5 Financial report

Consolidated income statement

in CHF t	Notes	1.1.–31.12.2019	1.1.–31.12.2018
Group revenue	5	4,430,833	4,364,473
Materials and third party services	6	(2,861,232)	(2,890,774)
Personnel expenses	7	(1,116,055)	(1,050,510)
Other operating expenses	9	(268,957)	(338,341)
Income from associates		2,179	4,878
EBITDA		186,768	89,726
Depreciation and amortisation		(123,261)	(76,791)
Operating income		63,507	12,935
Financial expenses	10	(20,736)	(15,011)
Financial income	10	1,536	2,739
Profit before tax		44,307	663
Tax	11	(10,387)	(159)
Consolidated profit		33,920	504
Attributable to:			
Shareholders of Implenia Ltd.		29,651	(5,059)
Non-controlling interests		4,269	5,563
Earnings per share (CHF)			
Basic earnings per share	26	1.61	(0.28)
Diluted earnings per share	26	1.57	(0.28)

The consolidated income statement for the reporting period from 1 January 2019 to 31 December 2019 is comparable with the previous year if note 2 is taken into account.

Consolidated statement of comprehensive income

in CHF t	Notes	1.1.–31.12.2019	1.1.–31.12.2018
Consolidated profit		33,920	504
Remeasurement of post-employment benefits	23	(14,163)	(22,296)
Income tax on remeasurement of post-employment benefits		3,413	5,077
Fair value adjustments on financial instruments		99	(121)
Total items that will not be reclassified to income statement in the future		(10,651)	(17,340)
Changes from cash flow hedges		(39)	(110)
Changes from net investment hedges		2,390	2,678
Foreign exchange differences		(12,169)	(10,756)
Total items that will be reclassified to income statement in the future		(9,818)	(8,188)
Other comprehensive income		(20,469)	(25,528)
Attributable to:			
Shareholders of Implenia Ltd.		(20,434)	(25,477)
Non-controlling interests		(35)	(51)
Total comprehensive income		13,451	(25,024)
Attributable to:			
Shareholders of Implenia Ltd.		9,217	(30,536)
Non-controlling interests		4,234	5,512

Consolidated balance sheet

Assets

in CHF t	Notes	31.12.2019	31.12.2018
Cash and cash equivalents		912,317	913,233
Derivative financial instruments		126	1,144
Trade receivables	12	538,700	494,988
Work in progress	13	400,067	357,531
Joint ventures (equity method)	14	27,830	39,069
Income tax receivables		5,104	9,360
Other receivables		46,713	46,488
Raw materials and supplies		80,438	73,941
Real estate transactions	15	189,486	185,292
Accrued income and prepaid expenses		25,855	21,577
Total current assets		2,226,636	2,142,623
Property, plant and equipment	16	287,052	301,688
Rights of use from leases	2,17	146,491	–
Investment property	18	13,785	14,381
Investments in associates	19	52,624	53,061
Other financial assets		9,615	9,669
Pension assets	23	5,699	5,707
Intangible assets	20	304,373	308,045
Deferred tax assets	24	36,988	26,181
Total non-current assets		856,627	718,732
Total assets		3,083,263	2,861,355

The consolidated balance sheet as at 31 December 2019 is comparable with the previous year if note 2 is taken into account.

Equity and liabilities

in CHF t	Notes	31.12.2019	31.12.2018
Financial liabilities	2,21	48,247	21,739
Derivative financial instruments		668	364
Trade payables		367,942	370,602
Work in progress	13	1,034,699	980,350
Joint ventures (equity method)	14	75,297	29,573
Income tax liabilities		25,479	26,700
Other liabilities		98,979	98,864
Prepaid income and accrued expenses		128,410	127,669
Provisions	22	17,303	15,672
Total current liabilities		1,797,024	1,671,533
Financial liabilities	2,21	591,506	494,283
Deferred tax liabilities	24	48,706	49,309
Pension liabilities	23	22,713	20,678
Provisions	22	32,845	40,377
Total non-current liabilities		695,770	604,647
Share capital	25	18,841	18,841
Treasury shares	25	(540)	(4,468)
Reserves		514,737	550,983
Consolidated profit attributable to shareholders		29,651	(5,059)
Equity attributable to shareholders		562,689	560,297
Non-controlling interests		27,780	24,878
Total equity		590,469	585,175
Total equity and liabilities		3,083,263	2,861,355

Consolidated statement of changes in equity

			Reserves						
in CHF t	Share capital	Treasury shares	Capital reserves	Foreign exchange differences	Cash flow hedge reserves	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Equity as at 1.1.2019	18,841	(4,468)	90,414	(35,119)	9	490,620	560,297	24,878	585,175
Consolidated profit	–	–	–	–	–	29,651	29,651	4,269	33,920
Other comprehensive income	–	–	–	(9,749)	(39)	(10,646)	(20,434)	(35)	(20,469)
Total comprehensive income	–	–	–	(9,749)	(39)	19,005	9,217	4,234	13,451
Dividends	–	–	–	–	–	(9,202)	(9,202)	(1,218)	(10,420)
Change in treasury shares	–	3,928	(2,550)	–	–	(1,730)	(352)	–	(352)
Share-based payments	–	–	–	–	–	2,615	2,615	–	2,615
Change in non-controlling interests	–	–	114	–	–	–	114	(114)	–
Total other changes in equity	–	3,928	(2,436)	–	–	(8,317)	(6,825)	(1,332)	(8,157)
Total equity as at 31.12.2019	18,841	(540)	87,978	(44,868)	(30)	501,308	562,689	27,780	590,469
Equity as at 1.1.2018	18,841	(14,090)	91,938	(27,064)	119	549,611	619,355	21,358	640,713
Consolidated profit	–	–	–	–	–	(5,059)	(5,059)	5,563	504
Other comprehensive income	–	–	–	(8,055)	(110)	(17,312)	(25,477)	(51)	(25,528)
Total comprehensive income	–	–	–	(8,055)	(110)	(22,371)	(30,536)	5,512	(25,024)
Dividends	–	–	–	–	–	(36,620)	(36,620)	(1,669)	(38,289)
Change in treasury shares	–	9,622	(1,524)	–	–	(3,505)	4,593	–	4,593
Share-based payments	–	–	–	–	–	3,505	3,505	–	3,505
Change in non-controlling interests	–	–	–	–	–	–	–	(323)	(323)
Total other changes in equity	–	9,622	(1,524)	–	–	(36,620)	(28,522)	(1,992)	(30,514)
Total equity as at 31.12.2018	18,841	(4,468)	90,414	(35,119)	9	490,620	560,297	24,878	585,175

Consolidated cash flow statement

in CHF t	Notes	1.1.–31.12.2019	1.1.–31.12.2018
Consolidated profit		33,920	504
Tax	11	10,387	159
Financial result	2,10	19,200	12,272
Depreciation and amortisation	2	123,261	76,791
Result from sale of non-current assets		(12,063)	(3,612)
Income and distribution from associates		1,586	(617)
Change in provisions		(4,825)	(12,855)
Change in pension assets and liabilities		(11,485)	(14,924)
Change in net working capital			
Change in trade and other receivables		(55,102)	(32,359)
Change in work in progress (net), raw materials and supplies		12,603	37,245
Change in real estate transactions		(4,199)	(27,237)
Change in trade payables and other liabilities		5,930	25,649
Change in accruals and joint ventures (equity method)		54,541	2,901
Other expenses / income not affecting liquidity		(3,554)	(3,153)
Interest paid	2	(11,866)	(5,549)
Interest received		849	524
Tax paid		(15,634)	(39,687)
Cash flow from operating activities		143,549	16,052

in CHF t	Notes	1.1.–31.12.2019	1.1.–31.12.2018
Investments in property, plant and equipment		(70,998)	(75,082)
Disposals of property, plant and equipment		21,445	9,289
Investments in other financial assets and associates		(5,785)	(2,112)
Disposals of other financial assets and associates		4,159	1,846
Investments in intangible assets		(7,499)	(2,579)
Cash flow from investing activities		(58,678)	(68,638)
Increase in financial liabilities	2,21	1,611	19,565
Repayment of financial liabilities	2,21	(72,301)	(4,386)
Purchase of treasury shares		(16,430)	(1,124)
Sale of treasury shares		17,808	9,222
Dividends		(9,202)	(36,620)
Cash flow with non-controlling interests		(1,218)	(1,529)
Cash flow from financing activities		(79,732)	(14,872)
Foreign exchange differences on cash and cash equivalents		(6,055)	(4,752)
Change in cash and cash equivalents		(916)	(72,210)
Cash and cash equivalents at the beginning of the period		913,233	985,443
Cash and cash equivalents at the end of the period		912,317	913,233

The consolidated cash flow statement for the reporting period from 1 January 2019 to 31 December 2019 is comparable with the previous year if note 2 is taken into account.

Notes to the consolidated financial statements of Implenia

1 — GENERAL INFORMATION

Implenia Ltd. is a Swiss public limited company incorporated in Dietlikon, Zurich. The shares of Implenia Ltd. are listed on the SIX Swiss Exchange (ISIN CH002,386,8554, IMPN).

The German version of the financial statements is the authoritative version. The English version is a non-binding translation.

Implenia's business activities are described in note 5.

The consolidated financial statements as at 31 December 2019 were approved by the Board of Directors of Implenia Ltd. on 24 February 2020 for submission to the Annual General Meeting. In accordance with Art. 698 of the Swiss Code of Obligations, the Annual General Meeting must approve the consolidated financial reports. The consolidated financial reports were audited by the statutory auditor PricewaterhouseCoopers Ltd., Zurich.

Unless otherwise stated, the figures in the financial report are given in thousands of Swiss francs.

The consolidated financial reports of Implenia have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). With the exception of balance sheet items measured at fair value, the consolidated financial statements are based on historical cost.

Management estimates and judgements for the purposes of financial reporting affect the values of reported assets and liabilities, contingent liabilities and assets on the balance sheet date, and expenses and income during the reporting period. Actual values may differ from these estimates. Material judgements are presented in note 3.

2 — CHANGE TO ACCOUNTING POLICIES

The accounting policies applied to the 2019 consolidated financial statements are identical to those applied to and described in the financial report 2018, with the exception of IFRS 16 "Leases", which has been applied for the first time to the financial year starting on 1 January 2019.

The material impacts of the conversion to IFRS 16 "Leases" on these consolidated financial statements are explained as follows.

IFRS 16 Leases

IFRS 16 "Leases" replaces the previous standard IAS 17 "Leases" and the interpretations associated therewith, and is to be applied to all leasing agreements.

Under IFRS 16, all assets and liabilities arising from leases must be recognised in the balance sheet unless the lease term is not more than twelve months or the asset is of minor value. The capitalisation of leased assets and the recognition of lease obligations as liabilities expand the balance sheet.

Implenia has material leases for real estate, large-scale equipment, vehicles and small machinery as well as site equipment. The impact is largely dependent on the number of pieces of large-scale equipment leased at the reporting date, the interest rate and the assessment regarding the exercise of possible extension, purchase or cancellation options. Leases for small machinery and site equipment often have a term of less than one year and are therefore not posted on the balance sheet under the new standard either.

Implenia applies the modified retrospective method for the conversion to IFRS 16. All existing leases subject to the provisions of IAS 17 were reported without re-evaluation for the first application of IFRS 16. Initial direct costs were not taken into account. Information that was available after the first application was used for the assessment of the lease periods. In addition, a uniform discount rate was utilised for leasing agreement portfolios that display similar characteristics (e.g. with regard to the residual term) as at first application. The weighted average discount rate as at the first application is 3.2%. With regard to existing finance leases, the carrying amount of property, plant and equipment as well as lease liabilities as at 31 December 2018 were carried over. In general, most of Implenia's leases were operating leases. Service components such as insurance premiums or incidental rental costs were posted separately in the income statement, provided such costs could be discerned from the leasing agreements.

Extension and cancellation options with respect to the lease period are taken into account if the exercise or non-exercise of such options is assessed as reasonably certain. The further in the future the assessment date for these options lies, the more uncertain their exercise will be. For most agreements, an assessment was made that an exercise of the options after five years can no longer be considered reasonably certain. Due to the counterparty's right of termination, the term of certain agreements is limited to the enforceable lease period.

Right of use assets in the amount of CHF 161.5 million were recognised as at 1 January 2019. These rights of use relate mainly to the categories of business premises (CHF 92.4 million) and machines and vehicles (CHF 69.1 million). They are reported in the "Rights of use from leases" balance sheet item. Existing assets from finance leases amounting to CHF 8.2 million were transferred from property, plant and equipment to rights of use. The first application resulted in the recognition of additional liabilities arising from leases in the amount of CHF 152.8 million. Financial liabilities in the amount of CHF 8.3 million arising from existing finance leases remain unchanged. Liabilities arising from leases consist of current liabilities of CHF 50.9 million and non-current liabilities of CHF 110.2 million and are included in financial liabilities. The difference of CHF 0.4 million between the recognition of

Notes to the consolidated financial statements of Implenia

rights of use and lease liabilities is the result of adjustments made due to advance payments in the amount of CHF 0.5 million, as well as a difference of CHF –0.1 million in the carrying amounts of the finance leases that were carried over.

The operating lease obligations reported as at 31 December 2018 have the following effects on the lease liabilities recognised as at 1 January 2019:

in CHF t	
Operating leases as of 31 December 2018	172,617
Effect of discounting (average interest rate: 3.2%)	(26,533)
Finance leases	8,329
Short term leases and leases of low value	(8,170)
Previously not considered options	14,905
Lease liabilities as of 1 January 2019	161,148

The application of IFRS 16 increased total assets by CHF 137.6 million as at 31 December 2019. The equity ratio decreased by around one percentage point to 19.2%. Under IAS 17, leasing expenses were included in the income statement item "Other operating expenses". Now the expense for leases that must be recognised in accordance with IFRS 16 is split between the "Depreciation and amortisation" and "Financial expense" items. EBITDA increased by CHF 56.0 million due to the application of IFRS 16 in the reporting period, operating income increased by CHF 2.9 million as a result. Other operating expenses (rental expenses) decreased by CHF 56.0 million, while depreciation increased by CHF 53.1 million and interest expenses by CHF 4.7 million. The impact on profit before tax and on earnings per share in the reporting period is immaterial. The cash flow from the newly recognised leasing payments was previously included in full in "Cash flow from operating activities". The amortisation component of lease liabilities is now recognised as "Cash flow from financing activities". Cash flow from operating activities increased by CHF 51.3 million in the reporting period, cash flow from financing activities decreased accordingly.

The accounting policies previously applicable are reported in note 16. The disclosures regarding IFRS 16 are presented in notes 9, 17 and 21.

Impact on the consolidated balance sheet (condensed) as at 1 January 2019:

Assets

in CHF t	31.12.2018 reported	IFRS 16	1.1.2019 restated
Accrued income and prepaid expenses	21,577	(492)	21,085
Total current assets	2,142,623	(492)	2,142,131
Property, plant and equipment	301,688	(8,197)	293,491
Rights of use from leases	–	161,508	161,508
Total non-current assets	718,732	153,311	872,043
Total assets	2,861,355	152,819	3,014,174

Equity and Liabilities

in CHF t	31.12.2018 reported	IFRS 16	1.1.2019 restated
Financial liabilities	21,739	47,550	69,289
Total current liabilities	1,671,533	47,550	1,719,083
Financial liabilities	494,283	105,269	599,552
Total non-current liabilities	604,647	105,269	709,916
Equity attributable to shareholders	560,297	–	560,297
Total equity	585,175	–	585,175
Total equity and liabilities	2,861,355	152,819	3,014,174

Notes to the consolidated financial statements of Implenia

3 — KEY MANAGEMENT DECISIONS AND ESTIMATES

When preparing the consolidated financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and related disclosures. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These are used as the basis for measuring those assets and liabilities whose carrying amounts are not readily apparent from other sources. Actual values may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Changes to estimates may be necessary if the circumstances on which they were based have changed or new information or additional insights have become available. Such changes are recognised in the reporting period in which the estimate was revised.

The key assumptions about the future and the key sources of estimation uncertainty which may require material adjustments to the carrying amounts of assets and liabilities within the next twelve months are explained below.

3.1 — Revenue and cost recognition for projects

The order amount is contractually agreed. Variable considerations and contract modifications (claims) are recognised on the basis of judgements. If it is highly probable that these components are recoverable, they must be added to the transaction price. The decision is based on an assessment of various criteria. In principle, if claims are approved in writing by the client, they must always be taken into account in the transaction price. In cases that are less clear, the amount which is highly probable to be paid by the client will be recognised. This minimises the risk of revenue having to be reversed subsequently. The judgement is based on the project documentation, the legal assessment and, if applicable, external expert opinions. Experience from similar projects or with the same customer are also taken into consideration.

If the client has not agreed to a claim and if there is no enforceable right to payment, it may not be recognised.

In case of technically demanding construction projects, the estimated costs to complete may deviate from the future cost development, since consideration of future events is fraught with uncertainty. This can lead to results being adjusted as the project progresses.

Revenue is shown in note 5. Costs for material and third party services are shown in note 6.

3.2 — Litigation cases involving projects

Implenia relies on the professional expertise of internal and external lawyers to assess existing legal risks when appraising projects. Judicial rulings may lead to deviations from management estimates. The assessment of financial repercussions may therefore change in the following year depending on the future development of ongoing legal proceedings, which may lead under certain circumstances to the project assessment being adjusted.

Letzigrund Dispute

The litigation against the City of Zurich for full repayment of the guarantee is still in progress. Furthermore, the City of Zurich has drawn the warranty bond provided after the completion of the Letzigrund stadium, forcing Implenia to pay CHF 12 million. Implenia sees no basis for this guarantee being drawn and is reclaiming this amount. The amount in question is included in “Other receivables”.

Notes to the consolidated financial statements of Implenia

3.3 — Inclusion of joint ventures

The Group engages in construction projects that can lead to control, joint control or significant influence over the joint venture. This includes the acquisition of all or part of the share capital of other companies, the purchase of certain assets and the assumption of certain liabilities or contingent liabilities. In all these cases, management makes an assessment as to whether the Group has control, joint control or significant influence over the joint venture. Based on this assessment, the company is either fully consolidated, proportionately consolidated or accounted for under the equity method. This assessment is based on the underlying economic substance of the transaction as well as the respective rights and obligations in the respective country and not only on the contractual terms. Information on joint ventures is shown in notes 14 and 33.

3.4 — Goodwill impairment

Goodwill is tested for impairment annually. To assess whether any impairment exists, estimates are made of future cash flows expected to arise from the use of these assets and their possible disposal. Actual cash flows may differ significantly from the future discounted cash flows based on these estimates. Changes in discount rates, EBITDA margins and growth rates used may result in impairments.

As part of the strategic reorganisation in 2019, goodwill was reallocated as at 1 January 2019. More detailed information on this is provided in notes 5 and 20.

3.5 — Capitalisation of tax loss carryforwards

Capitalisation of tax loss carryforwards requires material decisions and estimates by management on whether tax loss carryforwards can be offset against future taxable profits of the respective companies or existing temporary differences. The estimate is based on the business plans updated each year and on whether sufficient taxable profits will be available in future to be able to utilise capitalised tax loss carryforwards. The actual results of the companies in question may differ significantly from the estimates. If the planned profits are not achieved, there is a risk that capitalised tax loss carryforwards will not be recoverable and must be derecognised through profit or loss. Information on tax loss carryforwards can be found in note 24.

3.6 — Employee benefit schemes

Group employees are members of employee benefit schemes which are treated as defined benefit or defined contribution plans under IAS 19. The calculation of the recognised assets and liabilities from these plans is based on statistical and actuarial calculations performed by actuaries. The present value of defined benefit liabilities in particular is heavily dependent on assumptions such as the discount rate used to calculate the present value of future pension liabilities, future salary increases and increases in employee benefits. In addition, the Group's independent actuaries use statistical data such as probability of withdrawals of members from the plan and life expectancy in their assumptions.

Implenia's assumptions may differ substantially from actual results owing to changes in market conditions and the economic environment, higher or lower withdrawal rates, longer or shorter lifespans among members and other estimated factors. These differences may affect the values of the assets and liabilities from employee benefit schemes recognised in the balance sheet in future reporting periods. Information on employee benefits can be found in note 23.

3.7 — Leases

In principle, lease terms are stipulated by contract. Assessments regarding the exercise of extension, cancellation and purchase options are based on material judgements. In doing so, the management takes all facts and circumstances into account to assess how certain it is that options will be exercised. Options are only taken into account if their exercise is assessed as reasonably certain. The further in the future the assessment date for these options lies, the more uncertain their exercise will be. For most agreements, an assessment was made that an exercise of the options after five years can no longer be considered reasonably certain. The exercise of options is reassessed when an option is actually exercised. Re-evaluations as to whether there is sufficient certainty of the option being exercised are only carried out in response to material events or material changes in circumstances.

If the exercise of options is incorrectly assessed, there is a risk that rights of use and lease liabilities are not correctly recognised. Disclosures regarding leasing are shown in notes 9, 17 and 21.

Notes to the consolidated financial statements of Implenia

4 — RISK ASSESSMENT

The risk to which Implenia Group is exposed is assessed once a year by the Implenia Executive Committee (IEC) and the Board of Directors. In doing so, the key Group risks are defined and measured in terms of implications and probability. The implementation and impact of defined measures is monitored continuously by the IEC.

Assessment of operational risks takes account of current and impending lawsuits as well as material claims from projects. The risk map presents these risks and opportunities at Group and divisional level and is assessed continuously by the managers with operational responsibility in collaboration with the finance department to initiate measures and monitor their effectiveness. The risks and opportunities recorded are evaluated in quantitative terms as worst/real/best case. The risks maps consolidated by divisions and the Implenia Group are presented to the Audit Committee twice a year.

A new value assurance process for all the divisions' projects and the selection of joint venture partners was introduced in the financial year with the Value Assurance Committee (VAC) as the steering body. The VAC was set up on four levels: Group (class 1), global division/business unit (class 2); BU country (class 3) and BU region (class 4). As part of the VAC reporting, class 1 VAC reports on the results of its tasks and the adequacy and effectiveness of project management to the Audit Committee at least every six months.

4.1 — Financial risk management

The principles used for financial risk management are defined at Group level and apply to all Group entities. They include rules about holding and investing cash and cash equivalents, taking on debt, and hedging against foreign currency, price and interest rate risks. Compliance with the rules is monitored centrally on a continuous basis. Overall, the Group follows a conservative, risk-averse approach.

The Group's main financial instruments are cash and cash equivalents, trade receivables, contract assets, financial and other receivables, current and non-current financial liabilities, trade payables and contract liabilities. Trade receivables and trade payables as well as contract assets and liabilities are generated in the course of normal business activities. Financial liabilities are mainly used to finance operating activities as well as strategic decisions such as the acquisition of a business. Financial investments serve mainly to finance associates.

Within the Group, derivative financial instruments are used to hedge operating cash flows and intercompany loans in foreign currency.

The main risks for the Group resulting from financial instruments are credit risk, liquidity risk, market risk and foreign currency risk.

4.2 — Credit risk

The credit risk consists mainly of the risk of default on trade receivables and cash and cash equivalents.

4.2.1 — Trade receivables

Agreements with customers generally stipulate payment terms between 30 and 90 days. The creditworthiness of customers is verified prior to any contract being signed. Revenue is generated largely through transactions with public-sector bodies and high-quality debtors (banks, insurance companies, pension funds, etc.). As a rule, no collateral is obtained. However, for services relating to real estate, it is legally possible to have a lien on the real estate (right of lien of tradesmen and building contractors). Notice of payments outstanding is given as part of a standardised reminder procedure. Regular reports are made monitoring the progress of receivables, particularly those that are overdue. Due to the customer structure, provisions in the statutory mortgage of contractor as well as significant prefinancing for construction services, irrecoverable debts are negligible in relation to Group revenue.

Age structure of trade receivables: see note 12.

4.2.2 — Cash and cash equivalents and other financial assets

The credit risk relating to cash and cash equivalents and other financial assets resides in the non-payment of receivables due to debtor insolvency. Debtors are subject to regular creditworthiness checks by means of a review of their financial situation. In the case of cash and cash equivalents, the counterparty must also have an investment grade rating (S & P / Moody's), a direct state guarantee or at least be classified as systemically important by the competent regulatory bodies. The exposure per counterparty is limited to a maximum amount. Creditworthiness is monitored regularly using market-based information (e.g. CDS spreads), and appropriate measures are taken if necessary.

The three largest counterparty exposures under cash and cash equivalents total CHF 604.8 million (2018: CHF 587.3 million). This is the equivalent of 66.3% of the carrying amount of total cash and cash equivalents (2018: 64.3%).

The maximum credit risk corresponds to the amount of individual receivables in the event of default.

Notes to the consolidated financial statements of Implenia

The following table shows the receivables from the largest financial institutions on the balance sheet date:

in CHF t	Rating[1]	Balance
As at 31.12.2019		
Cash and other financial assets		**604,802**
Financial institution	A-	282,854
Financial institution	BBB+	223,414
Financial institution	A-	98,534
As at 31.12.2018		
Cash and other financial assets		**587,306**
Financial institution	A-	261,080
Financial institution	BBB+	227,326
Financial institution	A-	98,900

1 Standard & Poor's rating

4.3 — Liquidity risk

The liquidity risk derives mainly from the eventuality that liabilities cannot be settled on the due date. Future liquidity forecast is based on a variety of rolling planning horizons. The Group aims to have sufficient lines of credit to cover its planned funding requirements at any time. As at 31 December 2019, the Group had cash and cash equivalents of CHF 912.3 million (2018: CHF 913.2 million) and unused credit lines of CHF 332.6 million (2018: CHF 332.9 million).

The Group seeks to maintain appropriate minimum liquidity (consisting of cash and cash equivalents and confirmed unused credit lines).

The balance sheet item for "work in progress" (liabilities) also contains contract costs in relation to past services from suppliers and third party service providers of CHF 584.8 million (2018: CHF 622.8 million). Corresponding invoices are outstanding. The payment is normally expected within the next twelve months.

	Short-term		Long-term	
in CHF t	0–3 mo.	4–12 mo.	2–5 years	over 5 years
As at 31.12.2019				
Trade payables and other liabilities	(292,916)	(174,673)	–	–
Bond issues	(1,250)	(2,031)	(138,125)	(127,500)
Subordinated convertible bond	–	(875)	(176,750)	–
Promissory note loans	–	(964)	(35,855)	(33,151)
Liabilities to banks	(3,778)	–	(3,602)	–
Lease liabilities[1]	(13,317)	(33,033)	(91,104)	(18,000)
Other financial liabilities	(1,152)	–	–	–
As at 31.12.2018				
Trade payables and other liabilities	(327,014)	(142,816)	–	–
Bond issue	(1,250)	(2,031)	(13,125)	(255,781)
Subordinated convertible bond	–	(875)	(177,625)	–
Promissory note loans	–	(1,001)	(37,575)	(34,977)
Liabilities to banks	(2,297)	(19,439)	(10,619)	(673)

1 Contains lease obligations from the first application of IFRS 16 in the reporting year, see note 2

Liquidity in the broader sense also includes the constant availability of unused guaranteed credit lines. The issue of guarantees or sureties to guarantee contractual services is of major importance in the operational construction business. A distinction is made between tender guarantees, advance payment bonds, performance bonds and retention guarantees or sureties in advance. The Group has numerous guarantee lines covering various terms with Swiss and European banks and insurance companies totalling CHF 2,648.1 million (2018: 2,663.3 million). Of this figure, CHF 1,524.1 million had been called at 31 December 2019 (2018: CHF 1,519.7 million).

4.4 — Market risk / interest rate risk

The Group has very few non-current interest-bearing assets. Consequently, the Group's interest risk results from the structure and volume of its financing. Because the Group has financed its operations with fixed-rate bond issues, promissory note loans and a convertible bond, the risk associated with changes in interest rates is minimal. Interest rate increases generally have no negative impact on consolidated profit.

The maturity structure of interest-bearing financial instruments as at 31 December 2019 is as follows:

in CHF t	Up to 1 year	2–5 years	Over 5 years	Total
Variable rate				
Cash and cash equivalents	912,317	–	–	**912,317**
Loans and other financial assets	–	527	484	**1,011**
Financial liabilities	(3,778)	–	–	**(3,778)**
Total	908,539	527	484	**909,550**
Fixed rate				
Loans and other financial assets	–	–	902	**902**
Financial liabilities[1]	(44,469)	(416,970)	(174,536)	**(635,975)**
Total	(44,469)	(416,970)	(173,634)	**(635,073)**
Overall total	864,070	(416,443)	(173,150)	**274,477**

1 Contains lease obligations from the first application of IFRS 16 in the reporting year, see note 2

Maturity structure as at 31 December 2018:

in CHF t	Up to 1 year	2–5 years	Over 5 years	Total
Variable rate				
Cash and cash equivalents	913,233	–	–	**913,233**
Loans and other financial assets	–	514	496	**1,010**
Financial liabilities	(18,598)	–	–	**(18,598)**
Total	894,635	514	496	**895,645**
Fixed rate				
Loans and other financial assets	–	–	1,002	**1,002**
Financial liabilities	(3,141)	(210,298)	(283,985)	**(497,424)**
Total	(3,141)	(210,298)	(282,983)	**(496,422)**
Overall total	891,494	(209,784)	(282,487)	**399,223**

If the interest rates on the average total assets in 2019 were 0.5 percentage points higher or lower, the profit before tax, provided that all other variables remained constant, would have been CHF 2.7 million (2018: CHF 3.2 million) higher or lower for the year as a whole. This would be largely due to higher or lower interest income on cash and cash equivalents.

Notes to the consolidated financial statements of Implenia

4.5 — Foreign currency risks

At Implenia, there are currency risks from future business transactions or assets and liabilities recognised in the balance sheet in currencies other than the functional currency of the company in question (transaction risk). Significant foreign currency positions are hedged with currency derivatives. Implenia is mainly exposed to risks from the euro and to a lesser extent from the Norwegian and the Swedish krona.

If the Swiss franc had been 15% stronger against the euro on 31 December 2019, foreign currency positions would have had a positive impact on profit before tax of CHF 0.1 million (2018: CHF 0.5 million). Equity would have been CHF 11.7 million lower (2018: CHF 15.8 million lower). This effect is largely attributable to net investments in foreign businesses.

4.6 — Hedge accounting

Major projects at Implenia may lead to foreign currency positions in the Group company performing the work, if a portion of the cash flows does not accrue in the functional currency of the respective company. Material risks are hedged using currency derivatives based on cash flow planning figures (cash flow hedges). Given Implenia's local business in the construction sector and its entrepreneurial coverage on location, the foreign currency risk in projects is limited. As at the reporting date, there were no material hedges of cash flows in foreign currency.

In addition, part of the foreign currency risk on net investments in foreign businesses was hedged (net investment hedges). The promissory note loans totalling EUR 60.0 million placed in 2017 were used to hedge euro loans to subsidiaries. A compensating effect of CHF 2.4 million (2018: CHF 2.7 million) was posted in other comprehensive income in the reporting period.

4.7 — Policy regarding capital structure/indebtedness

The Group targets an equity ratio of more than 25% according to the accounting standards currently in force (incl. IFRS 16). At the reporting date, the equity ratio amounted to 19.2% (as of 1 January 2019: 19.4%). As of 31 December 2018 the equity ratio at the accounting standards applicable at the time amounted to 20.5%. If the liability component of the subordinated convertible bond is included in equity, the equity ratio amounts to 24.6% (previous year at the accounting standards applicable at the time: 26.2%).

The aim is for current assets to be financed through current debt. Non-current assets should be financed through non-current liabilities and equity. Investments as part of ordinary business activities are to be financed through ongoing cash flows wherever possible.
The syndicated loan contains one financial covenant (debt ratio). The financial position and performance are monitored continuously, based on consolidated values.

As in the previous year, the financial provisions (including financial covenant) stipulated in financing agreements were met.

Notes to the consolidated financial statements of Implenia

4.8 — Fair value measurement

		Carrying amounts		Fair values	
in CHF t	Level	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets					
Fair value through profit or loss					
Currency derivatives	2	126	1,144	126	1,144
Fair value through other comprehensive income					
Unlisted participations	3	7,703	7,657	7,703	7,657
At amortised cost					
Trade receivables	*	538,700	494,988	538,700	494,988
Other receivables	*	46,713	46,488	46,713	46,488
Other financial assets	*	1,912	2,012	1,912	2,012
Financial liabilities					
Fair value through profit or loss					
Currency derivatives	2	668	364	668	364
At amortised cost					
Trade payables	*	367,942	370,602	367,942	370,602
Promissory note loans	2	65,002	67,359	66,869	68,073
Bonds	1	250,270	250,311	258,375	232,164
Convertible bond	2	168,013	165,321	169,445	146,918
Other liabilities	*	98,979	98,864	98,979	98,864
Other financial liabilities[1]	*	156,468	33,031	8,532	33,031

1 Fair values as at 31 December 2019 do not contain any liabilities from leases

* The carrying amounts of these financial instruments roughly correspond to their fair value.

Fair value hierarchy:

LEVEL 1 The inputs used are unadjusted listed prices on active markets for identical assets and liabilities as at the reporting date. The fair value of bonds recognised at amortised cost reflects the closing price on the SIX Swiss Exchange.

LEVEL 2 The measurement is based on inputs (other than the listed prices included in level 1) that are either directly or indirectly observable for the asset or liability. The fair values of currency derivatives (forward contracts) are determined on the basis of the difference between contractually fixed forward prices and the current forward prices applicable on the balance sheet date. The carrying amount of the liability component of the convertible bond issued on 30 June 2015 is CHF 168.0 million (2018: CHF 165.3 million) while the carrying amount of the equity component is unchanged at CHF 15.2 million. The fair value of the liability component of the convertible bond and the fair value of the promissory note loans are calculated on the basis of the contractually agreed interest and amortisation payments discounted at market interest rates.

LEVEL 3 The inputs are not based on observable market data. They reflect the Group's best estimate of the criteria that market participants would use to determine the price of the asset or liability on the reporting date. Allowance is made for the inherent risks in the valuation procedure and the model inputs. Assets in this category are generally securities not traded on active markets. Implenia owns a portfolio of unlisted domestic interests. These are revalued each year on the basis of the financial statements of the individual unlisted interests.

Fair value estimates for non-financial items are provided in the relevant notes.

Notes to the consolidated financial statements of Implenia

5 — SEGMENT REPORTING

The Group's business segments are based on the organisational units, for which the Implenia Executive Committee (IEC) and the Group Board of Directors are presented a report. The Board of Directors takes on the role of chief operating decision maker. It receives regular internal reports in order to assess the Group's performance and resource allocation. Within the framework of a new Group strategy, the Implenia Group was given a divisional structure in 2019. On the basis of the adjusted internal organisation and reporting structure, the following divisions were identified:

- Development
- Buildings
- Civil Engineering
- Specialties

The organisational structure also includes "Functions". This unit relates to costs that cannot be assigned to any other division. It also includes Group companies with no activities.

The divisions undertake the following activities:

Development
The Development Division brings together Implenia's expertise in project development from the initial idea to the completed building project. As a partner for private and institutional property developers, the division develops and realises sustainable real estate and sites and can utilise its own land bank. The division has a geographically broad project portfolio with a focus on the strong growth regions of Zurich and Lake Geneva.

Buildings
The Buildings Division comprises the holistic design and execution of complex new constructions as well as modernisation work on existing properties. As a general and total contractor, Implenia offers comprehensive services from a single source. Modernisation brings together the division's capabilities in conversion and renovation, from consultancy to implementation. The division's home markets are Switzerland, Germany and Austria.

Civil Engineering
The Civil Engineering Division is responsible for tunnelling, foundation engineering and regional business – e.g. road and rail construction. The division is present in all of Implenia's home markets. It also bids for large, complex projects in Europe outside these markets.

Specialties
The Specialties Division comprises Implenia's niche offers, such as those relating to wood-based construction, formwork construction, façade and pre-tensioning technology and construction logistics. The division is also responsible for gravel works in Switzerland and abroad.

The relationship between the current divisions and the previous segments as per the 2018 financial statements is illustrated below:

	Current divisions			
Previous segments	Development	Buildings	Civil Engineering	Specialties
Development	X			
Switzerland	X	X	X	X
Infrastructure			X	
International		X	X	X

The previous year's figures in the segment reporting were adjusted accordingly.

Notes to the consolidated financial statements of Implenia

Segment reporting, as presented to the Board of Directors, as at 31 December 2019:

in CHF t	Development	Buildings	Civil Engineering	Specialties	Total of divisions	Functions[1]	Total
IFRS revenue unconsolidated	160,419	2,241,754	2,300,218	242,021	4,944,412	33,055	4,977,467
Intra-Group revenue	(26,967)	(269,268)	(191,057)	(31,752)	(519,044)	(27,590)	(546,634)
Consolidated revenue	133,452	1,972,486	2,109,161	210,269	4,425,368	5,465	4,430,833
EBITDA excl. IFRS 16[2]	44,136	42,820	40,898	19,155	147,009	(16,227)	130,782
EBITDA	44,474	51,477	77,221	19,234	192,406	(5,638)	186,768
Current assets (excl. cash and cash equivalents)	215,220	355,203	625,338	89,288	1,285,049	29,270	1,314,319
Non-current assets (excl. pension assets and rights of use from leases)	13,494	158,262	400,965	101,751	674,472	29,965	704,437
Debt capital (excl. financial and pension liabilities)	(72,675)	(1,021,091)	(586,430)	(62,607)	(1,742,803)	(87,525)	(1,830,328)
Total invested capital excl. rights of use from leases	156,039	(507,626)	439,873	128,432	216,718	(28,290)	188,428
Rights of use from leases	1,299	38,605	77,944	674	118,522	27,969	146,491
Total invested capital	157,338	(469,021)	517,817	129,106	335,240	(321)	334,919
Investments in property, plant and equipment and intangible assets	–	2,018	56,814	9,549	68,381	9,753	78,134

1 Including eliminations

2 EBITDA as reported to the chief operating decision maker (EBITDA before adjustments due to the conversion to IFRS 16)

Notes to the consolidated financial statements of Implenia

Segment reporting, as presented to the Board of Directors, as at 31 December 2018 (restated):

in CHF t	Development	Buildings	Civil Engineering	Specialties	Total of divisions	Functions[1]	Total
IFRS revenue unconsolidated	107,772	2,260,997	2,299,551	255,149	4,923,469	39,870	4,963,339
Intra-Group revenue	(26,876)	(255,172)	(261,615)	(20,933)	(564,596)	(34,270)	(598,866)
Consolidated revenue	80,896	2,005,825	2,037,936	234,216	4,358,873	5,600	4,364,473
EBITDA	40,781	33,260	2,010	20,137	96,188	(6,462)	89,726
Current assets (excl. cash and cash equivalents)	221,719	435,568	476,869	94,419	1,228,576	814	1,229,390
Non-current assets (excl. pension assets)	16,972	159,829	415,214	105,941	697,957	15,068	713,025
Debt capital (excl. financial and pension liabilities)	(86,554)	(1,026,646)	(521,265)	(61,885)	(1,696,350)	(43,130)	(1,739,480)
Total invested capital	152,138	(431,249)	370,819	138,475	230,183	(27,248)	202,935
Investments in property, plant and equipment and intangible assets	–	3,105	58,998	15,986	78,089	4,515	82,604

1 Including eliminations

Notes to the consolidated financial statements of Implenia

Notes
The reconciliation to invested capital is as follows:

in CHF t	31.12.2019	31.12.2018
Total assets	3,083,263	2,861,355
Minus cash and cash equivalents	(912,317)	(913,233)
Minus pension assets	(5,699)	(5,707)
Assets of invested capital	2,165,247	1,942,415
Total equity and liabilities	3,083,263	2,861,355
Minus equity	(590,469)	(585,175)
Minus financial liabilities	(639,753)	(516,022)
Minus pension liabilities	(22,713)	(20,678)
Liabilities of invested capital	1,830,328	1,739,480
Total invested capital	334,919	202,935

Non-current assets (excluding financial assets, pension assets and deferred tax assets) are distributed geographically as follows:

in CHF t	31.12.2019	31.12.2018
Switzerland	305,200	237,539
Germany	281,146	279,188
Austria	31,405	25,047
Norway	72,369	52,864
Sweden	33,360	284
France	11,065	10,225
Other countries	17,156	18,967
Total as at reporting date	751,701	624,114

Notes to the consolidated financial statements of Implenia

Revenue from contracts with customers was distributed geographically as follows in the reporting period from 1 January 2019 to 31 December 2019:

in CHF t	Development	Buildings	Civil Engineering	Specialties	Functions	Total
Switzerland	132,777	1,451,006	811,810	37,831	–	2,433,424
Germany	98	425,377	547,860	131,166	–	1,104,501
Austria	–	91,186	112,503	7,497	–	211,186
Norway	–	–	247,503	–	–	247,503
Sweden	–	–	241,343	–	–	241,343
France	–	–	127,134	–	–	127,134
Other countries	–	–	1,563	33,574	–	35,137
Revenue from contracts with customers	132,875	1,967,569	2,089,716	210,068	–	4,400,228
Other revenue	577	4,917	19,445	201	5,465	30,605
Consolidated revenue	133,452	1,972,486	2,109,161	210,269	5,465	4,430,833

Revenue from contracts with customers was distributed geographically as follows from 1 January 2018 to 31 December 2018 (restated):

in CHF t	Development	Buildings	Civil Engineering	Specialties	Functions	Total
Switzerland	80,342	1,455,557	767,414	36,482	–	2,339,795
Germany	–	472,490	569,923	145,930	–	1,188,343
Austria	–	72,927	135,169	8,615	–	216,711
Norway	–	–	315,427	–	–	315,427
Sweden	–	–	159,155	–	–	159,155
France	–	–	75,007	–	–	75,007
Others	–	–	7,352	42,849	–	50,201
Revenue from contracts with customers	80,342	2,000,974	2,029,447	233,876	–	4,344,639
Other revenue	554	4,851	8,489	340	5,600	19,834
Consolidated revenue	80,896	2,005,825	2,037,936	234,216	5,600	4,364,473

Revenue is usually recognised over time. The sale of land in the Development Division, where revenue is recognised at a certain date, constitutes an exception to this rule. Other revenue is largely the result of leasing income.

Notes to the consolidated financial statements of Implenia

The order book as at 31 December 2019 amounted to CHF 6,158 million (2018: CHF 6,248 million). Of this figure, CHF 3,397 million is expected to be performed in the 2020 financial year, CHF 1,672 million in the 2021 financial year and CHF 1,089 million in subsequent years (unconsolidated).

Accounting policies

Revenue from contracts with customers contains all revenues from Implenia's various business activities. Depending on the type of service, revenue is recognised over a certain time or at a certain point in time. Subcontractors are usually commissioned to carry out construction projects. However, only Implenia has a relationship with the client. Therefore, only Implenia is exposed to any risk and can benefit from any opportunities from commissioning. Accordingly, Implenia recognises revenue for the transfer of services to the client equal to the consideration expected.

The anticipated order amount for the respective project is based on the contractual agreements and on amendments to the contract such as claims and order variations. Contract modifications are usual in the construction industry. Inclusion thereof in the transaction price depends on the assessment of their recoverability. Contract modifications are added to the transaction price if it is highly probable that a significant part will not have to be reversed again at a later date. Variable considerations in the form of performance bonuses and contractual penalties are also subject to these guidelines.

Future expected losses from contracts are taken into consideration when measuring the value of contracts and provided for immediately as a provision for impending losses. Such provisions for impending losses are recognized when project margin is expected to be negative at the end of the project.

If the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of the contract costs incurred that will probably be recoverable, while the contract costs incurred are also recognised as an expense in the same period. If it is probable that the total contract costs will exceed the total contract revenues, the expected loss is recognised immediately as an expense.

As a practical expedient, Implenia does not adjust the transaction price by financing components if, when the contract starts, the period between fulfilment of the performance obligation and payment by the customer is not expected to exceed twelve months.

The following comments specify how revenue is recognised in Implenia's key revenue streams:

In General Contracting and Construction Works, the work to be supplied equates in principle to a single performance obligation. This is fulfilled when the customer accepts the work. In general, revenue is recognised over the term of the construction activities. Both cost and performance-based methods are used to determine construction progress. The cost-based method is based on the order costs incurred compared with the estimated order costs contained in the final forecast. Cost overruns and still unused material are not taken into consideration in the calculation. With performance-based methods, the performance reached is compared with the total performance owed. For example, factors such as the amount of soil extracted in cubic metres or concrete poured are used to measure performance. The method is chosen on the basis of an analysis of which method reflects construction progress more accurately. The process is applied consistently for projects of the same type.

For joint venture contracts, only the service actually performed by Implenia in the joint venture and its share of the profits of the joint venture are recognised as revenue (equity method). The results of joint ventures is determined in principle in accordance with the same criteria as for Implenia's own construction projects.

Usually several performance obligations must be fulfilled in Development. In principle, the sale of land, project development and construction work on the customer's land are separate performance obligations. The transaction price is allocated to the respective performance obligations using individual sales prices.

For the sale of land, revenue is recognised at the time it is transferred to the customer. This is usually the date on which title is transferred. The recognition of revenue for the project development depends on the structure of the contract. Usually revenue is recorded over the term in which this performance obligation is fulfilled. The actual construction work on land that has already been sold takes place in accordance with the specific explanations under "Revenue recognition in General Contracting and Construction Works".

Generally, construction does not start on condominium projects until at least 50% of the properties have been sold. Unsold apartments are accounted for within "Real estate transactions" at the cost of production. Revenue is recognised when these apartments are sold.

Besides its actual core business, Implenia also operates as a lessor. It mainly leases machinery and site equipment as well as office space which it does not use itself. Without exception, these are operating leases.

Notes to the consolidated financial statements of Implenia

6 — MATERIALS AND THIRD PARTY SERVICES

in CHF t	**2019**	2018
Material expenses	**639,405**	670,634
Third party services	**2,221,827**	2,220,140
Total	**2,861,232**	2,890,774

7 — PERSONNEL EXPENSES

in CHF t	**2019**	2018
Wages, salaries and fees	**795,437**	757,897
Social security contributions	**129,708**	126,468
Expenses for defined benefit pension plans	**25,588**	15,544
Expenses for defined contribution pension plans	**8,865**	6,802
Expenses for the foundation for flexible retirement	**11,702**	11,705
Temporary staff	**103,496**	91,242
Other personnel expenses	**41,259**	40,852
Total	**1,116,055**	1,050,510

8 — EMPLOYEE PARTICIPATION PROGRAM AND REMUNERATION

8.1 — Employee participation program

Based on the regulations on profit sharing dated 15 February 2012 and 8 September 2016, in each calendar year qualifying persons may subscribe for Implenia Ltd. shares normally in the amount of one-half of the gross monthly salary. The annual subscription right may be divided between the March and September purchase periods. For the March 2019 purchase period, the difference between the average market price of CHF 34.20 per share and the preferential price of CHF 23.95 per share was charged to the income statement and for the September 2019 purchase period, the difference between the average market price of CHF 29.40 per share and the preferential price of CHF 20.60 per share was charged to the income statement.

in CHF t		**2019**	2018
Number of shares subscribed	Number	**98,657**	26,910
Amount recognised in the income statement	in CHF t	**943**	592

The shares cannot be traded for a period of at least three years. During this time, employees are entitled to dividends and may exercise their voting rights. Upon expiry of the retention period, the shares may be freely traded by employees. The Implenia Executive Committee and the Board of Directors are excluded from the employee participation program.

Notes to the consolidated financial statements of Implenia

8.2 — Share-based compensation for the Implenia Executive Committee

Share-based compensation of the former Group Executive Board
The departing members of the former Group Executive Board received part of their compensation in a fixed number of shares in Implenia Ltd. until their departure in 2019. The amount was expensed entirely in the current financial year. The amount charged to the Group was calculated on the basis of the fair value of the shares at the time of allocation. The Group could either buy shares on the market or draw from its treasury shares. In the financial year, the shares were allocated at an average price of CHF 31.85 per share (2018: CHF 39.75 per share).

		2019	2018
Shares definitely allocated	Number	13,754	65,210
Amount recognised in the income statement	in CHF t	438	2,591

Share-based compensation of the Implenia Executive Committee
Since January 2019, the remuneration for the Implenia Executive Committee has been structured as a “Long Term Incentive Plan (LTIP)”.

The LTI plan corresponds to a fixed percentage of base salary per function level, which at the beginning of the performance period is translated into a specific number of future subscription rights in the form of Performance Share Units (PSU). The PSUs are subject to a three-year vesting period. The payout is dependant on certain target achievements set at the time of allocation (relative total shareholder return and diluted earnings per share). Depending on the level of target achievement, the PSUs will be settled in shares of Implenia Ltd. at a conversion rate of between 0% and 200%. The fair value as at the issue date amounts to CHF 21.60 per share for the LTI plan 2019. The fair value was determined by using a Monte Carlo simulation. Anticipated dividends are included in the model. Additional information on the functionality of the LTI plan is provided in the Remuneration Report.

100,570 PSUs were granted in 2019. The expenses for the LTI plan 2019 are spread over the three-year vesting period. In 2019, the expenses for the plan amounted to CHF 0.9 million and were posted as share-based remuneration with payment through equity instruments against equity.

8.3 — Share-based compensation for the Board of Directors

Members of the Board of Directors receive two-thirds of their annual remuneration in cash and one-third in shares. The average price of the shares of Implenia Ltd. in the month of December of the year of office is decisive for calculating the number of shares. The expenditure is calculated from the average price in December less a tax deduction and is expensed on an accrual basis in the current financial year. The Group may either buy shares on the market or draw from its treasury shares.

For the financial year 2019, the shares were allocated at an average price of CHF 31.50 per share (2018: CHF 31.70 per share).

		2019	2018
Entitlement and allocated shares	Number	11,088	10,156
Amount recognised in the income statement	in CHF t	349	322

Notes to the consolidated financial statements of Implenia

8.4 — Compensation paid to key persons

Members of the Board of Directors of Implenia Ltd. receive annual compensation for their activities according to their function. The Group pays social security contributions on these compensations.

The remuneration of members of the Implenia Executive Committee (previously Group Executive Board) consists of various parts: a fixed basic salary in cash, a variable performance-related salary in cash as well as share-based remuneration. The Group pays social security contributions associated therewith as well as pension fund contributions.

The following table shows the compensation paid to key persons recognised as expenditure in the reporting period since they were appointed to their current position.

in CHF t	2019	2018
Short-term benefits[1]	6,622	5,595
Pension expenses	606	471
Share-based payments – LTIP	886	–
Share-based payments[2]	349	2,913
Total Implenia Executive Committee and Board of Directors	8,463	8,979
Former members of the Group Executive Board[3]	3,028	–
Total	11,491	8,979

1 In the reporting year, CEO André Wyss has in agreement with the Board of Directors decided to forfeit a substantial part of his short term incentive.
2 In prior year, this item contains a one-off allocation of 13,777 shares worth CHF 0.7 million to the new CEO André Wyss as replacement for the rights he has lost from his former employer.
3 This position includes short-term benefits of CHF 2.4 Mio., pension expenses of CHF 0.2 Mio. and share-based payments of CHF 0.4 Mio.

Accounting policies

The payments under share-based compensation are reported as personnel expenses. Costs in relation to shares that are not distributed until the following year are recognised fully in the year in which service is rendered. Shares received as compensation and as part of the employee participation program cannot be traded for three years and are not tied to any exercise conditions. Costs are recognised fully in the year in which service is rendered even if the shares are not transferred until the following year. The expenses for the LTI plan are recognised on a straight-line basis over the three-year vesting period. Non-market conditions are remeasured at each reporting date. Adjustments from the remeasurement are recognised prospectively. Market conditions are already included in the calculation of fair value at the time they are granted and are not recalculated.

Notes to the consolidated financial statements of Implenia

9 — OTHER OPERATING EXPENSES

in CHF t	2019	2018
Rental expenses	106,365	176,483
Infrastructure expenses	33,086	29,212
Maintenance and repairs	44,748	46,175
Insurance	9,167	10,845
Administration and consultants	17,806	25,033
Office, IT and communication costs	40,796	32,775
Taxes and fees	8,519	9,945
Marketing, advertising and other administration expenses	8,470	7,873
Total	268,957	338,341

Notes

Rental expenses include:

in CHF t	2019
Rental expense for short term leasings	68,631
Rental expense for low value leasings	11,686
Expense for utilities and service costs	26,048
Total	106,365

10 — FINANCIAL EXPENSES AND INCOME

in CHF t	2019	2018
Financial expenses		
Interest expenses	10,870	9,160
Interest expenses from leases[1]	4,702	292
Bank charges	536	763
Costs of financial guarantees	872	882
Other financial expenses	2,567	1,735
Foreign currency losses	1,189	2,179
Total	20,736	15,011
Financial income		
Interest income	839	524
Income from investments	410	497
Other financial income	2	476
Foreign currency gains	285	1,242
Total	1,536	2,739
Financial result	(19,200)	(12,272)

1 Contains the additional interest expenses from IFRS 16 in the reporting period, see note 2

Notes to the consolidated financial statements of Implenia

11 — TAX

in CHF t	2019	2018
Profit before tax		
Switzerland	94,778	106,108
Abroad[1]	(50,471)	(105,445)
Total profit before tax	44,307	663
Current and deferred tax		
Switzerland	22,660	25,936
Abroad	(3,457)	1,316
Total current tax	19,203	27,252
Switzerland	491	607
Abroad	(9,307)	(27,700)
Total deferred tax	(8,816)	(27,093)
Total tax	10,387	159

1 Contains depreciation and amortisation from redetermining fair values from acquisitions

in CHF t	2019	2018
Profit before tax	44,307	663
Expected income tax rate in %	20.8	22.4
Tax at the expected income tax rate	(9,204)	(148)
Reconciliation to tax at the effective tax rate		
Effect of non-taxable items	6,381	831
Effect of non-deductible items	(708)	(301)
Effect of non-capitalised tax losses incurred in the year	(6,554)	(1,579)
Effect of changes in the applicable tax rates	1,176	428
Effect of the use of non-capitalised tax loss carryforwards	499	407
Prior years' taxes	100	(736)
Income components with different tax rates	(1,917)	491
Other effects	(160)	448
Tax at the effective income tax rate	(10,387)	(159)
Effective tax rate in %	23.4	24.0

Notes

The following elements explain in essence the differences between the expected Group tax rate and the effective tax rate.

Implenia takes account of the tax reform (TRAF) adopted by Swiss voters in 2019 in those cantons which have already enacted the changes resulting from the referendum. The positive impact from this amounts to CHF 1.2 million.

In Germany, an issue that affects profit and loss under IFRS but has no impact on profit and loss under local accounting standards had a positive impact on "Effect of non-taxable items" of CHF 6.1 million in the financial year.

The impacts of non-capitalised loss carryforwards mainly affect subsidiaries abroad for which use is not expected at present.

Accounting policies

Income taxes are recognised in the same period as the income and expenses to which they relate. Income taxes also contain property gains tax. Several Swiss cantons levy a separate tax on the sale of land and real estate from business assets that is usually deductible from the ordinary cantonal taxes on profits. The taxable gains on the sale of property are calculated in accordance with the applicable cantonal laws.

The applicable tax rate on the sale of property is dependent on the length of ownership and the amount of the taxable gain on the sale of the property. The immovable property gains tax is calculated as at the date of sale. Deferred taxes are recognised in accordance with the balance sheet liability method. Taxes not dependent on income such as capital taxes are recognised in other operating expenses.

Notes to the consolidated financial statements of Implenia

12 — TRADE RECEIVABLES

in CHF t	31.12.2019	31.12.2018
Third parties	525,533	476,602
Joint ventures (equity method)	20,161	22,632
Associates	2,128	2,122
Related parties	4	–
Allowance for expected credit losses	(9,126)	(6,368)
Total	538,700	494,988

Notes

The allowance for expected credit losses has changed as follows:

in CHF t	31.12.2019	31.12.2018
As at 1.1.	6,368	6,230
Increase	4,543	1,254
Used	(120)	(427)
Reversed	(1,430)	(486)
Foreign exchange differences	(235)	(203)
Total as at reporting date	9,126	6,368

Agreements with customers generally stipulate payment terms between 30 and 90 days. The total amount of due receivables amounted to CHF 273.8 million as at 31 December 2019 (2018: CHF 250.1 million). Of the allowance for expected credit losses, CHF 8.6 million is attributable to receivables outstanding for more than 90 days (2018: CHF 5.9 million). Credit losses related to trade receivables in the amount of CHF 0.4 million were recorded in the income statement (2018: CHF 0.5 million).

Notes to the consolidated financial statements of Implenia

in CHF t	Total 31.12.2019	Not due	Due within 1–30 days	31–60 days	61–90 days	>90 days
Third parties	525,533	262,530	66,000	16,181	24,853	155,969
Joint ventures (equity method)	20,161	9,734	3,579	2,851	614	3,383
Associates	2,128	1,728	–	–	–	400
Related parties	4	4	–	–	–	–
Sub-total	547,826	273,996	69,579	19,032	25,467	159,752
Allowance for expected credit losses	(9,126)					
Total	538,700					

in CHF t	Total 31.12.2018	Not due	Due within 1–30 days	31–60 days	61–90 days	>90 days
Third parties	476,602	241,759	64,571	10,853	18,509	140,910
Joint ventures (equity method)	22,632	7,932	4,517	1,356	2,476	6,351
Associates	2,122	1,588	98	22	–	414
Sub-total	501,356	251,279	69,186	12,231	20,985	147,675
Allowance for expected credit losses	(6,368)					
Total	494,988					

Accounting policies
Trade receivables are classified as such if they are unconditional receivables. “Unconditional” means that Implenia has a right to payment as soon as the payment period expires.

Trade receivables are recognised at the amounts invoiced less allowances for estimated shortfalls in receipts, e.g. due to rebates, refunds and discounts. They are subsequently measured at amortised cost.

For trade receivables, allowances are calculated in the amount of the expected credit losses over the term. Implenia periodically analyses the credit losses incurred in the past and also estimates expected credit losses based on economic conditions. Due to the customer structure, provisions in the statutory mortgage of contractor and significant prefinancing for construction services, no material credit losses are expected.

13 — WORK IN PROGRESS

in CHF t	31.12.2019	31.12.2018
Contract assets	377,773	339,446
Contract costs in relation to future services by suppliers and subcontractors	22,294	18,085
Work in progress, assets	400,067	357,531
Contract liabilities	(383,682)	(311,693)
Provisions for current projects	(66,190)	(45,842)
Contract costs in relation to past services by suppliers and subcontractors	(584,827)	(622,815)
Work in progress, liabilities	(1,034,699)	(980,350)

Notes

As at 31 December 2019, contracts with a positive balance from advance payment plans reported under contract liabilities amounted to CHF 383.7 million (2018: CHF 311.7 million). The majority of this balance will be depleted in the following year. Real advance payments, which are secured through guarantees, totalled CHF 216.1 million (2018: CHF 174.4 million).

Accounting policies

Contract assets include conditional claims to consideration. "Conditional" means that Implenia has supplied construction services but these have not yet been invoiced. Invoicing is often dependent on achieving milestones, contractually agreed payment plans or the work being accepted by the client. Contract liabilities mainly contain prepayments received from customers. Contract costs in relation to past services by suppliers and subcontractors include outstanding invoices for current projects.

For contract assets, allowances are calculated in the amount of the expected credit losses over the term. Regarding this, Implenia periodically analyses the credit losses incurred in the past and also estimates expected credit losses based on economic conditions. Due to the customer structure, relevant provisions in the statutory mortgage of contractor and significant prefinancing for construction services, no material credit losses are expected.

Notes to the consolidated financial statements of Implenia

14 — JOINT VENTURES

There have been the following changes to joint ventures accounted for under the equity method:

in CHF t	31.12.2019	31.12.2018
As at 1.1.	9,496	26,762
Share of results	10,165	11,701
Other changes	(67,389)	(28,264)
Foreign exchange differences	261	(703)
Total as at reporting date	(47,467)	9,496
of which net asset	27,830	39,069
of which net liability	(75,297)	(29,573)

The carrying amount of total receivables (payables) from joint ventures accounted for under the equity method amounted to:

in CHF t	31.12.2019	31.12.2018
Joint ventures, assets	27,830	39,069
Joint ventures, liabilities	(75,297)	(29,573)
Receivables from joint ventures (equity method)	20,161	22,632
Liabilities to joint ventures (equity method)	(287)	(2,737)
Total	(27,593)	29,391

Implenia's share of the balance sheets and income statements of the joint ventures is:

in CHF t	31.12.2019	31.12.2018
Total assets	303,373	288,416
Total liabilities	(350,840)	(278,920)
Net assets	(47,467)	9,496

in CHF t	2019	2018
Net revenue	290,276	287,470
Expenses	(280,111)	(275,769)
Income from joint ventures	10,165	11,701

Notes to the consolidated financial statements of Implenia

The proportionately and fully consolidated joint ventures have the following effect on the consolidated balance sheet and income statement:

in CHF t	31.12.2019	31.12.2018
Total assets	181,464	144,871
Total liabilities	(137,867)	(104,508)
Net assets	43,597	40,363

in CHF t	2019	2018
Revenue	255,082	196,311
Expenses	(243,132)	(181,188)
Operating income	11,950	15,123

Notes

Services invoiced to joint ventures (included in Implenia's revenue) are disclosed in note 28.

There are no joint ventures accounted for under the equity method that on their own are material to the consolidated financial statements. Selected joint ventures are listed in note 33.

The non-controlling interests in equity are not impacted by completed fully consolidated joint ventures (2018: CHF 0.5 million).

Selected proportionately recognised and fully consolidated joint ventures are listed in note 33.

Accounting policies

Joint ventures are established to implement short-term projects with other construction companies. Work is assumed when a joint agreement has been concluded with the contractual partners. Joint ventures are usually organised as simple partnerships; the partnership agreements govern the relationships between the members.

Joint ventures that meet the criteria for control are fully consolidated like subsidiaries. A joint venture with joint control is accounted for differently taking account of the actual rights and obligations in the respective country. Here, a distinction is made between joint operations and joint ventures. For joint operations, assets, liabilities, income and expenses are recognised in the consolidated financial statements proportionately to the share-ownership ratio. Joint operation is given if decisions about the relevant activities require the unanimous consent of all the parties, or a group of parties, that collectively control the arrangement. If the shareholders manage the joint venture jointly and, according to local legislation, only have rights to net assets, it is classified as a joint venture and recognised according to the equity method. If Implenia exercises significant influence over the joint venture, the company is also accounted for under the equity method pursuant to IAS 28 (investments in associates and joint ventures). Significant influence is presumed if Implenia directly or indirectly holds 20% or more of the voting rights in a joint venture or if Implenia is represented on the building commission or an equivalent governing body of the joint venture.

Liquidity contributions and disbursements increase or reduce the carrying amount without affecting profit or loss. The resulting asset or liability is recognised in the balance sheet. The receivables and payables of Implenia in respect of joint ventures are disclosed separately in the corresponding receivables and payables items. Income from joint ventures is reported within group revenue as the execution of customer orders qualifies as an operating activity and because profit or loss of the joint venture excludes the results of the internal service charge.

In case the joint ventures accounted for under the equity method are not already applying IFRS, their results are adjusted accordingly. If there is no current financial data available when Implenia's consolidated financial statements are prepared, the net profit and Implenia's share of the profit are based on estimates by management. Any deviations between the actual results and these estimates are corrected in the consolidated financial statements of the following year.

Notes to the consolidated financial statements of Implenia

15 — REAL ESTATE TRANSACTIONS

in CHF t	31.12.2019	31.12.2018
Acquisition costs as at 1.1.	186,916	159,767
Additions	53,170	62,821
Disposals	(48,951)	(35,672)
Acquisition costs as at reporting date	**191,135**	**186,916**
Cumulative value adjustments as at 1.1.	(1,624)	(1,712)
Additions	(25)	–
Disposals	–	88
Cumulative value adjustments as at reporting date	**(1,649)**	**(1,624)**
Net carrying amount as at reporting date	**189,486**	**185,292**

Accounting policies

The real estate reported (real estate and land) are held for sale and are measured in accordance with IAS 2 "Inventories". Completed properties not yet sold may temporarily generate rental income; however, they are still reported under this item as they are held for sale.

These properties are measured separately. Each property is measured at the lower of cost, including work by the company, or the net realisable value.

Write-downs arising from impairments determined on the basis of the above measurement principles are charged directly to the item real estate transactions. Sales proceeds from real estate transactions are reported as revenue. Changes to the portfolio and movements in write-downs on real estate transactions are recognised as expenses.

Notes to the consolidated financial statements of Implenia

16 — PROPERTY, PLANT AND EQUIPMENT

in CHF t	Business premises	Production facilities	Machinery, furniture, IT	Assets under construction	Total
31.12.2019					
Acquisition costs as at 1.1.	108,225	82,963	360,792	6,038	558,018
Additions	1,123	2,244	66,584	684	70,635
Disposals	(9,868)	(156)	(58,212)	–	(68,236)
Reclassifications	–	735	4,930	(5,665)	–
Foreign exchange differences	(156)	(1,005)	(8,051)	(80)	(9,292)
Acquisition costs as at reporting date	99,324	84,781	366,043	977	551,125
Cumulative depreciations as at 1.1.	(41,470)	(42,210)	(180,847)	–	(264,527)
Additions	(3,447)	(4,259)	(55,947)	–	(63,653)
Disposals	8,307	156	50,829	–	59,292
Foreign exchange differences	50	383	4,382	–	4,815
Cumulative depreciations as at reporting date	(36,560)	(45,930)	(181,583)	–	(264,073)
Net carrying amount as at reporting date	62,764	38,851	184,460	977	287,052
of which pledged	3,445	–	–	–	3,445

in CHF t	Business premises	Production facilities	Machinery, furniture, IT	Assets under construction	Total
31.12.2018					
Acquisition costs as at 1.1.	107,868	81,715	355,508	6,407	551,498
Additions	869	4,060	71,420	3,676	80,025
Disposals	(310)	(1,763)	(52,607)	–	(54,680)
Reclassifications	–	–	3,831	(3,831)	–
Foreign exchange differences	(202)	(1,049)	(9,163)	(214)	(10,628)
Acquisition costs as at reporting date	108,225	82,963	368,989	6,038	566,215
Cumulative depreciations as at 1.1.	(38,970)	(39,002)	(181,666)	–	(259,638)
Additions	(2,832)	(4,171)	(52,269)	–	(59,272)
Disposals	274	604	48,130	–	49,008
Foreign exchange differences	58	359	4,958	–	5,375
Cumulative depreciations as at reporting date	(41,470)	(42,210)	(180,847)	–	(264,527)
Net carrying amount as at reporting date	66,755	40,753	188,142	6,038	301,688
of which pledged	3,445	–	–	–	3,445
of which finance leases	–	–	8,197	–	8,197

Notes to the consolidated financial statements of Implenia

Notes

As a lessee, Implenia had various finance leases in the previous year:

in CHF t	Up to 1 year	2–5 years	Over 5 years	Total
Future minimum lease payment	3,614	5,345	–	8,959
Net present value of minimum lease payment	3,370	4,959	–	8,329

As a lessee, Implenia had various operating leases in the previous year:

in CHF t	Up to 1 year	2–5 years	Over 5 years	Total
Future minimum lease payment	49,022	101,295	22,300	172,617

The subsidiaries had numerous operating leases, mainly for the short-term rental of construction machinery and real estate, in the previous year.

Accounting policies

Property, plant and equipment are measured at cost and depreciated over their estimated useful life on a straight line basis, with the expense charged to the income statement:

- Business premises 25–50 years
- Production facilities 15–20 years
- Machinery and vehicles 6–15 years
- Furniture 5–10 years
- IT 3–5 years

If the economic useful life is outside the ranges detailed above, the ranges shall not apply. In particular, project-related property, plant and equipment such as tunnel boring machines may have shorter useful lives. Costs, which extend economic useful lives, are capitalised separately. The value of property, plant and equipment is reviewed when events or changes in circumstances indicate that the carrying amount may be impaired.

Accounting policies applicable to the comparative period

In case of leasing agreements, Implenia takes on the role of lessee. The treatment of leasing transactions in the consolidated financial statements is primarily dependent on whether the lease is classified as an operating lease or a finance lease. In making this assessment, management looks at both the type and the legal form of the lease and comes to a decision on whether substantially all the risks and rewards of the leased asset are transferred to the lessee. Agreements that do not take the legal form of a lease but nevertheless confer the right to use an asset are also an integral part of such assessments.

Leased property, plant and equipment for which Implenia bears substantially all the risks and rewards associated with ownership are capitalised at the lower of the fair value of the leased property or the present value of the minimum lease payments at the inception of the lease and depreciated over the shorter of the lease term or the estimated useful life.

Leases are classified as operating leases if a substantial proportion of the risks and rewards associated with ownership are retained by the lessor. They are generally depreciated on a straight line basis over the term of the lease, with the expense charged to the income statement.

The accounting policies according to IFRS 16, applicable for the financial year, are presented in note 17.

Notes to the consolidated financial statements of Implenia

17 — RIGHTS OF USE FROM LEASES

in CHF t	Business premises	Production facilities	Machinery, vehicles, furniture, IT	Total
31.12.2019				
Acquisition costs as at 1.1.	91,797	132	88,345	**180,274**
Additions	15,974	1,579	32,993	**50,546**
Disposals	(12,907)	–	(16,186)	**(29,093)**
Foreign exchange differences	(1,364)	(37)	(3,654)	**(5,055)**
Acquisition costs as at reporting date	93,500	1,674	101,498	**196,672**
Cumulative depreciations as at 1.1.	–	–	(11,006)	**(11,006)**
Additions	(19,676)	(367)	(36,301)	**(56,344)**
Disposals	1,223	–	15,054	**16,277**
Foreign exchange differences	186	7	699	**892**
Cumulative depreciations as at reporting date	(18,267)	(360)	(31,554)	**(50,181)**
Net carrying amountas at reporting date	75,233	1,314	69,944	**146,491**

Notes

Implenia has material leases for real estate, large-scale equipment, vehicles and small machinery as well as site equipment. Leases are negotiated individually in most cases. The term may vary significantly. Vehicles are usually leased for three to five years. Small machinery and site equipment often have a term of less than one year and are therefore not recognised on the balance sheet. An overview of the remaining rental expense is presented in note 9.

Where there is insufficient certainty that options will be exercised, they are not recognised in the right of use and in the lease liability. This mainly relates to business premises. Accordingly, potential future outflows of CHF 13.3 million (undiscounted) were not taken into account at the reporting date.

Amendments to existing leases resulted in a reduction in rights of use of CHF 8.9 million and liabilities from leases of CHF 8.8 million at the reporting date.

The outflow of cash and cash equivalents arising from leases totalled CHF 135.3 million in the financial year.

Information on liabilities arising from leases is presented in note 21.

Accounting policies

Under IFRS 16, all assets and liabilities arising from leases must be recognised in the balance sheet unless the lease term is not more than twelve months or the asset is of minor value.

Extension and cancellation options with respect to the lease period are taken into account if the exercise or non-exercise of such options is assessed as reasonably certain. The further in the future the assessment date for these options lies, the more uncertain their exercise will be. For most agreements, an assessment was made that an exercise of the options after five years can no longer be considered reasonably certain. Due to the counterparty's right of termination, the term of certain agreements is limited to the enforceable lease period.

Rights of use are valued for the first time at the value of the lease liability, adjusted for any advance payments, initial direct costs and restoration costs.

Rights of use are depreciated on a straight line basis over the lease term, or, if shorter, over their useful life. If it is reasonably certain that a purchase option will be exercised, the useful life remaining after the lease will be added to the depreciation period.

Leases may include other costs in addition to the actual lease payments, such as insurance premiums or maintenance costs. Costs of this kind are deducted from the lease amount and posted separately in the income statement.

Lease payments for short term and low value leases are recognised on a straight line basis over the term of the lease and posted in the income statement. Low value leases mostly comprise office machinery, IT equipment, small machinery and site equipment.

Notes to the consolidated financial statements of Implenia

18 — INVESTMENT PROPERTY

in CHF t	31.12.2019	31.12.2018
Acquisition costs as at 1.1.	25,590	26,169
Additions	363	79
Disposals	(294)	–
Foreign exchange differences	(596)	(658)
Acquisition costs as at reporting date	25,063	25,590
Cumulative depreciations as at 1.1.	(11,209)	(11,155)
Additions	(371)	(381)
Disposals	–	–
Foreign exchange differences	302	327
Cumulative depreciations as at reporting date	(11,278)	(11,209)
Net carrying amount as at reporting date	13,785	14,381

Notes

The item “investment property” includes real estate and agricultural land. Investment property is measured in accordance with the cost model and assigned to fair value level 3. The fair value of investment property is determined in accordance with the discounted cash flow method. The most probable incoming and outgoing payments for rent are discounted using a risk-adjusted interest rate that also takes into account the highest and best use of the real estate. The current valuations show that the fair value of investment property differs only marginally from the carrying amount.

Accounting policies

Land and property held for the purposes of generating rental income or whose intended use has not yet been defined are recognised separately as investment property in accordance with IAS 40. All land is classified as investment property if no intention to develop or sell the land has been indicated. Recognition and measurement are carried out in accordance with the cost model (IAS 16). Investment property is recognised at cost and depreciated on a straight line basis (in the case of real estate) over 25–50 years. If the present value of future net cash inflows is lower than the carrying amount, the asset is written down to the lower recoverable value in accordance with IAS 36. The fair value of this real estate is shown separately, and is determined in accordance with recognised methods, for example, by using the current market price of comparable real estate as a basis or by applying the discounted cash flow method.

Notes to the consolidated financial statements of Implenia

19 — INVESTMENTS IN ASSOCIATES

in CHF t	31.12.2019	31.12.2018
As at 1.1.	53,061	51,294
Additions	5,691	2,096
Disposals	(4,528)	(519)
Share of results	2,246	4,475
Dividends received	(3,832)	(4,260)
Foreign exchange differences	(14)	(25)
Total as at reporting date	52,624	53,061

Notes

There are no investments in associates that on their own are material to the consolidated financial statements. Selected associates are listed in note 32.

Accounting policies

Associates are companies over which the Group exercises significant influence but does not have control. As a rule, these are companies in which Implenia holds a stake of between 20 and 50%. These companies are accounted for under the equity method and are reported separately in the consolidated balance sheet. If associates are not already applying IFRS, their results are adjusted accordingly. If there is no current financial data available when Implenia's consolidated financial statements are prepared, the net profit and Implenia's share of the profit are based on estimates by management or on figures from previous periods respectively. Any deviations between the actual results and these estimates are corrected in the consolidated financial statements of the following year. Income from associates is reported in a separate financial statement line item within operating income as the execution of customer orders qualifies as an operating activity.

Notes to the consolidated financial statements of Implenia

20 — INTANGIBLE ASSETS

in CHF t	Licences and software	Brands	Customer relationships and order book	Goodwill	Total
31.12.2019					
Acquisition costs as at 1.1.	24,727	3,062	15,798	303,412	346,999
Additions	7,499	–	–	–	7,499
Disposals	(4,496)	(3,049)	–	–	(7,545)
Foreign exchange differences	(231)	(13)	(134)	(8,259)	(8,637)
Acquisition costs as at reporting date	27,499	–	15,664	295,153	338,316
Cumulative amortisations as at 1.1.	(21,054)	(2,344)	(15,556)	–	(38,954)
Additions	(2,058)	(710)	(96)	–	(2,864)
Disposals	4,496	3,049	–	–	7,545
Foreign exchange differences	197	5	128	–	330
Cumulative amortisations as at reporting date	(18,419)	–	(15,524)	–	(33,943)
Net carrying amount as at reporting date	9,080	–	140	295,153	304,373
of which with indefinite useful life	–	–	–	295,153	295,153

in CHF t	Licences and software	Brands	Customer relationships and order book	Goodwill	Total
31.12.2018					
Acquisition costs as at 1.1.	22,470	3,109	98,288	312,786	436,653
Additions	2,579	–	–	–	2,579
Disposals	–	–	(81,222)	–	(81,222)
Foreign exchange differences	(322)	(47)	(1,268)	(9,374)	(11,011)
Acquisition costs as at reporting date	24,727	3,062	15,798	303,412	346,999
Cumulative amortisations as at 1.1.	(19,920)	(2,237)	(82,182)	–	(104,339)
Additions	(1,373)	(124)	(15,640)	–	(17,137)
Disposals	–	–	81,222	–	81,222
Foreign exchange differences	239	17	1,044	–	1,300
Cumulative amortisations as at reporting date	(21,054)	(2,344)	(15,556)	–	(38,954)
Net carrying amount as at reporting date	3,673	718	242	303,412	308,045
of which with indefinite useful life	–	–	–	303,412	303,412

Notes to the consolidated financial statements of Implenia

Notes

Goodwill is allocated to the Group's relevant groups of cash generating units (CGUs), which correspond to the business segments.

The recoverable amount of a group of CGUs is determined by calculating its value in use by means of the discounted cash flow method. These calculations are based on the budget for the following year and the projected cash flows derived from the business plan for the two subsequent planning years approved by management. Subsequent years' cash flows are estimated based on the growth rates shown below.

As part of the strategic reorganisation in 2019, goodwill was reallocated as at 1 January 2019. The allocation was basically performed as a one-to-one relationship. Goodwill in the Division Specialties was allocated primarily on the basis of a relative value approach. At the time of reallocation, goodwill was tested for impairments and assessed as recoverable. Goodwill was allocated as follows:

	Current divisions			
Previous segments	Buildings	Civil Engineering	Specialties	Total
in CHF t				
Switzerland	41,360	6,561	2,413	50,334
Infrastructure	–	53,141	–	53,141
International	105,603	60,944	33,390	199,937
Total	146,963	120,646	35,803	303,412

Goodwill is distributed between the groups of CGUs as follows:

in CHF t	31.12.2019	Change	1.1.2019
Buildings	143,215	(3,748)	146,963
Civil Engineering	117,320	(3,326)	120,646
Specialties	34,618	(1,185)	35,803
Total	295,153	(8,259)	303,412

The change in goodwill is attributable to foreign exchange differences.

Notes to the consolidated financial statements of Implenia

Assumptions for the calculation of value in use:

in %	Buildings	Civil Engineering	Specialties
31.12.2019			
Average EBITDA margin in the planning years (excl. IFRS 16)	1.9	3.6	10.4
Discount rate, pre-tax	8.3	9.0	9.5
Post-business plan growth rate	1.2	1.9	1.4

in %	Switzerland	Infrastructure	International
31.12.2018			
Average EBITDA margin in the planning years	3.3	4.5	3.9
Discount rate, pre-tax	8.9	9.9	10.2
Post-business plan growth rate	1.0	2.0	2.0

Management has defined the EBITDA margins for the planning years based on historical trends and expectations of future market development. Discount rates applied are pre-tax and reflect the specific risks faced by the CGUs concerned. The weighted average growth rates are in line with those for the respective construction industry in the respective geographical area taking account of Implenia's plans for expansion.

In addition, the goodwill items were verified by sensitivity analysis. The carrying amounts of the goodwill items are also covered in case of lower growth, a higher discount rate as well as a reduced EBITDA by 25% for post business plan period.

The impairment tests for goodwill did not lead to any need for impairment as in previous year.

Accounting policies

Business combinations are accounted for using the purchase method.

Goodwill is the excess of the costs of acquisition over the Group's interest in the market value of the net assets acquired. The non-controlling interests are recognised in proportion to their share of the fair value of the net assets acquired. Goodwill is not amortised, but is tested for impairment at each balance sheet date.

When testing goodwill for impairment, the realisable value is computed on the basis of the CGU to which the goodwill is allocated. Realisable value is the value in use. If the carrying amount exceeds the realisable value, the difference is recorded as an impairment. The estimates of future discounted cash flows, the corresponding discount rates and the growth rates are largely based on management estimates and assumptions. The actual cash flows and values generated may deviate significantly from the expected future cash flows and the related amounts determined using discounting methodology.

Additions of licences, software and IT development costs are recognised at cost. All identifiable intangible assets, such as brands, order book and customer relationships, acquired in the course of a business combination are initially recognised at fair value. Intangible assets are amortised in equal instalments over their economic life from the initial date on which the Group can use them. Order book is amortised in line with progress on the acquired contracts. The estimated economic life of intangible assets is regularly reviewed.

Other intangible assets are measured at cost and amortised over their estimated useful life, with the expense charged to the income statement:

- Customer relationships 10–15 years
- Brands 5–12 years
- Licences and software 3–5 years
- Order book 2–5 years

Notes to the consolidated financial statements of Implenia

21 — CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

in CHF t	31.12.2019	31.12.2018
Bond issues	250,270	250,311
Subordinated convertible bond	168,013	165,321
Promissory note loans	65,002	67,359
Liabilities to banks	7,380	24,702
Lease liabilities[1]	147,936	8,329
Other financial liabilities	1,152	–
Total as at reporting date	639,753	516,022
Maturity		
Less than 1 year	48,247	21,739
Between 2 and 5 years	416,970	210,299
Over 5 years	174,536	283,984
Total as at reporting date	639,753	516,022

1 Contains lease obligations from the first application of IFRS 16 in the reporting year, see note 2

Bonds and promissory note loans comprise the following:

in CHF t	Term	Effective interest rate	31.12.2019	31.12.2018
Bond issues / ISIN				
1.625% Bond issue CHF 125 million / CH025 359 2767	2014–2024	1.624%	125,000	125,000
1.000% Bond issue CHF 125 million / CH031 699 4661	2016–2026	0.964%	125,270	125,311
0.500% Subordinated convertible bond CHF 175 million / CH028 550 9359	2015–2022	2.158%	168,013	165,321
Total as at reporting date			418,283	415,632
Promissory note loans				
Promissory note loan EUR 10 million	2017–2021	0.927%	10,842	11,232
Promissory note loan EUR 20 million	2017–2023	1.349%	21,669	22,454
Promissory note loan EUR 30 million	2017–2025	1.792%	32,491	33,673
Total as at reporting date			65,002	67,359

Notes to the consolidated financial statements of Implenia

There have been the following changes to financial liabilities:

		Affecting liquidity		Not affecting liquidity			
in CHF t	1.1.2019	Increase	Repayments	Foreign Exchange Differences	Unwinding of discount	Change in Leasing	**31.12.2019**
Bond issues	415,632	–	–	–	2,651	–	**418,283**
Promissory note loans	67,359	–	–	(2,390)	33	–	**65,002**
Liabilities to banks	24,702	459	(17,317)	(464)	–	–	**7,380**
Lease liabilities[1]	161,148	–	(54,984)	(4,187)	–	45,959	**147,936**
Other financial liabilities	–	1,152	–	–	–	–	**1,152**
Total	668,841	1,611	(72,301)	(7,041)	2,685	45,959	**639,753**

1 Contains lease obligations from the first application of IFRS 16 from 1 January 2019, see note 2

		Affecting liquidity		Not affecting liquidity			
in CHF t	1.1.2018	Increase	Repayments	Foreign Exchange Differences	Unwinding of discount	Change in Leasing	**31.12.2018**
Bond issues	413,038	–	–	–	2,594	–	**415,632**
Promissory note loans	70,001	–	–	(2,678)	36	–	**67,359**
Liabilities to banks	7,134	19,565	(1,286)	(711)	–	–	**24,702**
Lease liabilities	6,757	–	(3,100)	(388)	–	5,060	**8,329**
Total	496,930	19,565	(4,386)	(3,777)	2,630	5,060	**516,022**

Notes to the consolidated financial statements of Implenia

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The convertible bond includes a conversion premium of 32.5% and a conversion price of CHF 75.06.

The promissory note loans were designated as net investment hedges in foreign businesses.

Under a syndicated loan agreement signed on 29 June 2018, Implenia has a cash credit line of CHF 250 million (2018: CHF 250 million) and a guarantee limit of CHF 550 million (2018: CHF 550 million). The syndicated financing runs until 31 December 2023 and includes two options for extensions until 31 December 2025 at the latest.

Implenia also has bilateral loan agreements with various banks for the amount of CHF 100 million (2018: CHF 116 million).

Accounting policies

Financial liabilities are initially recognised at fair value and subsequently at amortised cost. Any difference between the net proceeds received and the net amount repayable at maturity is amortised over the term of the instrument and charged to financial income or expense.

Transaction costs paid to capital providers (generally banks) are amortised over the term of the underlying financial instrument using the amortised cost method.

Liabilities arising from leases are measured for the first time at the present value of the minimum lease payments. The implicit interest rates in the leases are used to discount the lease payments. If the interest rates cannot be determined, company-specific interest rates are used, which would be used when raising a loan to purchase the leased item. Calculation thereof depends on the currency and term of the lease. In determining the lease term, extension, cancellation and purchase options are also taken into account if it is reasonably certain that they will be exercised. For purchase options where it is reasonably certain that they will be exercised, the exercise price of the option is added to the lease liability. Liabilities arising from leases are subsequently measured at amortised cost.

22 — CURRENT AND NON-CURRENT PROVISIONS

in CHF t	Service guarantees	Litigation	Restoration, remediation	Others	Total
31.12.2019					
As at 1.1.	4,079	23,886	8,484	19,600	56,049
Increase	434	13,125	–	1,913	15,472
Used	(37)	(7,671)	(2,363)	(8,152)	(18,223)
Reversed	(6)	(1,720)	(17)	(330)	(2,073)
Foreign exchange differences	(16)	(780)	–	(281)	(1,077)
Total as at reporting date	4,454	26,840	6,104	12,750	50,148
of which current	326	11,309	–	5,668	17,303
31.12.2018					
As at 1.1.	6,446	21,975	19,610	17,080	65,111
Increase	665	5,107	–	6,938	12,710
Used	(2,983)	(1,663)	(6,133)	(3,605)	(14,384)
Reversed	–	(738)	(4,993)	(451)	(6,182)
Foreign exchange differences	(49)	(795)	–	(362)	(1,206)
Total as at reporting date	4,079	23,886	8,484	19,600	56,049
of which current	–	8,423	375	6,874	15,672

Notes

Provisions for service guarantees concern completed projects. Related costs tend to be payable within two to five years.

Provisions for litigation mainly relate to pending judicial rulings from completed projects.

The provisions for restoration and the rehabilitation of contaminated sites primarily relate to future real estate restoration costs.

Other provisions primarily relate to contractual risks and personnel-related provisions.

In the financial year, provisions for litigation were recognised in the amount of CHF 6.9 million in connection with projects taken over as part of the acquisition of Bilfinger Hochbau in 2017. The total anticipated outflows were compensated by the vendor on the basis of a contractual agreement. Furthermore, a legally binding settlement affecting a project run by the Buildings Division in Germany also led to provisions of CHF 9.1 million being utilised. Of this figure, CHF 5.6 million related to "Litigation" and CHF 3.5 million to "Others" (onerous contract)".

Provisions of CHF 11.1 million in connection with the former Sulzer site (Lokstadt) were reduced in the previous year. As a result of selling sites and spending less on decontamination, CHF 5.0 million of this was reversed, CHF 6.1 million was used for the purpose.

Accounting policies

Provisions are recognised if a legal or constructive obligation exists that makes it probable that an outflow of resources will be required to settle this obligation and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, Implenia determines the probability that an outflow will be required by considering the class of obligations as a whole.

Possible obligations whose occurrence cannot be assessed on the balance sheet date or obligations whose amount cannot be reliably estimated are disclosed as contingent liabilities.

Where the effect of the time value of money is material, the present value of the expected expenditure is recognised.

Notes to the consolidated financial statements of Implenia

23 — DEFINED BENEFIT PENSION PLAN

Swiss pension system

In Switzerland, the company insures its employees against the financial consequences of old age, disability and death with the independent Implenia Pension Fund. It also manages a Welfare Fund (employer-funded foundation). The board of trustees of the Implenia Pension Fund consists of an equal number of employer and employee representatives. Under IAS 19, the Pension Fund is classified as a defined benefit pension plan. The employer and employee contributions are defined as a percentage of the pensionable salary. The retirement pension is derived from the accrued retirement assets at the time of retirement, multiplied by the conversion rates applicable on the retirement date. Employees can also withdraw their retirement benefits as a one-off lump sum. Disability and surviving spouse's pensions are defined as a percentage of the projected retirement pension from the Implenia Pension Fund. The assets are managed by the Implenia Pension Fund itself.

The Implenia Pension Fund can change its financing system (contributions and future benefits). If the Pension Fund is underfunded and other measures do not achieve the desired purpose, the foundation can levy restructuring contributions from the employer.

The Implenia Pension Fund bears its own actuarial and investment risks. The board of trustees as the Pension Fund's governing body is responsible for the investment of the assets. The investment strategy has been defined to ensure that all benefits can be paid when they fall due.

The board of trustees implemented a package of measures designed to stabilise and optimise the Implenia Pension Fund long term in previous years. The measures were associated with demographic change and the low level of interest rates. The package of measures contain a gradual reduction in the conversion rate from 5.65% to 4.75%. The pension liability includes the last of three conversion rate reductions from 5.1% to 4.75% resolved by the board of trustees on 8 March 2018.

German pension system

As a rule, as part of their pension plans, employees of the subsidiaries in Germany are entitled to payment of an annual contribution, which depends on their wage or salary group or individual contractual arrangements, to an individual pension account based on the company agreement applicable in each case. Interest is paid on the employee's respective credit balance each year depending on the return achieved on the plan assets. The company guarantees minimum interest of 2% per year in any case.

Depending on the amount of benefits to which the employee is entitled, benefits are paid as a single payment, as an annual instalment over a limited period or as a lifelong pension. Payment can occur as soon as the employee reaches his 60th or 62nd birthday (for employees who joined in 2012 or subsequently) and his employment relationship with the company ends. It may not be paid before this date. Employees' rights are partly secured against insolvency via a Contractual Trust Arrangement.

Notes to the consolidated financial statements of Implenia

in CHF t	Defined benefit obligations	Market value of plan assets	Adjustment to asset ceiling	Pension asset / (Pension liabilities)
As at 1.1.2019	(1,290,998)	1,453,890	(177,863)	**(14,971)**
Current service cost	(25,061)	–	–	**(25,061)**
Past service (cost) / gain	316	–	–	**316**
(Interest expense) / Interest income	(14,431)	16,161	(1,956)	**(226)**
Administration cost (excl. cost for managing plan assets)	(617)	–	–	**(617)**
Expenses recognised in the income statement	(39,793)	16,161	(1,956)	**(25,588)**
Return on plan assets (excl. interest income)		115,275	–	**115,275**
Gain / (loss) araising from changes in financial assumptions	(76,120)	–	–	**(76,120)**
Gain / (loss) araising from changes in demographical assumptions	32,559	–	–	**32,559**
Gain / (loss) araising from experience adjustments	38,931	–	–	**38,931**
Change in effect of asset ceiling	–	–	(124,808)	**(124,808)**
Income / (expenses) recognised in other comprehensive income	(4,630)	115,275	(124,808)	**(14,163)**
Employer contributions	–	35,246	–	**35,246**
Employee contributions	(30,704)	30,704	–	**–**
Benefits deposited / (paid)	88,857	(87,124)	–	**1,733**
Foreign exchange differences	2,133	(1,404)	–	**729**
Contributions and other effects	60,286	(22,578)	–	**37,708**
As at 31.12.2019	(1,275,135)	1,562,748	(304,627)	**(17,014)**

in CHF t	Defined benefit obligations	Market value of plan assets	Adjustment to asset ceiling	Pension asset / (Pension liabilities)
As at 1.1.2018	(1,340,860)	1,445,479	(117,954)	**(13,335)**
Current service cost	(26,691)	–	–	**(26,691)**
Past service (cost) / gain	12,009	–	–	**12,009**
(Interest expense) / Interest income	(12,683)	13,525	(1,062)	**(220)**
Administration cost (excl. cost for managing plan assets)	(642)	–	–	**(642)**
Expenses recognised in the income statement	(28,007)	13,525	(1,062)	**(15,544)**
Return on plan assets (excl. interest income)	–	(30,157)	–	**(30,157)**
Gain / (loss) araising from changes in financial assumptions	12,086	–	–	**12,086**
Gain / (loss) araising from changes in demographical assumptions	–	–	–	**–**
Gain / (loss) araising from experience adjustments	54,622	–	–	**54,622**
Change in effect of asset ceiling	–	–	(58,847)	**(58,847)**
Income / (expenses) recognised in other comprehensive income	66,708	(30,157)	(58,847)	**(22,296)**
Employer contributions	–	33,716	–	**33,716**
Employee contributions	(30,639)	30,639	–	**–**
Benefits deposited / (paid)	39,574	(37,840)	–	**1,734**
Foreign exchange differences	2,226	(1,472)	–	**754**
Contributions and other effects	11,161	25,043	–	**36,204**
As at 31.12.2018	(1,290,998)	1,453,890	(177,863)	**(14,971)**

Notes to the consolidated financial statements of Implenia

Notes

Plan assets comprise the following:

	31.12.2019		31.12.2018	
	in CHF t	%	in CHF t	%
Quoted				
Cash and cash equivalents	61,987	4.0	54,173	3.7
Debt instruments	702,226	44.9	582,460	40.1
Investment funds	412,621	26.4	442,831	30.5
Other	39,492	2.5	29,629	2.0
Unquoted				
Cash and cash equivalents	1,731	0.1	1,406	0.1
Debt instruments	137	0.0	6,298	0.4
Real estate	335,686	21.5	327,221	22.5
Other	8,868	0.6	9,872	0.7
Total	1,562,748	100.0	1,453,890	100.0
of which debt instruments of Implenia Ltd.	–	0.0	4,984	0.3
of which real estate used by Implenia	38,930	2.5	36,867	2.5

The pension commitment was calculated on the basis of the following actuarial assumptions:

	Switzerland		Germany	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Discount rate	0.40%	1.10%	0.85%	1.90%
Expected salary increase	1.25%	1.25%	0,00%	2.75%
Future pension increase	0,00%	0,00%	1.50%	1.50%
Mortality table	BVG 2015-CMI	BVG 2015-GT	Heubeck 2018	Heubeck 2018

The following sensitivity analyses were prepared for the key assumptions underlying the defined benefit obligations calculations. The discount factor and assumption regarding the expected salary increase were increased/reduced by fixed percentage points. The mortality sensitivity was calculated by reducing/increasing mortality by an all-in factor, so that life expectancy was increased/reduced by around one year for most age brackets.

The following table shows the effects of an increase or a reduction in the respective input parameter on the amount of the defined benefit obligation.

	Increase		Reduction	
in CHF t	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Discount rate (0.25% adjustment)	(36,499)	(36,619)	38,587	38,953
Salary progression (0.25% adjustment)	3,525	3,503	(4,392)	(3,644)
Life expectancy (1 year adjustment)	34,725	33,998	(35,385)	(34,918)

Notes to the consolidated financial statements of Implenia

The actual gain on plan assets for the 2019 financial year was CHF 131.4 million (2018: loss of CHF –16.6 million). The employer contributions in 2020 are estimated at CHF 36.2 million (2018: CHF 35.3 million). The weighted average duration of the obligation is 11.8 years (2018: 11.9 years).

Swiss pension legislation forbids repayment of funds transferred to pension funds to the company. However, the company may benefit economically from any surplus by the reduction in future contributions. An economic benefit of this kind equates to the present value of the amount by which the future service cost exceeds the employer's anticipated contributions but at least to the employer contribution reserves paid in.

The asset ceiling disclosed relates to the Swiss pension fund and the economic benefit as at 31 December 2019 is limited to the amount of the employer contribution reserves paid in of CHF 5.7 million (2018: CHF 5.7 million). The increase in the asset ceiling is mainly associated with the positive return on the plan assets.

Implenia's industrial staff covered by the collective employment agreement may voluntarily take early retirement from the age of 60. Bridging benefits are paid between the date of early retirement and normal retirement age by the Foundation for Flexible Retirement in the Construction Industry (FAR), which was established especially for this purpose. FAR, which was created by the SIB and SYNA trade unions and also the Société Suisse des Entrepreneurs, is funded by contributions from employers and employees. FAR benefits are funded through a pay-as-you-go system, so do not qualify for treatment as a defined benefit plan under IAS 19. Consequently, FAR is treated as a multi-employer defined contribution scheme. FAR prepares its accounts in accordance with Swiss pension legislation. On this basis, as at 31 December 2018 FAR had a funding ratio of 84.0% (31 December 2017: 93.8%). In 2019, Implenia paid FAR contributions of CHF 11.7 million (2018: CHF 11.7 million).

Accounting policies

Pension arrangements are shown as defined contribution plans if the Group pays fixed contributions to a separate fund or external financial institution and has no legal or constructive obligations to make any further contributions. In the case of defined contribution pension plans, the employer contributions are recognised directly in profit and loss on an accrual basis. All other pension arrangements are treated as defined benefit plans, even if the Group's potential obligations are small or the probability of occurrence is low. Consequently, most pension arrangements in Switzerland and in Germany are classified as defined benefit plans, since there are corresponding legal or constructive obligations.

Pension liabilities under defined benefit plans are calculated annually by independent actuaries using the projected unit credit method. They correspond to the present value of future expected payments arising from current and past periods of service. The plan assets are measured at fair value. The resulting net amounts are recognised in the balance sheet as pension assets or pension liabilities. The total pension cost comprises the service cost, net interest income and the remeasurement of pension liabilities. The service cost and net interest income form part of the personnel expenses.

24 — DEFERRED TAX ASSETS AND LIABILITIES

in CHF t	Receivables and work in progress	Raw materials and supplies and real estate transactions	Property, plant and equipment	Intangible assets	Pension	Provisions	Other items	Tax loss carryforwards	Total
31.12.2019									
Deferred tax assets as at 1.1.	–	–	–	–	272	–	–	25,909	26,181
Deferred tax liabilities as at 1.1.	(45,503)	(5,009)	(6,172)	(2,537)	5,273	(13,567)	(11,367)	29,573	(49,309)
Net deferred tax as at 1.1.	(45,503)	(5,009)	(6,172)	(2,537)	5,545	(13,567)	(11,367)	55,482	(23,128)
Credited / (debited) to the income statement	(1,270)	1,367	485	3,198	(4,613)	(1,047)	1,308	9,388	8,816
Credited / (debited) directly to other comprehensive income	–	–	–	–	3,413	–	19	–	3,432
Foreign exchange differences	1,448	(5)	37	11	(186)	(35)	52	(2,160)	(838)
Net deferred tax as at reporting date	(45,325)	(3,647)	(5,650)	672	4,159	(14,649)	(9,988)	62,710	(11,718)
Deferred tax assets as at reporting date	–	–	–	–	263	–	–	36,725	36,988
Deferred tax liabilities as at reporting date	(45,325)	(3,647)	(5,650)	672	3,896	(14,649)	(9,988)	25,985	(48,706)
31.12.2018									
Deferred tax assets as at 1.1.	–	–	–	–	283	–	–	2,980	3,263
Deferred tax liabilities as at 1.1.	(34,846)	(5,824)	(6,683)	(6,897)	5,340	(13,102)	(18,138)	22,426	(57,724)
Net deferred tax as at 1.1.	(34,846)	(5,824)	(6,683)	(6,897)	5,623	(13,102)	(18,138)	25,406	(54,461)
Credited / (debited) to the income statement	(12,018)	824	489	4,269	(4,928)	(367)	6,613	32,211	27,093
Credited / (debited) directly to other comprehensive income	–	–	–	–	5,077	–	43	–	5,120
Foreign exchange differences	1,361	(9)	22	91	(227)	(98)	115	(2,135)	(880)
Net deferred tax as at reporting date	(45,503)	(5,009)	(6,172)	(2,537)	5,545	(13,567)	(11,367)	55,482	(23,128)
Deferred tax assets as at reporting date	–	–	–	–	272	–	–	25,909	26,181
Deferred tax liabilities as at reporting date	(45,503)	(5,009)	(6,172)	(2,537)	5,273	(13,567)	(11,367)	29,573	(49,309)

Notes to the consolidated financial statements of Implenia

Notes

Temporary differences for which no deferred taxes have been recognised:

in CHF t	31.12.2019	31.12.2018
Investments	107,951	149,789
Goodwill	295,153	303,412

Unused tax loss carryforwards by maturity:

in CHF t	Not capitalised	Capitalised	Total 31.12.2019	Not capitalised	Capitalised	Total 31.12.2018
Usable indefinitely	148,245	249,533	397,778	127,447	207,980	335,427
Total	148,245	249,533	397,778	127,447	207,980	335,427

In the reporting period, tax loss carryforwards were essentially capitalised in the amount of taxable temporary differences available at company level. As in the prior year, tax loss carryforwards from companies where it is likely that they can be offset against future taxable profits and where there is no time limit to utilisation of tax loss carryforwards were capitalised in the reporting period. In the reporting year, tax loss carryforwards from companies with negative results in Germany, Norway and Sweden were capitalised.

The remaining non-capitalised tax loss carryforwards mainly affect subsidiaries abroad for which use is not expected at present.

Accounting policies

Tax loss carryforwards are capitalised if the company in question contains taxable temporary differences of at least the same extent or if, according to planning figures, it is likely to earn taxable profits in future.

Deferred tax assets and liabilities are netted if these items relate to the same legal entity and are levied by the same tax authority.

25 — EQUITY

The 2019 Annual General Meeting approved a distribution of ordinary dividends of CHF 0.50 per share, resulting in a total payment of CHF 9.2 million.

In the course of 2019, at total of 484,657 shares with a carrying amount of CHF 20.4 million (2018: 160,651 shares with a carrying amount of CHF 10.7 million) were sold or used for employee participation programmes and for the remuneration of the Board of Directors and the former Group Executive Board. This figure includes a sale of 330,000 shares at a value of CHF 12.8 million to an investor. The loss resulting from these transactions of CHF 2.6 million (2018: loss of CHF 1.5 million) is recognised in the capital reserve without affecting profit or loss.

No. of shares	31.12.2017	Changes 2018	31.12.2018	Changes 2019	31.12.2019
Total shares of Implenia Ltd.	18,472,000	–	18,472,000	–	18,472,000
Unreserved treasury shares	210,223	(143,169)	67,054	(53,203)	13,851
Total shares outstanding	18,261,777	143,169	18,404,946	53,203	18,458,149

All shares are subscribed and fully paid up. As at 31 December 2019 all shares with the exception of 13,851 treasury shares (2018: 67,054 treasury shares) have voting rights and qualify for dividends.

Notes to the consolidated financial statements of Implenia

Par value of shares

in CHF t	31.12.2017	Changes 2018	31.12.2018	Changes 2019	31.12.2019
Share capital	18,841	–	18,841	–	18,841
Treasury shares	(214)	146	(68)	54	(14)
Total share capital outstanding	18,627	146	18,773	54	18,827

The par value of a share is unchanged at CHF 1.02.

Accounting policies

Equity represents the nominal value of the issued shares of Implenia Ltd.

Treasury shares represent shares of Implenia Ltd. that have been reacquired on the market. They are deducted from equity.

Equity comprises additional items, which are reflected in the statement of changes in equity.

The foreign exchange differences include exchange differences relating to net assets and to non-current intra-Group financing transactions in connection with net investments in foreign businesses. Exchange differences relating to financial liabilities are also recorded here, if they were raised in foreign currency and are designated as a net investment hedge in a foreign business. If these companies should cease to fall within the scope of consolidation, the corresponding share of the foreign exchange differences will be recycled through the income statement.

The cash flow hedge reserves contain unrealised gains and losses from derivative financial instruments which fulfil the criteria for hedge accounting. They are reclassified to the income statement as soon as the underlying transaction is recognised in profit and loss.

Retained earnings represent the accumulated profits of the Group, most of which are freely available.

Non-controlling interests represent the interests held by third-party shareholders in the equity of subsidiaries as well as the partner shares of fully consolidated joint ventures.

Dividends and par value repayments are reported in the consolidated financial statements in the periods in which they were agreed by the General Meeting of Shareholders.

26 — EARNINGS PER SHARE

in CHF t	2019	2018
Data for calculating earnings per share:		
Consolidated profit attributable to shareholders of Implenia Ltd.	29,651	(5,059)
Adjustment to effect on result due to convertible bond	2,854	2,808
Consolidated profit attributable to shareholders of Implenia Ltd. after adjustment	32,505	(2,251)
Weighted average number of shares outstanding	18,426,367	18,312,027
Adjustment due to diluting effect of convertible bond	2,331,469	2,331,469
Weighted average for calculating diluted earnings per share	20,757,836	20,643,496
Basic earnings per share in CHF	1.61	(0.28)
Diluted earnings per share in CHF	1.57	(0.28)

Notes

There has been no conversion since the issue of the convertible bond.

Dilution resulted from the convertible bond in the financial year (2018: no dilution).

Accounting policies

Basic earnings per share (EPS) are calculated by dividing the net income attributable to shareholders of Implenia Ltd. by the weighted average number of shares outstanding during the period. The average number of treasury shares held and acquired by the Group is deducted from the number of shares outstanding.

Diluted earnings per share (EPS) are calculated by adjusting the consolidated profit attributable to shareholders of Implenia Ltd. to take account of the effect of the convertible bond after taxes. This figure is divided by the weighted number of outstanding shares plus the weighted average of all dilutive potential shares that would be converted into shares in case of exercising all conversion rights.

Notes to the consolidated financial statements of Implenia

27 — CONTINGENT LIABILITIES

in CHF m	31.12.2019	31.12.2018
As at 1.1.	213.3	207.3
Change	(3.5)	6.0
Total as at reporting date	209.8	213.3

Notes

Implenia's contingent liabilities primarily relate to outstanding guarantees (tender guarantees, warranties and performance bonds) for projects in joint ventures, parent guarantees for ongoing projects for own account and for tax disputes/ litigation.

Contractual investment obligations

in CHF m	31.12.2019	31.12.2018
Real estate transactions	103.2	69.7
Total	103.2	69.7

The Swiss Competition Commission has completed the investigations in the regional market for road construction and civil engineering in the canton of Grisons against Implenia and many other construction companies (see media releases in November 2012). Implenia had cooperated with the Competition Commission in these investigations, which is the reason Implenia was not fined in this regard.

Government representatives contacted Implenia Baugesellschaft m.b.H. in Vienna on 9 May 2017 in connection with an ongoing investigation in Austria being conducted by the public prosecutor against some 20 civil works companies and over 200 people. This concerned two projects dating from the time of Bilfinger Baugesellschaft m.b.H., which was integrated in the Implenia Group in 2015 (see media release of 11 May 2017). Implenia is cooperating with the authorities in Vienna and has promised its full support to the ongoing investigations. Management felt that it was impossible to make a reliable estimate of the outcome or amount of any penalties during the closing. Therefore, no provisions were made.

28 — RELATED PARTY DISCLOSURES

The following transactions took place between the Group and associates / joint ventures accounted for under the equity method / pension funds and other related parties:

in CHF t	2019	2018
Sales to related parties		
Joint ventures (equity method)	67,009	52,705
Associates	12,395	13,102
Other related parties	3,521	410
Purchases from related parties		
Joint ventures (equity method)	2,996	4,579
Associates	27,682	26,410
Other related parties	1,552	610

in CHF t	31.12.2019	31.12.2018
Receivables / accruals from related parties		
Joint ventures (equity method)	20,161	22,632
Associates	2,128	2,122
Other related parties	4	–
Payables to related parties		
Joint ventures (equity method)	287	2,737
Associates	2,657	4,181
Other related parties	22	–

Notes

Compensation paid to related parties is shown in note 8.4.

A contract of sale and a contract for work for a property with a market value of CHF 3.6 million was concluded with a member of the Implenia Executive Committee in the financial year. Of this figure, CHF 1.8 million is included in sales to other related parties.

Accounting policies

Related parties include joint ventures accounted for under the equity method, associates and other related parties. Please refer to the relevant sections for information on joint ventures and associates. Other related parties mainly comprise officers and directors of Implenia, members of the IEC (key management personnel), their related parties and the companies at which these persons exercise a senior management function as well as the Implenia Pension Fund.

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29 — EVENTS AFTER THE BALANCE SHEET DATE

Proposed cash dividend for the 2019 financial year

For the 2019 financial year, the Board of Directors will propose a cash dividend of CHF 0.75 per share to the Annual General Meeting to be held on 24 March 2020. The proposed cash dividend amounts to a maximum of CHF 13,9 million. The final amount will be determined on the dividend record date by multiplying the approved dividend by the number of outstanding shares entitled to a dividend payment. The balance sheet presented as at 31 December 2019 does not reflect the proposed dividend for the 2019 financial year.

Special distribution by way of a dividend in kind to effect the planned spin-off of Ina Invest Holding Ltd.

The planned establishment of the real estate company Ina Invest Ltd. in the second quarter 2020 will allow approximately half of Implenia's development portfolio, measured at the current market price, to be transferred to the newly to be founded company. An IPO is planned for Ina Invest Ltd.'s parent company, Ina Invest Holding Ltd. The Board of Directors agreed to the transaction in February 2020 and proposes to distribute, by way of a dividend in kind, 1 share in Ina Invest Holding Ltd. (an «Ina Share») for every 5 dividend bearing shares of Implenia Ltd. (the «Distribution»). A dividend in kind shall also be distributed on treasury shares.

The Distribution will be made at the book value of Ina Invest Holding Ltd. according to the stand-alone balance sheet of Implenia Ltd. and corresponds to a maximum of CHF 1.20 per Implenia Ltd. share.

The Distribution is subject to the following conditions:

(i) the Ina Shares shall have been admitted to listing on the SIX Swiss Exchange as from the ex-dividend date for the Distribution (subject to technical deliverables only);

(ii) neither an order, injunction or decree issued by any governmental authority of competent jurisdiction nor any other legal restraint, prohibition or any other circumstance prevents the consummation of the spin-off of Ina Invest Holding Ltd.; and

(iii) no other events or developments shall have occurred prior to the ex-dividend date for the Distribution that, in the judgment of the Board of Directors, would result in the spin-off of Ina Invest Holding Ltd. having a material adverse effect (including, but not limited to, material adverse tax consequences or risks) on Implenia Ltd. or its shareholders.

The Board of Directors shall determine whether these conditions are met and, to the extent legally permissible, shall be authorized to waive one or several of these conditions if such waiver is, in the judgment of the Board of Directors, in the best interest of Implenia Ltd. and its shareholders. The Board of Directors shall determine the ex-dividend, record and settlement date for the Distribution.

Following approval by the Annual General Meeting to be held on 24 March 2020, the dividend in kind will be measured at the fair value of the assets to be transferred. The assets mainly comprise real estate transactions, which are measured at historical acquisition costs. The fair value of the dividend in kind is therefore significantly more than the current carrying amount of the assets to be transferred.

30 — FOREIGN EXCHANGE RATES

		Average rate		Closing rate	
		2019	2018	**31.12.2019**	31.12.2018
European Union	1 EUR	**CHF 1.11**	CHF 1.15	**CHF 1.09**	CHF 1.13
Ivory Coast / Mali	100 XOF	**CHF 0.17**	CHF 0.17	**CHF 0.17**	CHF 0.17
Norway	100 NOK	**CHF 11.30**	CHF 12.03	**CHF 11.02**	CHF 11.37
Sweden	100 SEK	**CHF 10.51**	CHF 11.26	**CHF 10.33**	CHF 11.08

Notes to the consolidated financial statements of Implenia

31 — SELECTED FULLY CONSOLIDATED COMPANIES

Name	Shareholding	Registered office	Country	Currency	Capital	Division	Held by
BBV Systems GmbH	100%	Bobenheim	D	EUR	520,000	Specialties	Implenia Construction GmbH
Building Construction Logistics GmbH	100%	Raunheim	D	EUR	25,000	Specialties	Implenia Hochbau GmbH
Gravière de La Claie-aux-Moines SA	66.7%	Savigny	CH	CHF	1,500,000	Specialties	Implenia Ltd.
Implenia Bau GmbH	100%	Rümmingen	D	EUR	2,556,459	Buildings	Implenia Holding GmbH
Implenia Baugesellschaft mbH	100%	Vienna	A	EUR	1,530,000	Several Divisions	Implenia Construction GmbH
Implenia Constructii SRL	100%	Voluntari	RO	RON	2,250,100	Civil Engineering	Implenia Baugesellschaft mbH
Implenia Construction GmbH	100%	Wiesbaden	D	EUR	10,100,000	Several Divisions	Implenia Holding GmbH
Implenia Fassadentechnik GmbH	93%	Hamburg	D	EUR	750,000	Specialties	Implenia Hochbau GmbH
Implenia France SA	100%	Archamps	F	EUR	5,059,119	Civil Engineering	Implenia Switzerland Ltd.
Implenia Gesellschaft für Bau- und Prüftechnik mbH	100%	Mannheim	D	EUR	178,952	Civil Engineering	Implenia Construction GmbH
Implenia Hochbau GmbH	100%	Raunheim	D	EUR	20,025,000	Buildings	Zschokke Holding Deutschland GmbH
Implenia Holding GmbH	100%	Rümmingen	D	EUR	3,067,751	Functions	Implenia Switzerland Ltd.
Implenia Real Estate Ltd.	100%	Dietlikon	CH	CHF	30,600,000	Development	Implenia Ltd.
Implenia Instandsetzung GmbH	100%	Munich	D	EUR	260,000	Civil Engineering	Implenia Construction GmbH
Implenia Kühllagerbau GmbH	100%	Bielefeld	D	EUR	25,000	Buildings	Implenia Hochbau GmbH
Implenia Modernbau GmbH	100%	Saarbrücken	D	EUR	511,292	Specialties	Implenia Hochbau GmbH
Implenia Norge AS	100%	Oslo	N	NOK	10,443,352	Civil Engineering	Implenia Switzerland Ltd.
Implenia Österreich GmbH	100%	Salzburg	A	EUR	35,000	Civil Engineering	Implenia Ltd.
Implenia Regiobau GmbH	100%	Freiburg	D	EUR	1,500,000	Civil Engineering	Implenia Construction GmbH
Implenia Schalungsbau GmbH	100%	Bobenheim	D	EUR	520,000	Specialties	Implenia Construction GmbH
Implenia Switzerland Ltd.	100%	Dietlikon	CH	CHF	40,000,000	Several Divisions	Implenia Ltd.

Continuation of the table on page 166

Notes to the consolidated financial statements of Implenia

Name	Shareholding	Registered office	Country	Currency	Capital	Division	Held by
Implenia Spezialtiefbau GmbH	100%	Langen	D	EUR	1,000,000	Civil Engineering	Implenia Construction GmbH
Implenia Sverige AB	100%	Stockholm	S	SEK	10,000,000	Civil Engineering	Implenia Switzerland Ltd.
Implenia Tesch GmbH	100%	Essen	D	EUR	255,646	Buildings	Implenia Hochbau GmbH
Reprojet AG	100%	Zurich	CH	CHF	100,000	Civil Engineering	Implenia Ltd.
SAPA, Société Anonyme de Produits Asphaltiques	75%	Satigny	CH	CHF	500,000	Civil Engineering	Implenia Ltd.
Sisag SA	100%	Abidjan	CI	XOF	492,000,000	Specialties	Implenia Ltd.
Socarco Mali Sàrl	100%	Bamako	RMM	XOF	100,000,000	Specialties	Sisag SA

Accounting policies

Fully consolidated companies are companies controlled by Implenia Ltd. Control is usually said to exist if Implenia Ltd. directly or indirectly controls more than 50% of the company's voting rights or of the potential voting rights that can be exercised at any given time and thereby controls the relevant activities. Consolidation starts from the date on which Implenia Ltd. obtains control over the company and it is deconsolidated at the date on which Implenia Ltd. loses control.

Notes to the consolidated financial statements of Implenia

32 — SELECTED ASSOCIATES

Name	Shareholding	Registered office	Country	Currency	Capital
ARGE Deponie Schwanental	37.0%	Eglisau	CH	CHF	–
Argo Mineral AG	50.0%	Aarau	CH	CHF	300,000
Argobit AG	40.0%	Schafisheim	CH	CHF	1,200,000
Belagswerke Heimberg AG	33.3%	Heimberg	CH	CHF	120,000
BEWO Belagslieferwerk Oberwallis (sp)	25.0%	Nieder-gesteln	CH	CHF	–
Catram AG	24.0%	Chur	CH	CHF	1,000,000
GU Kies AG	33.3%	Schaff-hausen	CH	CHF	450,000
Holcim Betondrance SA	46.0%	Martigny	CH	CHF	300,000
Kieswerk Oldis AG	26.4%	Haldenstein	CH	CHF	1,200,000
Miphalt AG	25.1%	Niederbipp	CH	CHF	1,758,000
MOAG Baustoffe Holding AG	13.2%	Mörschwil	CH	CHF	325,000
Mobival (sp)	26.0%	Massongex	CH	CHF	–
Parking Port d'Ouchy SA	29.7%	Lausanne	CH	CHF	5,649,000
Prüflabor AG	20.0%	Mörschwil	CH	CHF	250,000
Reproad AG	33.3%	Bremgarten	CH	CHF	1,500,000
Société Coopérative Les Terrasses	45.1%	Versoix	CH	CHF	757,500
Tapidrance (sp)	60.0%	Martigny	CH	CHF	–
TIB Recycla SA	50.0%	Mezzovico-Vira	CH	CHF	1,000,000
Urner Belagszentrum (UBZ) (sp)	50.0%	Flüelen	CH	CHF	–
Valver (sp)	27.9%	Martigny	CH	CHF	–
wsb AG	50.0%	Rafz	CH	CHF	500,000

(sp) simple partnership

Accounting policies

Associates are recognised according to the equity method (see note 19).

Although the stakes held in some companies are higher than 50%, these companies are accounted for as associates and the equity method is applied as Implenia does not control these companies. The composition of the executive boards of the companies named does not allow Implenia to control these companies. By contrast, some companies in which Implenia holds a stake of less than 20% are recognised as associates because Implenia exercises significant influence over them.

33 — SELECTED JOINT VENTURES

Name	Shareholding	Country	Recognition in consolidated financial statements
Arbeidsfellesskapet Risa	50.0%	NO	PC
ARGE EHS	30.0%	CH	EM
ARGE EP Küssnacht Brunnen	49.3%	CH	EM
ARGE FWZ Los 1 + 2	50.0%	CH	EM
ARGE Porta Nova Trier	33.0%	D	EM
ARGE S21 Berlin-Tunnel	25.0%	D	EM
ARGE Tunnel Fröschnitzgraben	50.0%	AT	PC
ARGE Tunnel Gloggnitz	40.0%	AT	EM
ARGE Tunnel Granitztal	50.0%	AT	PC
ARGE VAP	50.0%	CH	EM
Arge WA Benzstrasse Regensburg	50.0%	D	EM
ARGE ZOE	60.0%	CH	FC
ARGE ZUGO	20.0%	CH	EM
CERN HiLumi LHC P5	60.0%	FR	PC
Consortium PIC	30.0%	CH	EM
E16 Implenia-Isachsen ANS	50.0%	NO	PC
Extension Métro Lyon	50.0%	FR	PC
Grand Paris Express (L11-GC01)	25.0%	FR	PC
Grand Paris Express (Lot T2C)	25.0%	FR	PC
Groupement Marti-Implenia (Nant de Drance, Emosson)	50.0%	CH	EM
JV Hjulsta-S Handelsbolag	50.0%	SE	EM
MossIA ANS	55.0%	NO	PC

FC = fully consolidated; PC = proportionately consolidated; EM = equity method

Accounting policies

Joint ventures are included in the consolidated financial statements in accordance with note 14.

Although shares of 50% are held in some joint ventures, these are fully consolidated because Implenia controls them. This is the case if Implenia is the lead manager and has the casting vote based on the contractual arrangements.

Report on the audit of the consolidated financial statements

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF IMPLENIA LTD. DIETLIKON

Opinion

We have audited the consolidated financial statements of Implenia Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 113 to 168) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 6,200,000

- We conducted full scope audits at 12 Group companies in six countries.
- Our audit scope for these Group companies addressed 83% of the Group's revenue.
- In addition, reviews and audit procedures determined at Group level were performed at other Group companies. The reviews performed consisted of critical reviews of the balance sheet and the income statement.

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

- Revenue recognition according to IFRS 15/ Work in progress

Materiality

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

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

Overall Group materiality	CHF 6,200,000
How we determined it	0.14% of the consolidated revenue
Rationale for the materiality benchmark applied	We chose consolidated revenue as the benchmark because, in our view, alongside EBITDA, it is the benchmark against which the performance of the Group, among others, is measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 620,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on the audit of the consolidated financial statements

Audit scope

We designed our audit by determining the materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient audit procedures to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group companies in scope were audited by PwC component auditors and we were in constant contact with the audit teams that performed the work. As the group auditor of the consolidated financial statements, we regularly visited local management and auditors of the most significant Group companies. During these visits, we discussed the risks of a material misstatement of the local entity's financial statements as well as audit focus areas and audit scope.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition according to IFRS 15/Work in progress

Key audit matter	How our audit addressed the key audit matter
In accordance with IFRS 15, revenue can be recognised at a point in time or over time. Land sales are recognised at the point in time in which transfer of property occurs. Revenue relating to the main areas of the Group's operations (construction projects, general contracting projects and development projects) is recognised over a specific time. Depending on the contractual arrangements, inputbased or output-based methods are used to determine the degree of a project's completion. This is the basis for revenue recognized in the period. This requires the use of estimates made by project leaders and Management. As such, determining revenue recognition involves significant judgements made by Management, which also have a material impact on the consolidated financial statements (assets recorded under work in progress, CHF 400.1 million and liabilities recorded under work in progress, CHF 1,034.7 million). The Implenia Executive Committee (IEC) discusses and monitors any non-standard projects (e.g. unusual size or unusual exposure to risk). At the request of IEC, these projects are discussed at Board of Directors meetings. For further information, please refer to notes 3.1, 5 and 13 in the notes to the consolidated financial statements.	Our audit focused on revenue recognition, and as a result of, the complexity of the projects, we focused on the estimates made by project leaders and Management. These estimates are mainly comprised of assumptions in connection with the progress of work, the forecast of final costs and projectrelated accruals and deferrals. We gained an understanding and evaluated the method used by Management on project reviews and revenue recognition, and performed a critical assessment of the process applied by Management. Our conclusion is based on the following audit procedures: ▪ We evaluated the application of revenue recognition was in accordance with IFRS 15 ▪ We reviewed the internal reporting to Management and the Board of Directors ▪ We performed inquiries and inspected evidence at Project Review Meetings ▪ We discussed selected projects with Management and the Audit Committee ▪ We tested related key controls. Examples of key controls in this area are: — Amounts booked to projects are reviewed by the Project Controller and the Division Controller (Business Partner Finance) for completeness and accuracy. — Controls over project-related accruals and deferrals. ▪ We performed in depth reviews of numerous projects. The sample of projects selected for review were made based on a risk-based criteria we determined. These included: — Contribution margin amount in the financial year — Amount of revenue in the financial year — Change in the contribution margin compared with the prior year — Material project-related accruals — Size of projects — Key projects from Implenia's Management's perspective — Introduction of an element of unpredictability in the selection of projects

Report on the audit of the consolidated financial statements

Key audit matter	How our audit addressed the key audit matter
	▪ For the selected projects, we performed the following audit procedures: — We discussed and assessed with project controlling and, in selected cases, operational leaders, the stage of completion of the work on the project, future costs to be incurred and accruals to completion. As part of our procedures, progress of selected projects was followed up and assessed. For those projects involving significant judgement, we also involved the operational leaders. In doing so, we assessed any potential impairments. — We analysed contracts in terms of their impact on the project valuations and the related financial reporting. — During discussions about the projects, we assessed the recoverability of change orders recognised as assets. Further, we obtained confirmations of accounts receivable. — To minimise losses on projects, Implenia has defined a target contribution margin. Any resulting provisions were discussed with Management. Further, we followed up on changes in provisions for impending losses compared with the prior year. We consider Management's approach in determining estimates for the stage of completion and valuation of work in progress (cost estimates and revenue to completion) of their projects appropriate, and provides sufficient basis to support revenue recognized in the 2019 financial year.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the compensation report of Implenia AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Report on the audit of the consolidated financial statements

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is available on the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Dr Michael Abresch
Audit expert
Auditor in charge

Christian Kessler
Audit expert

Zurich, 24 February 2020

Income statement of Implenia Ltd.

in CHF t	Notes	1.1.–31.12.2019	1.1.–31.12.2018
Income from investments		93,035	64,688
Change in value adjustments and provisions	3	8,147	2,737
Other operational income	3	31,582	28,946
Total operating income		132,764	96,371
Personnel expenses		(26,579)	(23,690)
Other operational costs		(14,871)	(10,371)
Depreciation and valuation adjustments on fixed asset items		(80)	(103)
Operating earnings before interest and taxes		91,234	62,207
Financial income		12,521	12,882
Financial expenses		(9,946)	(10,944)
Operating earnings before taxes		93,809	64,145
Direct taxes		(535)	(120)
Profit for the year		93,274	64,025

Balance Sheet of Implenia Ltd.

Assets

in CHF t	Notes	31.12.2019	31.12.2018
Cash and cash equivalents and current assets with a stock exchange price	3	370,619	326,708
Trade receivables from third parties		203	315
Trade receivables from Group companies		2,059	1,952
Other current receivables from third parties		359	410
Other current receivables from Group companies		144,334	141,948
Accrued income and prepaid expenses		3,740	5,034
Total current assets		521,314	476,367
Financial assets from third parties	3	801	1,837
Financial assets from Group companies	3	244,310	218,152
Investments in Group companies		353,607	343,870
Property, plant and equipment		259	47
Intangible assets		547	19
Total non-current assets		599,524	563,925
Total assets		1,120,838	1,040,292

Equity and liabilities

in CHF t	Notes	31.12.2019	31.12.2018
Trade payables to third parties		1,175	275
Trade payables to Group companies		19	57
Current interest-bearing liabilities to Group companies		78,223	123,157
Other current liabilities to third parties		1,937	1,473
Deferred income and accrued expenses		15,012	11,975
Total current liabilities		96,366	136,937
Long-term interest-bearing liabilities to third parties	5	490,002	492,359
Long-term interest-bearing liabilities to Group companies		41,609	6,134
Total non-current liabilities		531,611	498,493
Share capital	3	18,841	18,841
Statutory capital reserves			
– Reserves from capital contributions		132	132
Statutory retained earnings		16,185	16,185
Profit carried forward		364,969	310,147
Profit for the year		93,274	64,025
Treasury shares	3	(540)	(4,468)
Total equity		492,861	404,862
Total equity and liabilities		1,120,838	1,040,292

Notes to the Statutory Financial Statements of Implenia Ltd.

1 — GENERAL INFORMATION

Implenia Ltd. is a Swiss public limited company incorporated in Dietlikon, Zurich. As in the previous year, the average number of full-time employees employed by the company in the financial year was between 50 and 100.

2 — SIGNIFICANT ACCOUNTING POLICIES

The present annual financial statements have been prepared in accordance with the provisions covering commercial accounting in the Swiss Code of Obligations. The key valuation principles applied, which are not prescribed by law, are described below.

Trade receivables and other current receivables
Trade receivables and other current receivables are accounted for at their nominal values. Specific valuation allowances are applied on an individual basis. A flat rate valuation allowance is applied to the remainder.

Investments
Shares in the capital of another company held long-term are regarded as a stake in a Group company once more than 50% of the voting rights are held. They are initially recognised in the balance sheet at cost. If there are concrete indications that the stake is overvalued, an impairment loss will be recognised. Shareholdings are measured separately.

Intangible assets
Intangible assets are mainly licences. They are amortised over their estimated useful life (over four years as a rule) on a straight line basis. Intangible assets, which are amortised on a scheduled basis, are only tested for impairment when the carrying amount no longer seems recoverable. Impairment charges are recognised via the income statement.

Current and non-current interest-bearing liabilities
Bonds and convertible bonds as well as promissory note loans are recognised under interest-bearing liabilities at their nominal value. Issuance costs are capitalised as deferred items and depreciated over the maturity. If the financial liability matures within a year, the item is reported as a current interest-bearing liability.

Liabilities from lease obligations
Lease and tenancy agreements are accounted for in accordance with legal ownership. Accordingly, expenses as lessee or tenant are recognised as expenditure on an accrual basis. However, the leased or rented items themselves are not accounted for on the balance sheet.

3 — BREAKDOWNS AND EXPLANATIONS OF ITEMS IN THE INCOME STATEMENT AND THE BALANCE SHEET

Change in value adjustments and provisions
This item includes the reversal of a value adjustment on investments of CHF 6.6 million in the financial year (2018: increase in bad debts of CHF 5.6 million and reversal of CHF 8.4 million).

Other operating income
In essence, other operating income contains expenses charged to Group companies.

Cash and cash equivalents and current assets with a stock exchange price
Cash and cash equivalents solely comprise bank deposits at sight.

Financial assets
Securities without a stock exchange price that are held on a long-term basis of CHF 0.7 million (2018: CHF 0.7 million) and derivative financial instruments of CHF 0.1 million (2018: CHF 1.1 million) are reported in the balance sheet item for financial assets from third parties. They are currency derivatives which were concluded to hedge currency risks. The derivative financial instruments are measured at fair value through profit or loss on the balance sheet date. Financial assets from Group companies contain long-term loans.

Liabilities from lease obligations
As in the previous year, there are no material liabilities from lease obligations.

Significant release of hidden reserves
There was no net release of hidden reserves in the reporting year (2018: none).

Share capital
As at 31 December 2019, Implenia Ltd.'s share capital amount amounts to CHF 18,841,440, divided into 18,472,000 registered shares with a par value of CHF 1.02 each. The share capital is fully paid up. As at the balance sheet date, Implenia Ltd. also had conditional capital of CHF 3,768,288. Based on this conditional capital, share capital can be increased in line with the criteria set out in Art. 3b of the Articles of Association by a total of CHF 3,768,288. At the balance sheet date, no shares have been issued from the conditional share capital.

Notes to the Statutory Financial Statements of Implenia Ltd.

Shareholders holding more than three percent of the share capital and of the voting rights as at 31 December 2019:

	Share capital participation	
in %	**31.12.2019**	31.12.2018
Parmino Holding AG / Max Rössler	**16.5**	16.3
Rudolf Maag	**5.4**	5.4
Credit Suisse Funds AG	**5.1**	3.1
Norbert Ketterer	**5.0**	n.a.
Dimensional Holdings Inc.	**3.0**	3.0

The following shares were allocated in the reporting year:

	Shares definitely allocated		Amount recognised in the income statement in CHF t	
	2019	2018	**2019**	2018
Board of Directors	**11,088**	10,156	**349**	322
Group Executive Board	**13,754**	65,210	**438**	2,591
Managers	**30,584**	16,264	**1,608**	1,090
Total	**55,426**	91,630	**2,395**	4,003

Treasury shares (as a minus position)

	31.12.2019		31.12.2018	
	Number	**in CHF t**	Number	in CHF t
As at 1.1	**67,054**	**4,468**	210,223	14,090
Purchase	**431,454**	**16,430**	17,482	1,124
Sale and use for employees and Board of Directors	**(484,657)**	**(20,358)**	(160,651)	(10,746)
Total as at reporting date	**13,851**	**540**	67,054	4,468

In the reporting period, 347,454 shares were purchased from an investor at a market value of CHF 13.5 million and subsequently 330,000 shares were sold to an investor at a market value of CHF 12.8 million.

4 — CONTINGENT LIABILITIES

in CHF t	**31.12.2019**	31.12.2018
Guarantees and contingent liabilities	**34,993**	36,590
Security for joint liability regarding the levying of VAT for the Implenia-VAT-group	**p.m.**	p.m.

Notes to the Statutory Financial Statements of Implenia Ltd.

5 — FINANCIAL LIABILITIES

Implenia Ltd. placed the following two bonds and a subordinated convertible bond:

- CHF 125 million bond, payment under subscription 15 October 2014, interest rate (affecting liquidity) 1.625%, term 2014–2024, issue price 101.063%, ISIN CH025,359,2767, effective interest rate 1.624%
- CHF 125 million bond, payment under subscription 21 March 2016, interest rate (affecting liquidity) 1.000%, term 2016–2026, issue price 100.739%, ISIN CH031,699,4661, effective interest rate 0.964%
- CHF 175 million subordinated convertible bond, payment under subscription 30 June 2015, interest rate (affecting liquidity) 0.500%, term 2015–2022, issue price 100.000%, ISIN CH028,550,9359, conversion premium 32.5%, conversion price CHF 75.06, effective interest rate 2.158%

On 9 June 2017, Implenia Ltd. placed three fixed-rate promissory note loans totalling EUR 60 million:

- EUR 10 million, due in 2021, effective interest rate 0.927%
- EUR 20 million, due in 2023, effective interest rate 1.349%
- EUR 30 million, due in 2025, effective interest rate 1.792%

6 — SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS AND IMPLENIA EXECUTIVE COMMITTEE

As at 31 December 2019, the number of shares held by people serving as non-executive Members of the Board of Directors during the year under review, as well as by related persons, totalled 95,171 or 0.5% of the share capital (2018: 57,588 shares or 0.2%). This figure includes any shares acquired in a private capacity:

Non-executive Board of Directors

	Number of shares, as at		Shares blocked until		
	31.12.2019	31.12.2018	2020	2021	2022
Hans Ulrich Meister, Chairman	**73,395**	44,164	2,021	2,143	4,231
Kyrre Olaf Johansen, Vice-Chairman	**2,903**	1,392	626	766	1,511
Henner Mahlstedt, Member	**7,063**	5,351	818	868	1,712
Ines Pöschel, Member	**6,403**	4,892	626	766	1,511
Laurent Vulliet, Member	**4,098**	1,789	626	663	1,309
Martin A. Fischer, Mitglied	**1,309**	–	–	–	1,309
Barbara Lambert, Member	**–**	–	–	–	–
Total	**95,171**	57,588	4,717	5,206	11,583

Notes to the Statutory Financial Statements of Implenia Ltd.

As at 31 December 2019, the number of shares held by people serving as members of the Implenia Executive Committee during the year under review, as well as by related persons, totalled 137,299 or 0.7% of the share capital (2018: 121,265 shares or 0.7%). This figure includes any shares acquired in a private capacity.

Implenia Executive Committee

	Number of shares, as at		Shares blocked until		
	31.12.2019	31.12.2018	2020	2021	2022
André Wyss, CEO	97,448	47,448	–	22,448	–
Marco Dirren, CFO	2,000	n.a.	–	–	–
Adrian Wyss, Division Head Development	10,255	n.a.	2,500	2,750	458
Jens Vollmar, Division Head Buildings	5,591	n.a.	2,273	2,860	458
René Kotacka, Division Head Civil Engineering	10,650	10,650	2,750	2,750	–
Anita Eckardt, Division Head Specialties	–	n.a.	–	–	–
German Grüniger, General Counsel	6,455	n.a.	868	907	1,257
Christelle Beneteau, Chief Human Resources Officer	3,500	n.a.	–	–	–
Matthias Jacob, Head Country Management	1,400	n.a.	–	1,200	200
Anton Affentranger (until 31.1.2019)	n.a.	n.a.	12,500	25,000	–
Beat Fellmann (until 28.2.2019)	n.a.	45,000	10,000	10,000	9,167
André Métral (until 28.2.2019)	n.a.	10,882	2,750	2,750	2,750
Christof Gämperle (until 28.2.2019)	n.a.	7,285	–	1,972	4,099
Total	137,299	121,265	33,641	72,637	18,389

7 — DIRECT SHAREHOLDINGS AND SIGNIFICANT INDIRECT SHAREHOLDINGS

Name	Registered office	Shareholding	Currency	Capital
Gebr. Ulmer GmbH	Bruchsal (D)	100%	EUR	25,565
Gravière de La Claie-aux-Moines SA	Savigny	66.7%	CHF	1,500,000
Implenia Construction GmbH	Raunheim (D)	100%	EUR	10,100,000
Implenia Cyprus Ltd.	Nicosia (CY)	100%	EUR	3,001
Implenia Holding GmbH	Rümmingen (D)	100%	EUR	3,067,751
Implenia Hochbau GmbH	Raunheim (D)	100%	EUR	20,025,000
Implenia Modernbau GmbH	Saarbrücken (D)	100%	EUR	511,292
Implenia Norge AS	Oslo (N)	100%	NOK	10,443,352
Implenia Österreich GmbH	Salzburg (A)	100%	EUR	35,000
Implenia Real Estate Ltd.	Dietlikon	100%	CHF	30,600,000
Implenia Spezialtiefbau GmbH	Langen (D)	100%	EUR	1,000,000
Implenia Switzerland Ltd.	Dietlikon	100%	CHF	40,000,000
Implenia Tesch GmbH	Essen (D)	100%	EUR	255,646
Reprojet AG	Zurich	100%	CHF	100,000
SAPA, Société Anonyme de Produits Asphaltiques	Satigny	75%	CHF	500,000
Sisag SA	Abidjan (CI)	100%	XOF	492,000,000
Swiss Overseas Engineering Company	Onex	100%	CHF	200,000
Tetrag Automation Ltd.	Dietlikon	100%	CHF	100,000

Notes to the Statutory Financial Statements of Implenia Ltd.

Proposal of the Board of Directors regarding the appropriation of available earnings

in CHF t	2019
Profit carried forward	364,969
Profit for the year	93,274
	458,243

The Board of Directors proposes to the General Meeting the following appropriation of available earnings and reserves:

in CHF t	2019
Distribution of a dividend of	13,854
To be carried forward	444,389
	458,243

Proposed cash dividend for the 2019 financial year

For the 2019 financial year, the Board of Directors will propose a cash dividend of CHF 0.75 per share to the Annual General Meeting to be held on 24 March 2020. The proposed cash dividend amounts to a maximum of CHF 13,9 million. The final amount will be determined on the dividend record date by multiplying the approved dividend by the number of outstanding shares entitled to a dividend payment (record date: 31 March 2020).

Special distribution by way of a dividend in kind to effect the planned spin-off of Ina Invest Holding Ltd.

The Board of Directors proposes to distribute, by way of a dividend in kind, 1 share in Ina Invest Holding Ltd. (an "Ina Share") for every 5 dividend bearing shares of Implenia Ltd. (the "Distribution"). A dividend in kind shall also be distributed on treasury shares. The Distribution will be made at the book value of Ina Invest Holding Ltd. according to the stand-alone balance sheet of Implenia Ltd. and corresponds to a maximum of CHF 1.20 per Implenia Ltd. share. The Distribution will be booked (i) against CHF 55,416 of capital contribution reserves and (ii) for the remaining part, against other reserves. The Board of Directors shall determine, at its discretion, how fractions of Ina shares and holders of physical share certificates of Implenia (Heimverwahrer) will be treated (it being understood that fractions and the respective Ina shares, respectively, shall in principle be sold on the shareholders' behalf, with the shareholders receiving the cash proceeds in lieu of fractions and the Ina Shares, respectively).

The Distribution is subject to the following conditions:

(i) the Ina Shares shall have been admitted to listing on the SIX Swiss Exchange as from the ex-dividend date for the Distribution (subject to technical deliverables only);

(ii) neither an order, injunction or decree issued by any governmental authority of competent jurisdiction nor any other legal restraint, prohibition or any other circumstance prevents the consummation of the spin-off of Ina Invest Holding Ltd.; and

(iii) no other events or developments shall have occurred prior to the ex-dividend date for the Distribution that, in the judgment of the Board of Directors, would result in the spin-off of Ina Invest Holding Ltd. having a material adverse effect (including, but not limited to, material adverse tax consequences or risks) on Implenia Ltd. or its shareholders.

The Board of Directors shall determine whether these conditions are met and, to the extent legally permissible, shall be authorized to waive one or several of these conditions if such waiver is, in the judgment of the Board of Directors, in the best interest of Implenia Ltd. and its shareholders. The Board of Directors shall determine the ex-dividend, record and settlement date for the Distribution.

Report on the audit of the financial statements

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF IMPLENIA LTD. DIETLIKON

Opinion

We have audited the financial statements of Implenia Ltd., which comprise the balance sheet as at 31 December 2019, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 173 to 179) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 5,600,000

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

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

- Impairment of investments and financial assets (Group companies)

Materiality

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

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

Overall materiality	CHF 5,600,000
How we determined it	0.5% of total asset
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is an appropriate benchmark for materiality considerations relating to a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 560,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on the audit of the financial statements

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of investments and financial assets (Group companies)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments and financial assets (Group companies) was deemed a key audit matter. Investments and financial assets (Group companies) recognised on the balance sheet represent a significant portion of the assets, amounting to approximately CHF 353.5 million (32%) and CHF 244.3 million (22%), respectively. Investments and financial assets (Group companies) are valued individually and stated at acquisition cost less any necessary impairment charges. In identifying the potential need for impairment of investments and financial assets (Group companies), Management performs an impairment test as determined by the Board of Directors. The company valuations are determined by Implenia on the basis of the value of the underlying assets or the use of the discounted cash flow (DCF) method, which involves significant judgement in determining the parameters, such as capitalisation rates. Please refer to notes 2, 3 and 7 in the notes to the financial statements.	To identify any impairment of investments and financial assets (Group companies), we performed the following audit procedures: ▪ We compared the book values of the investments in the year under review with their pro-rata share of the respective company's equity. Where there was little or no excess of underlying assets over book values, valuations were prepared using the DCF method or compared with impairment tests that, for example, were performed to test goodwill at the Group level. ▪ We checked the plausibility of the assumptions used by the holding company's Management concerning revenue growth, costs, long-term growth rates and margins. ▪ We compared the discount rate with the cost of capital of the Group, taking into account the country-specific particularities. Based on audit procedures performed, assumptions used by the company for the impairment of investments and financial assets (Group companies) as at 31 December 2019 are reasonable.

Report on the audit of the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Direc-tors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EX-PERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Dr. Michael Abresch
Audit expert
Auditor in charge

Christian Kessler
Audit expert

Zurich, 24 February 2020