notes I (2013), II (2014) and III (2016) and the syndicated credit line (2019) on December 31, 2019, are shown in the → GRAPHICS 015 AND 016 ON P. 70.

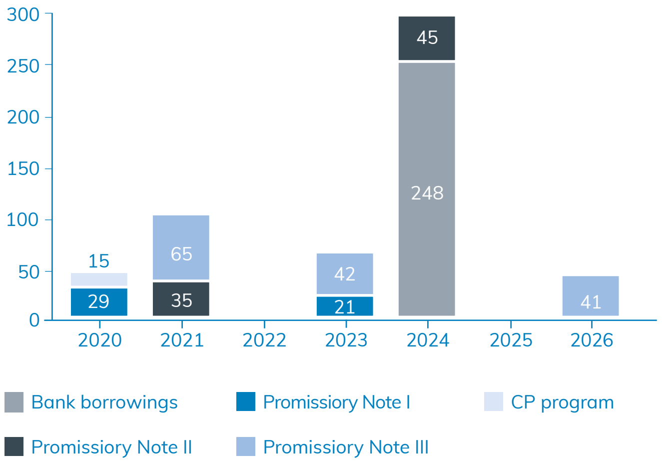
As of the balance sheet date in 2019, NORMA Group complied with all of the conditions contained in the loan contracts (financial covenants: debt in relation to consolidated EBITA).

Future concrete financing steps will depend on the current changes in the financing markets and acquisition potential.

Maturity profile by currency G015
in EUR million



Maturity profile by financial instrument G016
in EUR million



Development of cash flow

Net operating cash flow declined slightly

In fiscal year 2019, NORMA Group generated net operating cash flow (adjusted EBITDA less changes in working capital and operating expenses) of EUR 122.9 million (2018: EUR 124.4 million). This includes a positive effect of EUR 11.3 million from the first-time application of IFRS 16. Without this effect, net operating cash flow would have been EUR 111.6 million. In contrast, the reduction of factoring activities in the amount of EUR 10.4 million had a negative effect.

Cash flow from operating activities

Cash flow from operating activities, which is derived indirectly from the net profit for the period, amounted to EUR 137.1 million in fiscal year 2019 (2018: EUR 130.8 million) and is thus higher than in the previous year. Among other factors, this is due to the first-time application of IFRS 16, which resulted in a change in the presentation of the cash flows attributable to capitalized leases from cash flow from operating activities to cash flow from financing activities. The total effect of the first-time application of IFRS 16 on cash flow from operating activities amounted to EUR 11.3 million. → NOTES, P. 195

NORMA Group participates in a reverse factoring program, a factoring program and an ABS program. The corresponding cash flows are presented under cash flow from operating activities as this reflects the economic substance of the transactions. Liabilities under the reverse factoring program are reported under trade payables and similar liabilities.

As of December 31, 2019, liabilities of EUR 21.3 million (Dec 31, 2018: EUR 19.2 million) from reverse factoring programs were recognized. The total amount of cash flow relevant trade receivables sold under the factoring and ABS programs amounted to EUR 48.7 million as of December 31, 2019 (2018: EUR 61.2 million). → NOTES, P. 169 FF.

The cash inflow from operating activities also includes payments for share-based payments of EUR 1.0 million (2018: EUR 3.5 million) resulting from the cash remuneration under the Long-Term Incentive plan (LTI) for employees of NORMA Group (2018: cash remuneration of the 2014 tranche of the MSP and LTI for employees of NORMA Group).

Cash flow from investing activities

Net cash used in investing activities was EUR 57.0 million in 2019 (2018: EUR 129.5 million). Cash flow from investing activities in 2019 was particularly influenced by the outflow of funds for the procurement of non-current assets in the amount of EUR 57.8 million (2018: EUR 60.8 million). This includes expenses for the expansion (2019: EUR 33.0 million; 2018: EUR 42.8 million) and expenses for the maintenance and improvement of operating capacities (2019: EUR 21.8 million; 2018: EUR 20.5 million). In the previous year, the cash flow from investing activities was mainly impacted by net payments for acquisitions (Kimplas and Statek) amounting to EUR 69.8 million.

NORMA Group's investing activities in fiscal year 2019 (tangible and intangible assets) in the amount of EUR 54.8 million (2018: EUR 63.3 million) represents a reduced investment ratio of 5.0% (2018: 5.8%) of sales.

NORMA Group is investing the funds from the operating cash flow in further growth, among other areas. The investments made in the 2019 reporting year related to production facilities and capacity expansion, mainly in the US, Mexico, Poland, Serbia, the Czech Republic, France and China. → PRODUCTION AND LOGISTICS, P. 74

Cash flow from financing activities

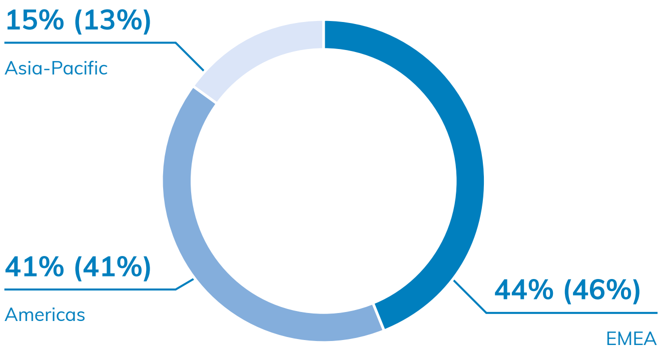
Cash flow from financing activities was EUR – 93.2 million in 2019 (2018: EUR 31.3 million). It mainly includes net loan payments (EUR – 32.9 million), dividend payments to the shareholders of NORMA Group SE (EUR – 35.0 million) and interest payments (EUR – 15.1 million). Furthermore, due to the first-time application of IFRS 16, payments for leasing liabilities (EUR – 10.1 million) are reported under cash flow from financing activities.

Segment reporting

As a result of acquisitions and developing new markets in line with NORMA Group's continuing strategy of internationalization, the share of sales realized internationally increased from 81.2% to 83.0%.

Due to the fact that financing as a whole is controlled centrally and exclusively made available through approved external credit facilities by the central functions of NORMA Group, the Company forgoes publishing a separate list of financing by segment. In every segment, the aim is to achieve an investment ratio and cash generation that is in line with the Group average in the medium-term. → GOALS AND STRATEGIES REGARDING FINANCE AND LIQUIDITY MANAGEMENT, P. 55

Breakdown of sales by segments [1] G017



1_Previous year's figures in brackets.

EMEA

Effects from the first-time application of IFRS 16 in EMEA [1] T021

in EUR million	2019 adjusted	Effects of IFRS 16	2019 adjusted without IFRS 16
Adjusted EBITDA	90.8	3.8	87.0
Adjusted EBITDA margin (in %)	17.4	0.7	16.7
Adjusted EBITA	73.6	0.2	73.4
Adjusted EBITA margin (in %)	14.1	0.1	14.0
Assets (Dec 31, 2019)	632.0	8.3	623.7
Liabilities (Dec 31, 2019)	204.6	8.8	195.8
CAPEX	25.0	1.6	23.4

1_Deviations may occur due to commercial rounding.

External sales in the EMEA region amounted to EUR 486.0 million in 2019, down 1.8% compared to the previous year (2018: EUR 494.8 million). Organic sales decreased by 2.3%, which is mainly due to the poor conditions in the European automotive industry with declining production and sales figures. Acquisition-related revenues from the acquisition of Statek contributed 0.6% (EUR 3.0 million) to growth, while currency effects had a slightly negative impact of – 0.1% on sales growth.

The EMEA region accounted for 44% of total sales in fiscal year 2019 (2018: 46%).

Adjusted EBITDA in the EMEA region declined by 4.9% to EUR 90.8 million in fiscal year 2019 (2018: EUR 95.5 million). At 17.4%, the adjusted EBITDA margin was slightly below the level of the previous year (2018: 17.6%). The main reason for the decline is the higher personnel cost ratio in relation to sales, but this was nearly offset by the effect of the first-time application of IFRS 16 and is reflected negatively in adjusted EBITA only. Adjusted EBITA amounted to EUR 73.6 million (2018: EUR 82.4 million), a decrease of 10.6% compared to the previous year. The adjusted EBITA margin was 14.1% (2018: 15.2%).

Assets increased slightly by 1.2% to EUR 632.0 million compared to the previous year (Dec 31, 2018: EUR 624.4 million). Capital expenditure amounted to EUR 25.0 million (Dec 31, 2018: EUR 28.3 million) and mainly related to investments in new machinery and production facilities in the Czech Republic, Serbia, Poland and France. Debt increased by 3.2% to EUR 204.6 million in 2019 (Dec 31, 2018: EUR 198.3 million).

Americas

Effects from the first-time application of IFRS 16 in Americas [1] T022

in EUR million	2019 adjusted	Effects of IFRS 16	2019 adjusted without IFRS 16
Adjusted EBITDA	79.6	5.8	73.8
Adjusted EBITDA margin (in %)	17.3	1.3	16.0
Adjusted EBITA	64.0	0.7	63.3
Adjusted EBITA margin (in %)	13.9	0.1	13.8
Assets (Dec 31, 2019)	655.3	23.4	631.9
Liabilities (Dec 31, 2019)	271.9	25.5	246.4
CAPEX	18.0	0.1	17.9

1_Deviations may occur due to commercial rounding.

External sales in the Americas segment rose by 2.1% to EUR 450.8 million in 2019 (2018: EUR 441.5 million). Organic sales declined by 3.1%. This was due to the generally weak development in the US car and truck market with declining production and sales figures and strikes at key NORMA Group customers. Growth impulses came mainly from the US water business of the subsidiary National Distribution Services (NDS). Currency effects in connection with the development of the US dollar also had a positive effect on sales growth (5.2%).

Adjusted EBITDA for the Americas region amounted to EUR 79.6 million in 2019, down 8.7% year-on-year (2018: EUR 87.2 million). The adjusted EBITDA margin amounted to 17.3% (2018: 19.3%). Adjusted EBITA declined by 18.2% to EUR 64.0 million (2018: EUR 78.3 million), while the adjusted EBITA margin was 13.9% (2018: 17.4%). The margin in the Americas region was negatively impacted, among other factors, by the unplanned additional extraordinary costs resulting from the introduction of an ERP system at a Latin American site. The effects of the first-time application of IFRS 16 had a positive impact on adjusted EBITDA (EUR 5.8 million) and adjusted EBITA (EUR 0.7 million).

Assets increased by 0.9% year-on-year to EUR 655.3 million (Dec 31, 2018: EUR 649.8 million).

Investments in the region amounted to EUR 18.0 million, down 14.5% on the previous year (Dec 31, 2018: EUR 21.1 million). Investment focused on the plants in the US and Mexico.
→ PRODUCTION AND LOGISTICS, P. 74

Liabilities in the Americas region amounted to EUR 271.9 million, down 6.6% compared to the previous year (Dec 31, 2018: EUR 291.2 million).

Asia-Pacific

Effects from the first-time application of IFRS 16 in Asia-Pacific [1] T023

in EUR million	2019 adjusted	Effects of IFRS 16	2019 adjusted without IFRS 16
Adjusted EBITDA	28.0	1.6	26.4
Adjusted EBITDA margin (in %)	16.8	1.0	15.8
Adjusted EBITA	20.1	0.1	20.0
Adjusted EBITA margin (in %)	12.1	0.1	12.0
Assets (Dec 31, 2019)	258.9	3.8	255.1
Liabilities (Dec 31, 2019)	53.7	4.1	49.6
CAPEX	12.4	0.3	12.1

1_Deviations may occur due to commercial rounding.

External sales in the Asia-Pacific region amounted to EUR 163.4 million in 2019, an increase of 10.5% over the previous year (2018: EUR 147.8 million). Organic growth amounted to 2.3% and was positively influenced in particular by the resurgence of demand in China in the second half of 2019, despite continued market weakness. Reasons for this included the start of several series production runs and effects from the early introduction of the China 6a standard in some Chinese provinces. In addition, the recent acquisition of the Indian water specialist Kimplas contributed 7.0% or EUR 10.3 million to sales growth. Currency effects had an additional positive impact of 1.2% on sales growth.

Adjusted EBITDA in the Asia-Pacific region increased by 21.9% to EUR 28.0 million (2018: EUR 23.0 million). The adjusted EBITDA margin was 16.8% (2018: 15.2%), exceeding the previous year's figure. Adjusted EBITA increased by 10.1% to EUR 20.1 million (2018: EUR 18.3 million), resulting in a constant adjusted EBITA margin of 12.1% compared to the previous year. The first-time application of IFRS 16 had a positive effect on adjusted EBITDA (EUR 1.6 million) and adjusted EBITA (EUR 0.1 million).

Assets increased by 3.4% to EUR 258.9 million in the reporting year (Dec 31, 2018: EUR 250.4 million). Investments, which amounted to EUR 12.4 million in 2019 (Dec 31, 2018: EUR 11.7 million), were mainly used to expand the sites in China. → PRODUCTION AND LOGISTICS, P. 74

Liabilities in the Asia-Pacific region were EUR 53.7 million, down 2.0% compared to the previous year (Dec 31, 2018: EUR 54.8 million).

Development of segments T024

	EMEA			Americas			Asia-Pacific		
in EUR million	**2019** [3]	2018	Δ in %	**2019** [3]	2018	Δ in %	**2019** [3]	2018	Δ in %
Total segment sales	523.2	543.1	– 3.7	460.3	451.2	2.0	166.6	151.3	10.1
External sales	486.0	494.8	– 1.8	450.8	441.5	2.1	163.4	147.8	10.5
Contribution to consolidated sales (in %)	44	46		41	41		15	13	
Adjusted EBITDA [1]	90.8	95.5	– 4.9	79.6	87.2	– 8.7	28.0	23.0	21.9
Adjusted EBITDA margin (in %) [2]	17.4	17.6		17.3	19.3		16.8	15.2	
Adjusted EBITA [1]	73.6	82.4	– 10.6	64.0	78.3	– 18.2	20.1	18.3	10.1
Adjusted EBITA margin (in %) [2]	14.1	15.2		13.9	17.4		12.1	12.1	

1_The adjustments are described in the Notes. → NOTES, P. 148
2_In relation to segment sales.
3_Including the effects of the first time adoption of IFRS 16.

Production and logistics

NORMA Group manufactures and markets more than 40,000 different products and has 29 production sites all over the world. Furthermore, the Company has a network consisting of numerous distribution, sales and competence centers that supply to its customers in the respective regions.

Production and capacity utilization

The capacity utilization of NORMA Group's manufacturing and distribution facilities varies from site to site. In markets such as the emerging countries, where NORMA Group's business is still being developed, the area-related utilization of production plants is still relatively low. This can be attributed to the fact that investment decisions are planned in advance to ensure that sufficient production space is available to be able to expand production capacity in a flexible manner. In industrial nations and the markets in which NORMA Group already has a long-term market position and the plants are largely working to capacity, an attempt is made to avoid investing in additional manufacturing space whenever possible. Instead, the goal is to optimize the current manufacturing processes by improving efficiency in order to be able to use the existing space to create additional capacity.

The capacity utilization of manufacturing plants can be ramped up flexibly to suit customer demand and the order situation. Within each product category, a wide variety of different products with different specifications can be manufactured at the existing plants by performing only minor conversion measures. Thus, production can be optimally adapted to suit customer demand.

Investment in capacity expansion

NORMA Group once again invested in expanding its capacity during the reporting year. The most important strategic investments are shown in the following table.

Strategic investment highlights 2019 T025

Region	Country	City	Investment
EMEA	Czech Republic	Hustopece	Investment in a new transfer press system to increase capacity for V-profile clamps
	Serbia	Subotica	Further expansion of new production capacities for a newly developed SCR system to fill additional large orders from leading European automobile manufacturers Modernization of how tools are designed in component production in the area of fluid systems Installation of manufacturing capacities to expand the product range with respect to corrugated pipes
	France	Guichen	Automation in the area of connector assembly
	Poland	Pilica	Expansion of manufacturing capacities in the area of fluid systems for the e-mobility sector to manage new customer orders
Americas	USA	Lindsey, California	Significant expansion of production capacities in the area of water management
		Saltsburg, Pennsylvania	Completion of the full automation of the CTH product line Investment in the in-house production of clamp components
	Mexico	Monterrey	Setup and localization of manufacturing facilities for the production of PS3 connectors for an international customer Expansion of assembly and heat treatment capacities as a result of several major orders from major international customers Installation of a new multilayer extrusion line for the manufacture of new products in the fluid and e-mobility sector
Asia-Pacific	China	Changzhou	Investment in two new transfer press systems to increase capacity for V-profile clamps
		Wuxi	Continuation of the structural expansion of the manufacturing site for fluid components

Continuous optimization of the entire value chain

At NORMA Group, all internal processing steps in the value chain are constantly analyzed for optimization potential. The Global Operational Excellence Management System represents an essential tool here that helps to analyze existing processes, identify potential for improvements, introduce the appropriate measures for implementation and realize cost saving projects. As a result, many processes have already been automated and standardized in recent years, so that significant economies of scale have been achieved.

NORMA Group is introducing the NORMA Group Production System (NPS) in all of its plants since 2014. The goal of the NPS is to increase operational performance, safety, delivery reliability and quality in the plants and to identify and realize further cost savings. NORMA Group uses a "toolbox" of lean methods. These include the 5S methodology, the daily Gemba walk, setup time optimization using SMED (Single Minute Exchange of Die) and TPM (Total Productive Maintenance). In addition, a standardized problem-solving process ensures that internal and external customer complaints are processed faster and more effectively.

As a result of the rightsizing program initiated in the first quarter of 2019 to harmonize processes and systems within the Group, production and logistics were relocated in various regions in fiscal year 2019. Against this backdrop, the warehouse in Moscow and the production and logistics activities at the production facility in Togliatti, Russia, were closed in October 2019. Customers in Russia are now supplied directly from the production plants in Europe or from the distribution center in Poland. In addition, the Groen distribution center in the Netherlands was closed and the logistics activities were transferred to the warehouse and distribution center in Marsberg, Germany. The business development and sales organization will remain in place in both the Netherlands and Russia in order to remain close to the market and customers. The measures are intended to help bundle existing structures, streamline internal processes in a targeted manner and thus increase efficiency.

Customer focus and secure supply chain

In order to optimize its logistics costs, NORMA Group always strives to keep the geographical distances in the value chain as short as possible and avoid non value-adding intermediate steps via other NORMA Group sites. The goal is therefore to always manufacture in the regions that its customers are based in. This not only optimizes working capital and lowers logistics costs, but also minimizes delivery risks, reduces negative impacts on the environment and ensures the higher level of flexibility that is being increasingly demanded.

Despite these efforts, cross-border deliveries are indispensable for NORMA Group in many places in order to be able to respond flexibly to customer requirements. Optimized and secure customs processes are therefore indispensable. For this reason, NORMA Group participates in various customs trade partnership programs in the US, China and the EU, for example. NORMA Group ensures a fully compliant supply chain through the Supply Chain Security programs, especially Authorized Economic Operator (AEO) and Customs Trade Partnership against Terrorism (C-TPAT), which are part of the worldwide compliance program. By regularly reviewing all its business partners, NORMA Group excludes the supply of legally sanctioned third parties. In addition, internal organizational instructions and regular reviews ensure compliance with the relevant statutory export control regulations.

Quality management

The NORMA Group products are 'mission-critical' with regard to the end products of the customer. Any quality defects or functional failures could have a significant impact on customers or end users. Thus, it is a clear business imperative that NORMA Group consistently delivers products that meet and surpass all customers' quality needs and expectations.

To support this objective and ensure a global and standardized approach to quality, all NORMA Group manufacturing locations (acquisitions have a nominal 12-month target for accreditation) are accredited in accordance with either ISO 9001 or IATF 16949. In addition, two manufacturing sites that supply the aerospace industry are accredited in accordance with EN 9100. Compliance with these industry-recognized standards ensures that NORMA Group continuously strives for improvement in every aspect of business and puts its customers at the center of all its activities.

NORMA Group has a global operating footprint. One key challenge refers to the recognizing and understanding customer diversity along with many different standards and market requirements. This is met by NORMA Group via localized manufacturing solutions and the application of standardized tools, such as the Quality Management software, which forms an integral part of the new Microsoft ERP system currently being rolled out across the entire Group.

NORMA Group uses several metrics to measure customer quality, satisfaction and delivery performance. The most important key performance indicators are the number of defective parts shipped, expressed in parts per million (PPM), and the average number of quality-related complaints reported by the customer. The number of defective parts per million (PPM) recorded in 2019 was six (2018: seven). This continues the year on year improvement trend and supports the customers' ever more challenging targets. Additionally, the average number of quality – related customer complaints could be improved further to an average of six claims per month in fiscal year 2019 (2018: seven).

Purchasing and supplier management

The procurement costs of materials, goods and services have a significant impact on the earnings position of NORMA Group. By managing all procurement activities and the selection of suppliers, Purchasing can make an important contribution to the success of the Group. The central task here is to optimize the services purchased and minimize costs, taking into account Group-wide economies of scale.

Global purchasing organization

The purchasing activities of NORMA Group are divided into four main product groups:

- Steel and metal components (FASTEN)
- Technical granulates, plastic and rubber products (FLUID)
- Standard plastics, components and commodities (WATER)
- Capital goods, non-production materials and services (MRO)

The global purchasing organization is set up in a matrix structure. In addition to the product groups mentioned above, there is a subdivision into the regional segments EMEA, Asia-Pacific and the Americas. This organizational structure enables centralized control by the respective experts from the product groups and the integration of the knowledge of the regional or local purchasing teams about special local market conditions. NORMA Group thus ensures professional purchasing management and the achievement of competitive prices for goods and services. E-procurement solutions support the global organization in its work and enable efficient reporting.

This capable purchasing organization is to be further optimized as part of the “Get on Track” program. The goal is to leverage further savings potential through increased global cooperation within the product categories and across regional boundaries. One of the focal points is on inter-regional standardizing of local processes.

Development of material prices

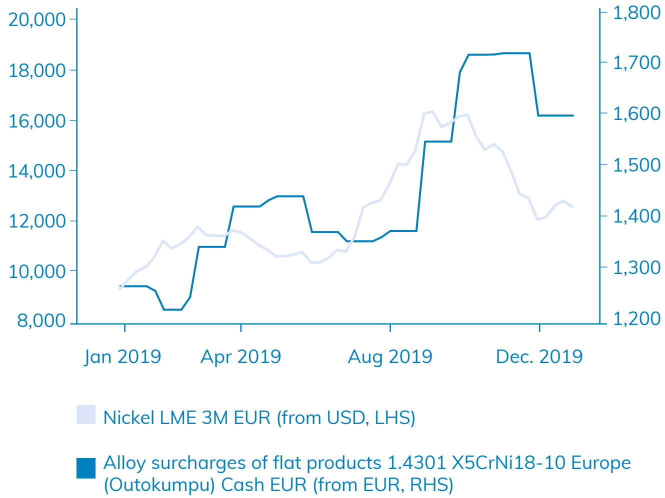
Adjusted costs of materials amounted to EUR 477 million (2018: EUR 473.1 million) or 43.4% (2018: 43.6%) of sales revenue in fiscal year 2019. As a result, the adjusted cost of materials ratio is thus nearly at the previous year’s level. → EARNINGS POSITION, P. 65 The purchasing volume, which is used for internal management purposes and adjusted for currency effects, amounted to around EUR 490 million (2018: EUR 498 million). Of this amount, EUR 335 million (68%) was attributable to sales of production materials.

Steel and metal components

For the stainless steel product group, the most important product group for NORMA Group, slight reductions in the base prices (basic purchase price for stainless steel excluding alloy surcharges) were achieved in the annual price negotiations for the EMEA and Asia-Pacific regions. The Americas region showed a different picture. The 25% penalty tariffs imposed by the US government in March 2018 on nearly all steel imports and fixed import quotas led to massive increases in the price of goods purchased in the region. In some cases, NORMA Group was confronted with price increases of up to 30% compared to the previous year. As a consequence, a contract term of only six months was chosen for some of the goods purchased, in order to be able to renegotiate flexibly in the event of a lifting of the tariffs. Due to the fact that the general conditions remained unchanged during the course of the year, however, high market prices had to be paid in the second half of 2019 as well. In addition, the punitive tariffs to be paid for goods purchased (steel, wire and metal components) from countries subject to the tariffs represented an additional financial burden for the entire Americas region.

Besides the market distortions in the steel sector caused by US customs policy, the prices for the alloy surcharges recurrently fixed on a monthly basis (market prices for nickel, scrap metal and ferrochrome, among other metals) also increased significantly in fiscal year 2019 and reached their peak in November 2019. In particular, the alloy metal nickel, used in all austenitic steels, acted as a price driver. → G 18: DEVELOPMENT OF NICKEL PRICES AND THE ALLOY SURCHARGE 1.4301

Development of nickel prices and the alloy surcharge 1.4301 G018



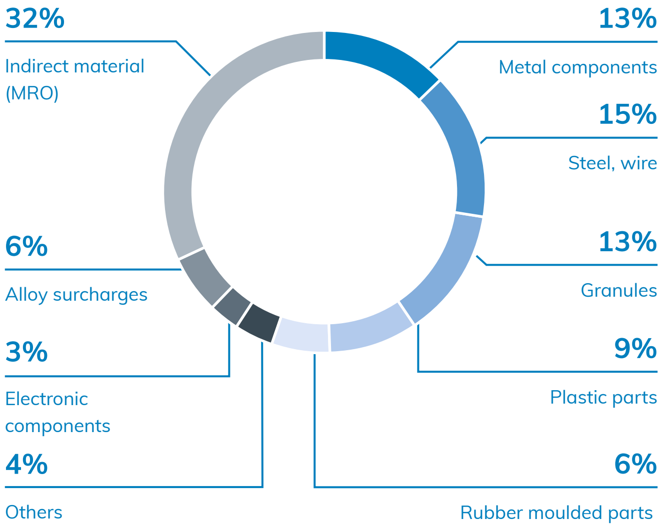
In the product group of surface-refined non-stainless steel, lower purchase prices were agreed in the price negotiations for European needs in both the first and second half of the year.

Technical granulates, plastic and rubber products
NORMA Group also recorded further price increases of up to more than 10 percent in the technical plastics product group in fiscal year 2019. The reason for this was the initially sustained high global demand for technical plastics, which led to further allocations by producers at the beginning of the year. However, thanks to many years of trustful cooperation with important suppliers and internal countermeasures, impending bottlenecks were successfully averted.

The market situation eased somewhat in the course of the year as the economy weakened, driven by the global automotive industry and other factors, so that the purchase prices of important technical plastics could be renegotiated in the fourth quarter. However, the annual average price level for this product group was significantly higher than in the previous year.

Standard plastics, components and commodities
The prices for granulates were stable in 2019 compared to the previous year, benefiting from the macro-political situation and a weaker economy. Prices for granulates used in water management were even at a historically low level in 2019 due to the ban on imports of recycled plastics to China and the resulting increased supply in the Americas region. NORMA Group was able to take advantage of this situation and recorded price reductions.

Purchasing turnover in 2019 by material groups G019



Supplier management

The purchasing organization continuously monitors the performance of suppliers. A key instrument in this respect is the annual implementation of detailed supplier evaluations. This involves the use of globally uniform criteria from the areas of quality, logistics, sustainability and commercial aspects. The relevant departments are involved in the assessments at local level. The evaluation process is mapped using e-procurement software. → 2019 CR REPORT

Supplier structure

The focus of NORMA Group's supplier selection is a balance of supplier consolidation to reduce complexity and avoid strong dependencies. This balance is continuously optimized by the purchasing department. The current supplier base is structured as follows: The share of the top 10 suppliers accounted for approximately 28% in fiscal year 2019. The top 50 suppliers accounted for around 53% of the total purchasing volume of production material, amounting to EUR 335 million.

Employees

Decentralized organization, common corporate culture that is lived

The employees of NORMA Group make an important contribution to its success. Human resource management and personnel development therefore play a major role.

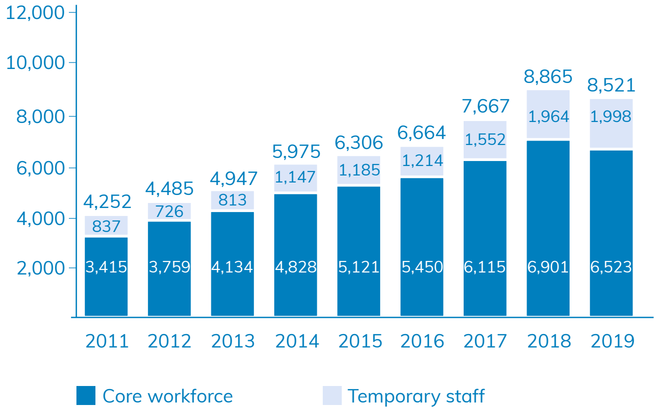
HR management at NORMA Group is organized in a decentralized manner to take the international nature of the business and the rapid growth of NORMA Group into account. The decentralized organization allows the individual sites to adapt flexibly to the local conditions and to contribute their specifications, particularly with regard to regional expertise in personnel development and recruiting.

In order to promote a uniform corporate culture, NORMA Group has formulated key guiding principles that reflect the fundamental convictions of the Company. These guiding principles are taught and lived at all sites. → 2019 CR REPORT

Development of personnel figures

As of December 31, 2019, NORMA Group employed 8,521 employees (core workforce including temporary staff) and thus around 4% fewer than in the previous year (December 31, 2018: 8,865). The number of temporary employees at the end of December was 1,998 (December 31, 2018: 1,964). This corresponds to around 23% of the total workforce.

Development of personnel figures at NORMA Group G020



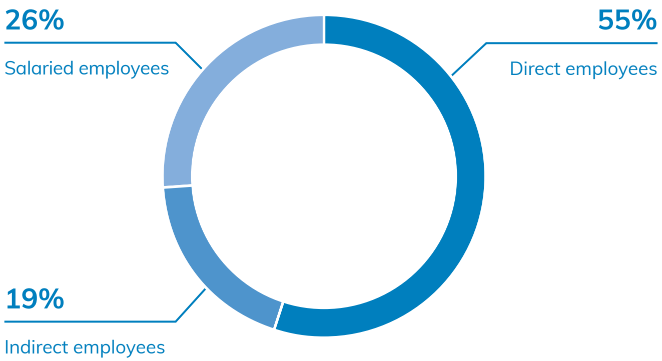
In the Americas region in particular, the number of employees was significantly lower than in the previous year. The core workforce in this region decreased by around 13% to 1,601 employees. This corresponds, in particular, to an adjustment of personnel structres in the context of sales losses in the EJT business.

In the EMEA region, the number of employees also declined by around 5% compared to the previous year, whereas the number of employees in the Asia-Pacific region rose by 4%.

Stable share of employee groups

The total number of employees (permanent and temporary) in the current reporting period was 4,672 direct employees (2018: 4,951), 1,630 indirect employees (2018: 1,626) and 2,219 salaried employees (2018: 2,289). While direct employees are individuals who are involved in the manufacturing process, indirect employees are persons who work in production-related areas such as the quality department, for example. The group of salaried employees is mainly assigned to administrative functions.

Breakdown of employees by group G021



Core workforce by segments T026

	2019	In %	2018	In %
EMEA	3,549	54	3,744	54
Americas	1,601	25	1,842	27
Asia-Pacific	1,373	21	1,315	19
Total	6,523		6,901	

Well-trained and qualified workforce

The employees of NORMA Group are well trained and obtain their qualifications by earning school and university degrees and by participating in professional and supplementary training courses. In order to maintain the high degree of employee qualification and ensure the successful development of the Group in the future, NORMA Group believes it is important to invest in the training and further education of its employees. The goal is to recruit as many specialized employees as possible from one's own junior staff, thereby becoming more independent of the external labor market. NORMA Group also cooperates closely with renowned universities.

Focus on uniform global talent promotion

In order to identify, retain and develop talents within the Group, NORMA Group set up the 'Learning & Development' competence center a couple of years ago. The competence center acts as an internal consultant to the local HR departments, executives and employees. The focus of the initiative is on the conception and supply of development processes and programs that can be used worldwide, which are aligned with NORMA Group's Company values and growth targets. In order to promote learning at the workplace and the individual development of its employees in a targeted manner, direct supervisors as well as internal mentors and coaches are made available. As part of the project, various local and regional human resource development methods have been integrated into a global portfolio. This ensures uniform global talent promotion for all NORMA Group employees.

Numerous training opportunities for career entrants

Besides accompanying courses of studies in the areas of business engineering, mechanical engineering, mechatronics and business administration, NORMA Group also offers internships for students in all departments and regions. Furthermore, quite a few young people are trained in various technical and commercial areas at NORMA Group each year.

Exchanges of personnel: more communication, better understanding

NORMA Group will seek to continue to grow internationally in the future both organically as well as through targeted acquisitions. In order to be able to integrate new parts of the Group, the individual sites need to work together efficiently. Thus, communication that functions well is essential. To encourage this, NORMA Group offers several exchange programs for its employees, from one- to three-month 'Bubble Assignments' 'Long-Term-Assignments'. Expert personnel and managers who participate in this initiative bring special skills and experience to the new sites and, at the same time, benefit from the know-how of their local colleagues. Through these projects, NORMA Group promotes the internal transfer of knowledge, inter-cultural awareness, the establishment of networks and the individual development of the participants.

Good performance is rewarded

NORMA Group strives to attract and retain qualified and committed employees. In order to encourage employee interest in a positive development of the Company's value and permit them to participate in its economic success, the remuneration system at NORMA Group includes a fixed salary as well as a performance-related variable remuneration component. For tariff and non-tariff employees in Germany, this is based on important financial performance indicators or other factors. Moreover, the personal achievements of employees also play a role in remuneration.

Feedback culture – employee opinions are always welcome

In the interest of a continuous analysis and improvement process, NORMA Group conducts regular employee surveys. The focus of this central feedback tool is on the Company's strengths and weaknesses from an employee perspective, employee satisfaction, as well as the quality of leadership and cooperation. Further information can be found in the → 2019 CR REPORT.

Healthy team – healthy company

A productive company like NORMA Group depends on having healthy and satisfied employees. For this reason, NORMA Group supports its employees' health by conducting various activities. Activities are offered at the site in Maintal, for example. In 2019, these included cardio scans, functional movement analyses, spinal column screenings, vein checks and nutritional advice.

Internal "Train the Trainer" program launched

Whether it's on change management, communication strategies or conflict management – knowledge at the NORMA Group is quite comprehensive and already available at the Group's various sites. In order to share its current expertise even better throughout the Company, NORMA Group has launched a "Train the Trainer" program in the EMEA region that focuses on leadership skills. Representatives from various European sites attended a training course where they learned more about the expectations of the management culture at NORMA Group and the strategies and tools for implementing it. The trained trainers then held their own workshops at their respective sites where they passed on this knowledge to the local managers.

The program supports the global initiative "LeadershipCulture@NORMA" and will be expanded in the years to come.

The information in the above box is not part of the Consolidated Management Report and therefore is not subject to the audit.

Occupational health and safety is of the highest priority

NORMA Group places great importance and emphasis on the topics of health, safety and the wellbeing of its employees. The Company complies with the existing legislative and regulatory requirements relating to health and safety, but also goes further with a number of activities and initiatives to proactively manage and minimize potential risks. NORMA Group fully endorses the industry-recognized occupational health and safety management system OHSAS 18001 and is currently in transition to the new integrated standard ISO 45001.

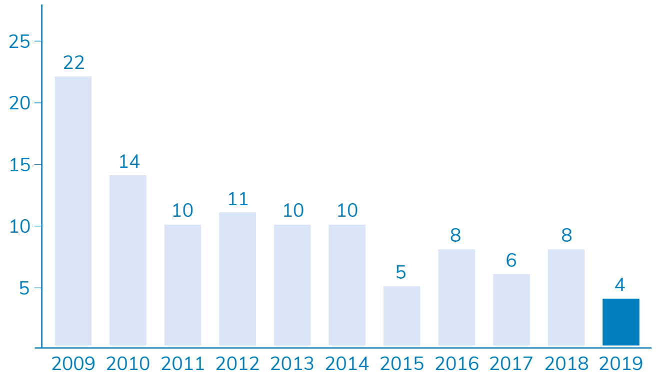
As part of its value-based safety program, NORMA Group analyzes the actions of its employees in the workplace and identifies potentially dangerous behaviors as part of regular safety reviews and instructions. Furthermore, NORMA Group carries out regular inspections of its plants and facilities and develops action plans based on the results, the implementation of which is monitored locally and at the Group level.

Incident rate improved significantly

NORMA Group constantly monitors and analyzes its accident statistics. The number of work-related accidents, ranging from near miss incidents to reportable accidents, are recorded and on a Group-wide basis each month and monitored at the local, regional and Group levels. All reportable accidents are communicated to Management Board level and any findings are systematically shared throughout the Group with the goal of preventing accidents in the future. NORMA Group's top priority is to ensure an accident-free, safe working environment in the long term.

The accident rate, which is the number of reportable accidents per 1,000 employees, represents one of the most important employee indicators. This figure was four for the 2019 reporting year, a significant improvement compared to the previous year (2018: eight). → G 22: INCIDENT RATE

Incident rate G022
Reportable incidents per 1,000 employees



Environmental protection and ecological management

As a manufacturing Company, NORMA Group is well aware of its environmental, economic, and social responsibility. Environmentally compatible and sustainable economic activity is therefore a central element of its corporate strategy. For this reason, the Company considers it important to systematically include environmental aspects in its business decisions. Therefore, NORMA Group has implemented a Group-wide environmental management system and certifies its production sites in accordance with ISO 14001.

NORMA Group's goal is to increase the efficiency of its production processes, lower its energy consumption over the long term, and reduce waste. The long-term cost savings associated with this contribute to the economic efficiency of the Group.

Since 2018, NORMA Group has set quantitative targets for the reduction of greenhouse gases, water consumption and waste generated at its production sites. Moreover, NORMA Group inclues environmental impacts resulting from the supply chain as welll as from the application of its products in its environmental strategy. These targets are published in the CR roadmap. Progress towards climate, water and waste targets is reviewed at the local level through regular management assessments and at the global level through the reporting of aggregated data to the Management Board. Further information on the environmental strategy can be found in the → 2019 CR REPORT.

Marketing

In order to further increase awareness of NORMA Group's products all over the world, boost product sales, strengthen its customer relationships and thus contribute to the Group's growth, NORMA Group's long-term marketing strategy is based on the following objectives:

- Building a strong NORMA Group brand image
- Focusing on marketing activities
- Optimizing of the brand portfolio
- Optimizing of the marketing tools
- Gaining a better understanding of market needs

In order to be able to focus on its end markets and customers as much as possible, NORMA Group aligns all of its marketing activities to address local market conditions and consumer habits in its respective regions and markets. The regional marketing units are responsible for executing the various activities and synchronizing them with NORMA Group's operative objectives.

Marketing focus in 2019

Key marketing activities in fiscal year 2019 included the following:

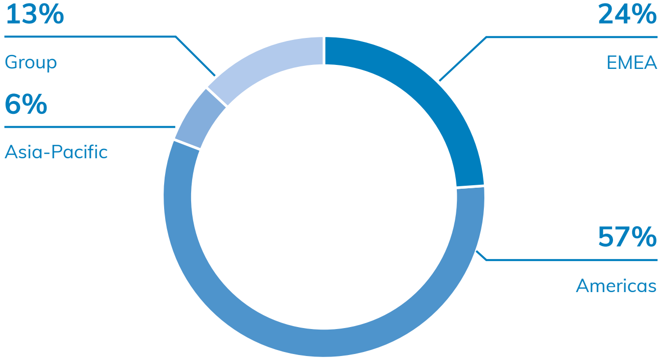
- Launch of a new corporate website and update of numerous microsites to increase user-friendliness and a better presentation of NORMA Group's value proposition
- Revision of the corporate identity to build a strong corporate image through various channels
- Introduction of a Product Information System (PIM) platform for the management and cross-system exchange of product information
- Marketing support for new product launches (among others, eM-Compact)

Furthermore, in 2019 another focus was on traditional marketing activities such as organizing fairs and exhibitions in order to promote NORMA Group's product solutions to their targeted markets.

Marketing expenditures 2019

Marketing expenditures amounted to a total of EUR 5.4 million in 2019 and were thus above the level of the previous year (2018: EUR 4.5 million). Marketing expenses as a percentage of sales amounted to 4.9% in fiscal year 2019 (2018: 4.2%).

Marketing expenses 2019 by segment[1] G023



1_Excluding personnel expenses.