2012 Financial Report

Including: Management Report,
Consolidated Financial Statements of the Hilti Group,
Financial Statements of Hilti Corporation

Contents

This is Hilti

We supply the construction industry with technologically superior products, systems and services. We provide innovative solutions that feature outstanding added value.

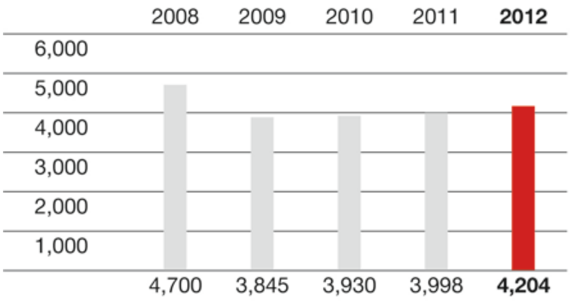
We passionately create enthusiastic customers and build a better future with approximately 21,000 team members located in more than 120 countries around the world.

We live clear values. Integrity, the courage to embrace change, teamwork and commitment are the foundations of our corporate culture.

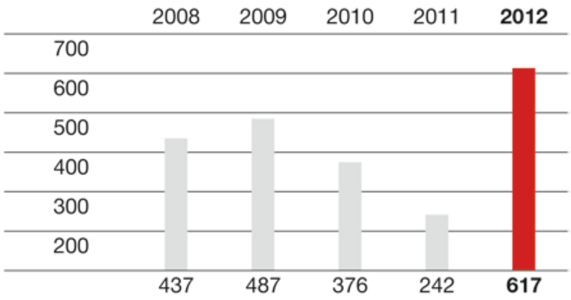
We combine long-term financial success with comprehensive responsibility toward society and the environment. Reciprocal tenets of openness, honesty and tolerance apply to team members, partners and suppliers alike. The goal of our strategy is to sustainably increase the value of the company.

Key figures

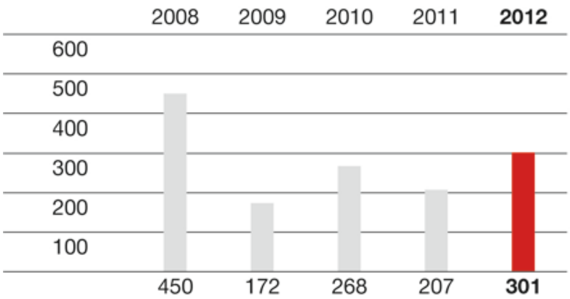
Net sales (in CHF million)



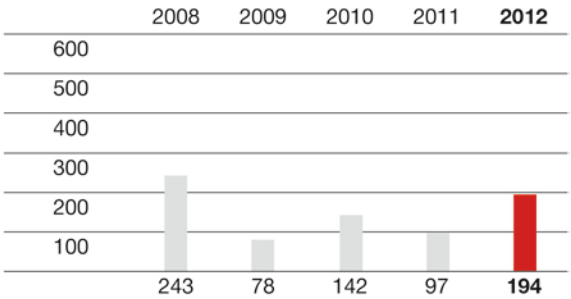
Cash flow from operating activities (in CHF million)



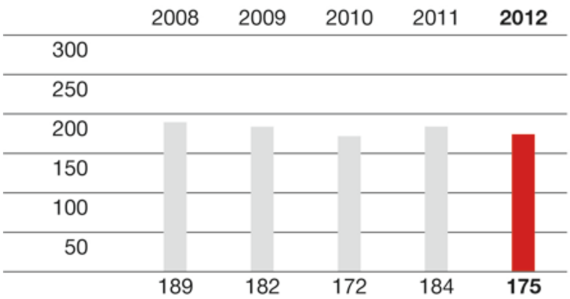
Operating result (in CHF million)



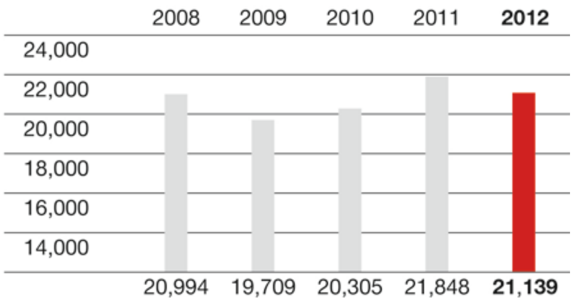
Net income (in CHF million)



Research and development expenditure (in CHF million)



Employees (as at December 31)



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Key figures

Key financial information of Hilti Group

	2012	2011	2010	2009	2008
Results (CHF million / %)					
Net sales	4,204	3,998	3,930	3,845	4,700
Depreciation and amortization	196	216	213	200	185
Operating result	301	207	268	172	450
Net income before tax	230	119	167	136	308
Net income	194	97	142	78	243
Return on capital employed (RoCE) in % (operating result)	9.5	6.5	8.2	5.4	15.5
Return on equity (RoE) in % (net income)	8.6	4.3	6.0	3.2	9.9
Cash flow from operating activities	617	242	376	487	437
Balance sheet (CHF million / %)					
Total equity	2,297	2,212	2,304	2,396	2,429
Total equity in % Total equity and liabilities	50	51	54	55	58
Total non-current liabilities	1,044	997	1,172	1,135	829
Total current liabilities	1,219	1,159	817	795	946
Capital expenditures on intangible assets and on property, plant and equipment	188	212	209	283	290
Intangible assets and property, plant and equipment	1,120	1,141	1,162	1,101	1,024
Other non-current assets	547	521	434	414	386
Total current assets	2,892	2,706	2,697	2,811	2,795
Total assets	4,559	4,368	4,293	4,326	4,204
Dividend *	131	47	71	–	96
Employees (as at December 31)	**21,139**	**21,848**	**20,305**	**19,709**	**20,994**
Information on bonds (CHF million, nominal values)					
2.75% bond 06 / 13 (early call for tax reasons only)	150	150	150	150	150
3.50% bond 08 /12 (early call for tax reasons only)	–	300	300	300	300
3.25% bond 09 / 14 (early call for tax reasons only)	300	300	300	300	–
Euro bonds 12 / 15-19 (EUR 109 million at fixed interest rates **)	131	–	–	–	–
Euro bonds 12 / 15-19 (EUR 66 million at variable interest rates ***)	80	–	–	–	–

* As proposed by the Board of Directors

** Bonds have restricted tradeability

*** Early call possible; bonds have restricted tradeability

Significant strengthening of profitability and cash flow

On the basis of 5.2 percent sales growth in 2012, the Hilti Group was able to substantially improve its operating result, which rose by 45 percent in the year under review. Net income doubled, increasing 101 percent. This growth was due in large measure to the rapid implementation of the profitability enhancement program launched at the end of 2011.

The economic environment was challenging in 2012. While relevant southern European markets continued to contract, most countries in central and northern Europe, including the important market of Germany, performed robustly. The Hilti Group profited from solid economic momentum in South and North America as well as Asia. Construction activity tapered off slightly in parts of eastern Europe and the Middle East (including in Dubai).

Positive sales growth

The divergence in growth trajectories was also reflected in the sales results of the various Hilti regions. Double-digit growth rates were achieved in North and Latin America (13.4% and 32.4%, respectively, in local currencies), where successful marketing and sales activities enabled the firm to gain additional market share. The Hilti Group could not evade the continued severe economic downturn in southern Europe – primarily in major markets like Italy and Spain –, and this ultimately caused sales to drop slightly in Europe as whole (-1.9%).

Management report

Eastern Europe posted double-digit sales growth, driven largely by activity in Russia. Political instability in certain countries in the Near/Middle East and Africa led to a decline in sales while business in other markets (including Saudi Arabia and South Africa) was very favorable. Positive momentum in the Asia/Pacific region translated into a correspondingly high growth rate (+9.5%).

The Hilti Group's relatively new business relating to fastening solutions for the solar industry also showed a mixed picture. While the Group reported significant growth in the USA and Asia, sales declined in Europe due to the sharp market downturn. Overall, sales for the solar sector fell slightly.

Following distinctly negative currency effects in 2011, the Swiss franc stabilized in 2012 – albeit at a persistently high level. In Swiss francs local currency translation had a slight positive impact on growth (+0.8%). Sales increased by 5.2 percent to CHF 4,204 million.

Higher gross margins and productivity

Hilti's significant innovative strength and superior product differentiation, as well as its efforts to lower product costs, allowed the Group to increase its gross margin despite challenging market conditions in some regions. Productivity also improved further at all stages of the Group's value chain. The cost-saving measures at Hilti Corporate Headquarters and the restructuring of sales units in southern Europe, as well as in other individual markets, were implemented according to plan.

Combined, these measures led to an increase in return on sales (ROS) from 5.2 to 7.1 percent. Currency effects on the 2012 operating result were largely neutral due to relative currency stability and the successful implementation of internal initiatives.

Significant cash flow improvement

The Hilti Group devoted a good deal of energy to improving capital efficiency in 2012. The average collection period on customer accounts, for example, was reduced by six days (9%). As a result, the ratio of net working capital to sales improved from 27 to 22 percent. With 4.4 percent sales growth in local currencies, the Group managed to reduce net working capital by CHF 150 million, further accelerating the positive trend set in previous years.

In line with strengthened profitability, cash flow from operating activities reached a record CHF 617 million. Despite higher investments, largely associated with the construction of the new Innovation Center at Corporate Headquarters, free cash flow also achieved a record of CHF 363 million. Return on capital employed (ROCE) improved from 6.5 to 9.5 percent due to the aforementioned measures.

High liquidity and solid balance sheet figures

Cash and cash equivalents increased to CHF 1,303 million. Interest-bearing debt stood at CHF 866 million at the end of 2012, down by CHF 76 million. Short-term bank borrowings amounted to CHF 142 million (+29 million), while long-term bank borrowings were CHF 64 million (-17 million). The CHF 300 million bond that matured in 2012 was partially replaced by a EUR 175 million promissory note bond. This instrument, having maturities between three and seven years, was issued at attractive conditions and enjoyed significant demand. Alongside refinancing, this issue allowed the Hilti Group to achieve a better balance between euro-denominated receivables and liabilities. In addition to this promissory note bond, the Hilti Group maintains two additional bonds on the Swiss capital market, having maturities in 2013 (CHF 150 million) and 2014 (CHF 300 million).

Net liquidity rose to CHF 437 million. Despite once again experiencing a negative effect, amounting to CHF 69 million, related to the valuation of pension fund obligations according to IFRS, the equity ratio stood at 50 percent at the end of 2012.

In 2012, various restructuring measures were carried out to bolster the company's pension fund. These measures – in conjunction with improved investment performance – took the coverage ratio back above the 100 percent mark (end of 2011: 94%).

The Board of Directors recommends a dividend payment of CHF 131 million for the 2012 business year (2011: 47 million).

Outlook

The Hilti Group remains cautiously confident about its prospects for 2013. While growth momentum slowed slightly in 2012, primarily due to developments in southern Europe, the Group's strong level of differentiation, very positive performances in North America as well as in the emerging markets, should ensure that sales continue to grow, albeit in the lower single-digit range.

The profitability enhancement measures taken in 2012 will continue to feed through into 2013. Barring large-scale economic upheaval, these initiatives and our capital efficiency drive should ensure that the Hilti Group continues to increase in value.

The Board of Directors

The Board of Directors (from left): Michael Jacobi, Tis Prager, Michael Hilti, Pius Baschera, Giorgio Behr, Heinrich Fischer and Kim Fausing on the occasion of their visit to Hilti North America's Training Center in Tulsa, Oklahoma.

Prof. Dr. Pius Baschera
Chairman of the Board of Directors
Zurich, Switzerland

Pius Baschera (born 1950; re-elected to serve until the 2013 Annual General Meeting) is Chairman of the Board of Directors. He studied mechanical engineering and business administration at the Swiss Federal Institute of Technology (ETH) Zurich, where he earned his doctorate. In 1979, he came to Hilti as Head of Financial Controlling in the production area. Before being named Chairman, he served as CEO for 13 years. He is currently a Member of the Board of Directors of F. Hoffmann-La Roche Ltd., Basel, and the Schindler Group, Hergiswil. He also is a Member of the Advisory Boards of Vorwerk & Co., Wuppertal, and Ardex GmbH, Witten, Chairman of the Board of Directors of Venture Incubator AG, Zug, and a professor of Corporate Management at the Swiss Federal Institute of Technology Zurich.

Michael Hilti
Schaan, Principality of Liechtenstein

Michael Hilti (born 1946; re-elected to serve until the 2015 Annual General Meeting), son of company founder Professor Martin Hilti, has been a Member of the Board of Directors since 1990. After studying business administration at the University of St. Gallen he worked in banking in London before joining Hilti in 1974 as the Deputy Head of Marketing. Two years later he was named to the company's Executive Board and he served as CEO from 1990 to 1993. He was Chairman of the Board of Directors from 1994 to 2006. Michael Hilti is a Trustee of the Martin Hilti Family Trust and President of the Board of the Hilti Foundation.

The Board of Directors

Prof. Dr. Giorgio Behr
Buchberg, Switzerland

Giorgio Behr (born 1948; re-elected to serve until the 2015 Annual General Meeting), Honorary Professor at the University of St. Gallen, was previously a Member of the Board of Directors of the Hilti Corporation between 1993 and 2007. Since January 2008, he has been a Trustee of the Martin Hilti Family Trust and in January 2009 he was again elected to serve on the Board of Directors of the Hilti Corporation. Giorgio Behr is the Chairman of the Supervisory Board of ZF Friedrichshafen AG. He gained his doctorate degree at the law school of the University of Zurich, was admitted to the bar and obtained a diploma as a Certified Public Accountant. Today he is an entrepreneur in the industrial sector (Behr Bircher Cellpack BBC Group).

Kim Fausing
Sonderborg, Denmark

Kim Fausing (born 1964; elected to serve until the 2013 Annual General Meeting) was elected to the Board of Directors in 2010. He earned a degree in mechanical engineering at Aarhus Teknikum, in Denmark, in 1987, and an MBA degree at Henley Management School, in London, in 1996. His professional career led him to the Hilti Group in 1990, where he served in various management functions in Europe and Asia until 2007. After moving to the Danish Danfoss Group, he was named Chief Operating Officer and Member of the company's executive committee in January 2008. He also is a Director of Sauer-Danfoss Inc., of the German-Danish Chamber of Industry and Commerce and Vice-President of the Velux Group in Copenhagen.

Heinrich Fischer
Rüschlikon, Switzerland

Heinrich Fischer (born 1950; re-elected until the 2013 Annual General Meeting) has been a Member of the Board of Directors since 2007. He graduated in 1973 with an engineering diploma from the Swiss Federal Institute of Technology Zurich, having studied electrical engineering and technical physics. He then went on to study business administration at the University of Zurich while working in this field, earning a master's degree in 1976. Beginning in 1977, he held senior management positions at Oerlikon Bührle Holding, Balzers AG (1980 to 1989), and finally at Oerlikon Holding once again (1990 to 1995). From 1996 to 2007, he was Chief Executive Officer at Saurer AG, Arbon. Heinrich Fischer is a Member of the Board of Directors at Schweiter AG, Tecan AG, Orell Füssli AG (Chairman) and Sensirion AG.

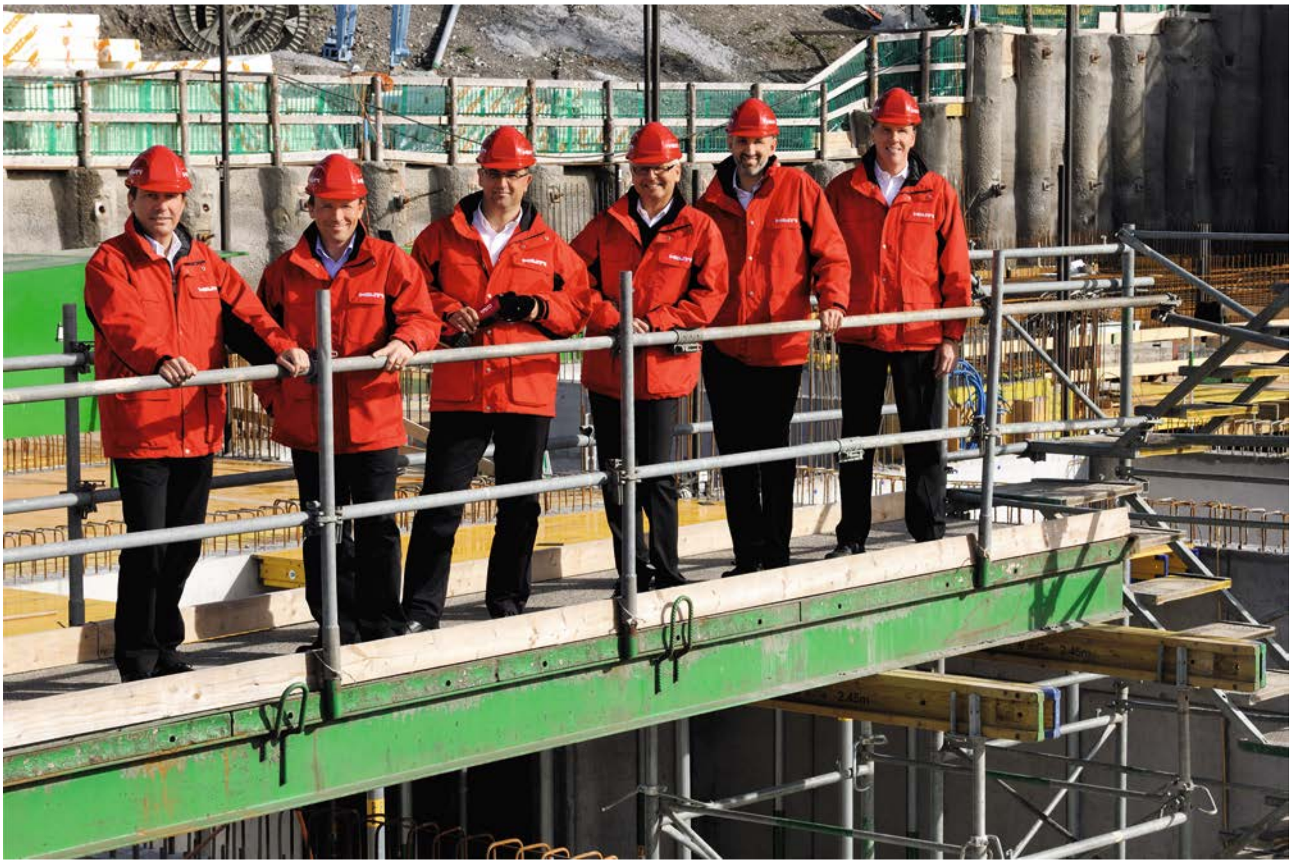
Dr. Michael Jacobi
Binningen, Switzerland

Michael Jacobi (born 1953; re-elected until the 2013 Annual General Meeting) was elected to the Board of Directors in 2007. He studied business economics at the University of St. Gallen and at the University of Washington, Seattle, and earned his doctorate from St. Gallen in 1979. From 1978 until 2007, he held various management positions in the financial area of Ciba Geigy AG and later in Ciba Specialty Chemicals Inc., Basel. He was Global Chief Financial Officer from 1996 until 2007. Today Michael Jacobi is an independent corporate consultant. Since 2003, he has been a Member of the Board of Directors of Sonova Holding AG, Stäfa, and since December 2008 a Trustee of the Martin Hilti Family Trust. He was named to the Board of Directors of Actelion Pharmaceuticals Ltd., Allschwil, in 2009.

Dr. Tis Prager
Zumikon, Switzerland

Tis Prager (born 1948; re-elected until the 2013 Annual General Meeting) has been a Member of the Board of Directors since June 1, 2006. He earned a doctorate in law from the University of Zurich in 1975, was admitted to the bar of the Canton of Zurich in 1978 and is a founding member of the Prager Dreifuss law firm in Zurich and Bern. Among other mandates, Tis Prager is the Chairman of the Board of the IE Engineering Group AG, Zurich, Hotel Zurich AG (Marriott), Scherer & Bühler AG, Meggen, and Emil Hitz AG, Bassersdorf. He is also a Member of the Board of Directors of Bourquin SA, Couvet, and Caprez Ingenieure AG, Chur, and is active in STEP, the Society of Trust and Estate Practitioners.

Other key management personnel



The Executive Board (from left): Marco Meyrat, Christoph Loos, Matthias Gillner, Bo Risberg, Jörg Kampmeyer and Stefan Nöken at the construction site of Hilti's new Innovation Center in Schaan, Liechtenstein.

The Executive Board

Bo Risberg
Chief Executive Officer
Wollerau, Switzerland

Bo Risberg (born 1956, Sweden) has been CEO since January 1, 2007. He trained as a mechanical engineer at Queen's University in Canada and then acquired an MBA at IMD in Lausanne. From 1981 to 1995 he worked in various positions with the ABB Group before working for a consulting firm between 1995 and 1999. He joined Hilti in 1999 as Head of the Drilling and Demolition Business Unit. From 2001 to 2006, as a Member of the Executive Board, he was responsible for the Business Areas, the Supply Chain comprising production, sourcing and logistics and New Business & Technology. Bo Risberg is a Member of the Board of Directors of Trelleborg AB, Sweden, Grundfos Holding A/S, Denmark, Poul Due Jensen Foundation, Denmark, and IMD, Switzerland.

Matthias Gillner
Grabs, Switzerland

Matthias Gillner (born 1967, Germany) has been a Member of the Executive Board since April 2011. He is responsible for the Electric Tools & Accessories, Corporate Research & Technology and Global Tool Service units. Matthias Gillner studied chemical engineering at Friedrich-Alexander University of Erlangen-Nürnberg, Germany. He was then employed by a consulting company from 1993 to 2000. During this time he acquired an MBA at INSEAD in Fontainebleau, France. He began his Hilti career in 2000 as the Head of Corporate Development. After leading Corporate HR he was named Head of the Measuring Systems Business Unit in 2003. From 2006 to 2011, Matthias Gillner was Head of the Electric Tools & Accessories Business Area. Matthias Gillner is Member of the Board of the European Power Tool Association (EPTA).

Other key management personnel

Jörg Kampmeyer
Chief Financial Officer
Vaduz, Principality of Liechtenstein

Jörg Kampmeyer (born 1968, Germany) has been a Member of the Executive Board since April 2011. He is responsible for the Finance, Human Resources, IT and Corporate Development units. Jörg Kampmeyer studied mechanical engineering and economics at RWTH Aachen University after which he worked as a Management Consultant. He began his Hilti career in 2002 as the Head of Corporate Development in Schaan. From 2003 to 2005, he was responsible for the company's worldwide marketing activities before heading the German Market Organization in 2006 and, as of 2010, the Market Region Central Europe.

Dr. Christoph Loos
Schaan, Principality of Liechtenstein

Christoph Loos (born 1968, Germany) has been a Member of the Executive Board since 2007. For four years he has been responsible for Finance, HR and IT. Since 2011, he is in charge of Emerging Markets and the global Energy & Industry business. After finishing his studies of business administration at the University of St. Gallen he has worked for an international management consultancy in Germany and China. Upon joining Hilti in 2001, he first led the Corporate Development team, after which he established the Strategic Marketing unit. At the end of 2003, he moved to Germany, first as a Regional Sales Director and then as General Manager of Hilti Germany. Christoph Loos is a member of the Board of Trustees of the St. Gallen Foundation for International Studies.

Marco Meyrat
Chur, Switzerland

Marco Meyrat (born 1963, Switzerland) has been a Member of the Executive Board since the beginning of 2005. He is responsible for the markets in Europe and North America. With a business degree from the University of St. Gallen, he began his career in 1989 as Product Manager at Hilti headquarters in Schaan. After holding various positions in Hilti France and Hilti Germany, he was named Head of Hilti Switzerland in 1999 and was subsequently appointed General Manager of Hilti Germany in 2002. Marco Meyrat is Chairman of the Board of Directors of OLMeRO AG, Glattbrugg.

Dr. Stefan Nöken
Mörschwil, Switzerland

Stefan Nöken (born 1965, Germany) has been on the Executive Board since the beginning of 2007. He is responsible for the Fastening & Protection, Global Logistics and Corporate Intellectual Property units. Following studies in mechanical engineering at Aachen University, where he earned a doctorate, he was employed at the Fraunhofer Institute for Production Technology in Aachen. In 2000, he joined Hilti as the Head of Corporate Engineering. In 2004, he was appointed Head of Supply Chain Management. Stefan Nöken is a Member of the Board of Trustees of the Fraunhofer Institute for Production Technology in Aachen and Vice-President of the Forum for Supply Chain Management at the ETH Zurich.

Other key management personnel

Executive Management Team

Executive Board	(see above)
Regions	Guillaume Aberlenc, nationality: French
	Cary Evert, nationality: American
	Gareth Lewis, nationality: British
	Jochen Olbert, nationality: German
	Joaquim Sardà Solsona, nationality: Spanish (since 01 July 2012)
	Peter Stracar, nationality: Czech (until 31 December 2012)
	Ingo Valentini, nationality: Austrian (until 30 June 2012)
	Robbert van der Feltz, nationality: Dutch
Business Units	Tassilo Deinzer, nationality: German
	Jan Doongaji, nationality: Swiss
	Johannes Wilfried Huber, nationality: Austrian
	Raimund Zaggl, nationality: Austrian
Corporate Functions	Roeland Baaijens, nationality: Dutch
	Michael Gahleitner, nationality: Austrian
	Klaus Risch, nationality: Liechtensteiner
	Günter Schweitzer, nationality: German (until 31 December 2012)
	Franz Wirnsperger, nationality: Austrian
	Martin Petry, nationality: German

Corporate governance

Election and term of office for the members of the Board of Directors

The members of the Board of Directors of Hilti Corporation are elected by the Annual General Meeting for three years. As a rule, directors serve up to four terms, but no longer than until the end of the business year in which they reach the age of 70.

Allocation of responsibilities and duties of the Board of Directors

In addition to its legally defined duties, the Board of Directors specifically takes decisions on the basic strategic direction of the Group, its long-term and annual strategic planning, important business decisions, as well as the succession planning of the Board of Directors itself and the succession planning and the appointment of the Executive Board.

In the last business year, the Board of Directors supervised the activities of the Executive Board and supported it in a consultative capacity. The Board of Directors took a strategic focus and actively involved in projects concerning group strategy. In several multi-day Board meetings and visits to major operating units of the Group, as well as on the basis of written and oral reports of the Executive Board, the Board of Directors dealt intensively with the economic situation, day-to-day running of the business as well as with its corporate policy, financial planning, risk management and basic questions of corporate development. Furthermore, the Board of Directors was kept fully informed by the statutory auditors on the results of the audit of the annual accounts.

Audit Committee

The Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities with respect to the accounting and financial reporting practices of Hilti Corporation and its subsidiaries, compliance with legal and regulatory requirements, the internal and external audit processes as well as with its oversight of the risk management. The overall responsibility for the tasks delegated to the Audit Committee remains with the Board of Directors. In 2012, the Audit Committee consisted of Dr. Michael Jacobi (Chairman of the Audit Committee) and Dr. Tis Prager who were appointed by the Board of Directors for a term of one year.

Internal audit

The internal audit department, Corporate Audit, supports the Board of Directors by monitoring the internal control status within group entities. To achieve this, Corporate Audit conducts audits focused on controls within major transaction cycles as well as on processes for management of selected corporate risks. Corporate Audit’s objective is to provide transparency over the Group’s control environment and enable security to be provided over the Group’s resources.

Risk management

The Group maintains an enterprise wide risk management process which involves a complete risk inventory with different risk owners assigned to manage all known strategic, financial and occurrence-oriented risks of the Group. The risk owners are responsible for their respective risks to evaluate, implement, review and monitor compliance with the corresponding risk mitigation measures. The Corporate Risk Manager is responsible for the risk reporting process and to ensure the reported content and identified measures regarding the identified risks is plausible. Corporate Audit undertakes reviews of selected risks as part of their internal control reviews in group entities (see above) and in corporate functions managed by the respective risk owners. The risk management reporting is regularly reviewed by the Board of Directors.

Corporate governance

Compensation to the Board of Directors and Corporate Management

Members of the Board of Directors are paid a fixed annual compensation plus a lump sum for expenses. There is no additional compensation for the performance of an Audit Committee function by a director. Former members of the Board of Directors do not receive any remuneration.

The members of Corporate Management (the Executive Management Team, including the Executive Board) receive an annual base salary and a bonus linked to performance. Members of the Executive Board normally retire at the age of 56. They receive a severance payment in addition to their statutory pension fund entitlement.

Former members of the Executive Management Team do not receive any additional compensation other than their statutory pension fund entitlement. Total compensation is detailed in the consolidated financial statements of Hilti Group (see note 42).

Shareholders' participation rights

Details of share and participation capital are given in the consolidated financial statements of the Hilti Group (see note 20). Resolutions of shareholder meetings are generally decided by an absolute majority of represented votes. A majority of at least three quarters of represented votes is necessary to change the articles of incorporation, or for resolutions concerning changes to share and participation capital, subscription rights, expansion or restriction of business scope as well as mergers, transformation or liquidation of the company.

Auditors

The examinations of the Group's consolidated financial statements and the financial statements of Hilti Corporation are conducted by PricewaterhouseCoopers Ltd., St. Gallen. The company was reappointed in March 2012 for the 2012 year. The leading auditor has been responsible for the mandate from 2012 following a partner rotation after the 2011 year. The previous leading auditor was responsible for the mandate from 2005 to 2011. In respect of the 2012 year, audit fees of the leading auditor amount to CHF 1.7 million whereas the non-audit-related fees amount to CHF 0.3 million. Total audit fees of the Group including audits not performed by the leading auditor amount to CHF 2.4 million.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Consolidated financial statements of Hilti Group

Consolidated financial statements

Consolidated balance sheet of Hilti Group as at December 31
(financial amounts in CHF million)

	Note		2012	2011
ASSETS				
Intangible assets	7		371.3	394.4
Property, plant and equipment	8		748.5	746.4
Investment property	9		2.2	6.8
Investments in associates and joint ventures	10		13.3	12.1
Deferred income tax assets	11		147.0	130.4
Other financial investments	12		17.2	16.6
Trade and other receivables	14		349.1	312.0
Derivative financial instruments	16		19.2	43.5
Total non-current assets			1,667.8	1,662.2
Inventories	13		555.3	615.9
Trade and other receivables	14		897.5	930.6
Current income taxes receivable	26		8.3	14.4
Accrued income and prepayments	15		82.9	47.6
Derivative financial instruments	16		9.0	8.2
Financial assets at fair value through profit or loss	17		35.8	26.4
Cash and cash equivalents	18		1,302.7	1,062.5
Assets classified as held for sale	19		–	–
Total current assets			2,891.5	2,705.6
TOTAL ASSETS			4,559.3	4,367.8

The notes on pages 26 to 77 are an integral part of these consolidated financial statements.

Consolidated financial statements

	Note		2012	2011
EQUITY AND LIABILITIES				
Non-controlling interest			14.3	13.0
Equity attributable to equity holders of the parent			2,282.3	2,198.9
Total equity	20		**2,296.6**	**2,211.9**
Provisions	21		80.0	108.7
Pension and termination benefit obligations	22		337.5	303.2
Deferred income tax liabilities	11		28.6	29.8
Bonds	23		510.3	447.8
Long-term bank borrowings	24		64.3	81.2
Trade and other payables	25		22.0	24.7
Derivative financial instruments	16		0.9	1.4
Total non-current liabilities			**1,043.6**	**996.8**
Provisions	21		116.8	51.4
Trade and other payables	25		315.6	278.0
Current income taxes payable	26		92.2	98.4
Accrued liabilities and deferred income	27		399.7	304.8
Bonds	23		149.7	299.8
Short-term bank borrowings	28		141.7	112.7
Derivative financial instruments	16		3.4	14.0
Total current liabilities			**1,219.1**	**1,159.1**
Total liabilities			**2,262.7**	**2,155.9**
TOTAL EQUITY AND LIABILITIES			**4,559.3**	**4,367.8**

The notes on pages 26 to 77 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated income statement of Hilti Group for the year ending December 31
(financial amounts in CHF million)

	Note		2012	2011
Net sales	29		4,203.6	3,997.5
Other operating revenues			83.3	73.9
Total operating revenues			**4,286.9**	**4,071.4**
Change in inventory	30		(56.1)	62.4
Material costs	30		(1,282.1)	(1,418.0)
Personnel expenses	31		(1,688.1)	(1,572.1)
Depreciation and amortization	32		(196.2)	(215.8)
Other operating expenses	33		(763.9)	(720.7)
Total operating expenses			**(3,986.4)**	**(3,864.2)**
Operating result			**300.5**	**207.2**
Share of profit / (loss) of equity-accounted associates and joint ventures	10		1.4	2.4
Other revenues and expenses (net)	34		(15.7)	(33.2)
Finance costs	35		(56.2)	(57.5)
Net income before income tax expense			**230.0**	**118.9**
Income tax expense	36		(36.0)	(22.4)
Net income			**194.0**	**96.5**
Attributable to:				
Equity holders of the parent			192.5	94.1
Non-controlling interest			1.5	2.4

The notes on pages 26 to 77 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of comprehensive income of Hilti Group for the year ending December 31 (financial amounts in CHF million)

	Note		2012	2011
Net income per income statement			194.0	96.5
Gains / (losses) on cash flow hedges taken to equity	16		2.2	(2.1)
(Gains) / losses on cash flow hedges transferred from equity to income statement	16		1.3	(9.3)
Actuarial gains / (losses) on defined benefit plans	22		(68.8)	(91.8)
Foreign currency translation differences	20		(6.7)	(34.5)
Deferred tax on items taken directly to or transferred from equity	20		11.0	13.9
Other comprehensive Income (OCI)	20		(61.0)	(123.8)
Total comprehensive Income			133.0	(27.3)
Attributable to:				
Equity holders of the parent			131.9	(30.2)
Non-controlling interest			1.1	2.9

The notes on pages 26 to 77 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of changes in equity of Hilti Group for the year ending December 31 (financial amounts in CHF million)

	Share and participation certificate capital	Capital reserves	Foreign currency translation reserve	Cash flow hedging reserve	Retained earnings	Non-controlling interest	Total equity
Equity at January 1, 2012	126.7	17.4	(330.2)	(2.2)	2,387.2	13.0	2,211.9
Change in non-controlling interest	–	–	–	–	(1.6)	0.2	(1.4)
Dividend paid	–	–	–	–	(46.9)	–	(46.9)
Total comprehensive income	–	–	(6.3)	3.1	135.1	1.1	133.0
Equity at December 31, 2012	126.7	17.4	(336.5)	0.9	2,473.8	14.3	2,296.6

	Share and participation certificate capital	Capital reserves	Foreign currency translation reserve	Cash flow hedging reserve	Retained earnings	Non-controlling interest	Total equity
Equity at January 1, 2011 (as previously reported)	126.7	17.4	(264.4)	8.9	2,411.5	4.3	2,304.4
Reclassification	–	–	(30.8)	–	30.8	–	–
Equity at January 1, 2011 (after reclassification)	126.7	17.4	(295.2)	8.9	2,442.3	4.3	2,304.4
Change in non-controlling interest	–	–	–	–	–	5.8	5.8
Dividend paid	–	–	–	–	(71.0)	–	(71.0)
Total comprehensive income	–	–	(35.0)	(11.1)	15.9	2.9	(27.3)
Equity at December 31, 2011	126.7	17.4	(330.2)	(2.2)	2,387.2	13.0	2,211.9

The reclassification corrects a misallocation within equity relating to periods prior to 2011 which previously had understated the foreign currency translation reserve loss position and understated the retained earnings position. This reclassification has no effect on total equity as reported in the consolidated balance sheet.

The “Change in non-controlling interest” results from the acquisition of the remaining 49% interest in Hilti Tendon Technologies Pty. Ltd., Australia, in 2012 and from the investments in Hilti Emirates LLC, United Arab Emirates, and Hilti Qatar W.L.L., Qatar, in 2011.

For further details on equity see note 20.

The notes on pages 26 to 77 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated cash flow statement of Hilti Group for the year ending December 31
(financial amounts in CHF million)

	Note		2012	2011
Net income			194.0	96.5
Depreciation and amortization	32		196.2	215.8
(Gains) / loss on foreign currencies and cash flow hedging instruments	34		18.3	38.9
Share of (profit) / loss of equity-accounted associates and joint ventures	10		(1.4)	(2.4)
(Gain) / loss on disposal of investments			(9.4)	0.1
Valuation of financial liabilities under amortized cost basis			1.3	1.6
Income tax expense (excluding deferred tax)	36		45.1	38.7
Interest (income) / expense	34, 35		50.8	50.4
(Increase) / decrease in inventories			56.1	(62.4)
(Increase) / decrease in trade receivables			57.2	(54.9)
Increase / (decrease) in trade payables			21.3	20.7
(Increase) / decrease other net operating assets			82.9	(3.8)
Cash flow from operating activities before interest and tax			712.4	339.2
Interest received			5.4	7.1
Interest paid			(56.2)	(57.5)
Income tax paid			(45.0)	(47.3)
Cash flow from operating activities			616.6	241.5
Capital expenditure on intangible assets			(61.9)	(87.9)
Capital expenditure on property, plant and equipment			(125.6)	(123.7)
Acquisition of subsidiaries	43		–	(7.2)
(Increase) / decrease in financial investments			(11.1)	9.1
Disposal of intangible assets			2.0	–
Disposal of property, plant and equipment			5.2	7.9
(Increase) / decrease in finance lease receivables			(61.9)	(67.4)
Cash flow from investing activities			(253.3)	(269.2)
Increase in long-term bank borrowings			0.4	26.7
(Decrease) in long-term bank borrowings			(12.7)	(10.1)
Increase in long term loans			1.0	3.2
(Decrease) in long term loans			(1.2)	–
Increase / (decrease) in short-term bank borrowings			28.2	18.8
Increase in bonds			210.9	–
(Decrease) in bonds			(300.0)	–
Increase / (decrease) in liability to shareholder	42		–	(0.4)
Dividend paid	20		(46.9)	(71.0)
Cash flow from financing activities			(120.3)	(32.8)
Effects of exchange rate changes on cash and cash equivalents			(2.8)	(11.4)
Total increase / (decrease) in cash and cash equivalents			240.2	(71.9)
Cash and cash equivalents at January 1			1,062.5	1,134.4
Cash and cash equivalents at December 31			1,302.7	1,062.5

The notes on pages 26 to 77 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

(1) General information

The Hilti Group (the Group) comprises the Hilti Corporation and its domestic and foreign subsidiaries. The Group supplies the worldwide construction industry with technologically leading products, systems and services that provide construction professionals with innovative solutions and superior added value. Its product range includes equipment and systems covering drilling and demolition, direct fastening, diamond and anchoring, fire stop and foam, installation, measuring, screw fastening, and cutting and sanding.

The Hilti Corporation is a limited liability company incorporated and domiciled in the Principality of Liechtenstein. The Group's headquarters and the address of its registered office are at Feldkircherstrasse 100, 9494 Schaan, Liechtenstein. The Group's principal production and research and development location is Liechtenstein with further production and research and development locations worldwide. The Group operates in over 120 countries and has some 21,000 employees worldwide.

These consolidated financial statements were approved for issue by the Board of Directors on March 6, 2013.

(2) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(2.1) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Preparation of the financial statements in accordance with IFRS meets the requirements of Liechtenstein's corporations law, the Personen- und Gesellschaftsrecht (PGR).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments).

The preparation of financial statements in conformity with IFRS can require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The accounting estimates and judgments reflected in the 2012 consolidated financial statements that are critical in the context of the Group's financial position and financial performance are explained in note 3.

(2.2) Method of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Goodwill is recognised for any excess over the fair value of the identifiable net assets acquired of the sum of (i) the consideration transferred, (ii) the amount of any non-controlling interest in the acquiree and (iii) the acquisition-date fair value of any previous equity interest in the acquiree. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group.

Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are all entities over which the Group has joint control but not unilateral control, generally accompanying a shareholding of 50% of the voting rights.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investments in associates and joint ventures include goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognized in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates or joint ventures are changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2.3) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Board (EB) that makes strategic decisions. With the Group's Multi-Channel-Service (MCS) approach, all products and services are relevant for all customers and the EB steers the business on group level as one unit. In accordance with IFRS 8 Operating Segments, paragraph 5, the Hilti Group therefore operates in only one single operating segment. The single operating segment disclosure is accordingly set out in the balance sheet, income statement, statement of comprehensive income, statement of changes in equity and the cash flow statement. Breakdown of the segment information in terms of products, services and geographical areas is provided in note 37.

(2.4) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss francs, which is the functional and presentation currency of the Hilti Corporation.

Notes to the consolidated financial statements

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, excluding long-term inter-company accounts receivables and payables, are recognized in the income statement. Foreign exchange gains and losses relating to long-term inter-company foreign currency loans are regarded as part of the net investment in the foreign entity and are recognized in "Other comprehensive income" (OCI).

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in equity.

Translation on consolidation

The results and financial position of all the Group's entities that have a functional currency different from the Group's presentation currency are translated on consolidation into the Group's presentation currency as follows:

- assets and liabilities at the closing spot exchange rates at the balance sheet date (closing rate); and
- income and expense items at year-to-date sales-weighted average exchange rates (average rate) (to provide a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

Gains and losses arising from the following impacts of the translation of the financial statements of foreign operations are recognized in "Other comprehensive income" (OCI):

- the difference between the average rate and the closing rate on income and expense items;
- the difference between the closing rate of the previous year and the closing rate of the current year on opening net investments; and
- the difference between the transaction date rate and the closing rate on the change in net investments during the year.

When a foreign entity is sold, applicable exchange differences are recycled to the income statement and recognized as part of the gain or loss on sale. When a foreign entity is acquired, any applicable goodwill and fair value adjustments are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

The following exchange rates of principal currencies were applied for translation into Swiss francs:

in CHF	Average rates		Closing rates	
	2012	2011	**2012**	2011
1 CAD	0.939	0.891	0.919	0.918
1 EUR	1.205	1.234	1.207	1.214
1 GBP	1.484	1.417	1.488	1.453
100 JPY	1.175	1.112	1.059	1.215
100 RUB	3.019	2.991	2.996	2.911
1 USD	0.938	0.882	0.915	0.935

Notes to the consolidated financial statements

(2.5) Intangible assets

Goodwill is considered to have an indefinite useful life and is accordingly not amortized. Goodwill is tested annually for impairment and recognized at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of any goodwill relating to the entity sold.

Other intangible assets consist mainly of database and application software, certain product development expenditure and manufacturing patents. These assets are recognized at historical cost less accumulated amortization and accumulated impairment losses, if any. They are amortized on a straight-line basis over their estimated useful lives which are mostly periods of between three and five years. Other periods may be used where specific contractual conditions apply.

Development expenditure is recognized as an asset only when the prerequisite criteria under IAS 38 Intangible Assets are met. In substance, these criteria include the condition that there be probable future benefits that are directly attributable to the expenditure. In practice, only expenditure on certain product development projects that are subjected to a stringent review process meets this condition. Such assets are normally amortized on a straight-line basis over a three-year period. All other development expenditure is recognized directly as an expense when incurred.

(2.6) Property, plant and equipment

Land is valued at historical cost less accumulated impairment losses, if any. Other property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Historical cost may also include transfers from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other subsequent costs represent repairs and maintenance and are recognized in the income statement in the period they are incurred.

Depreciation is calculated using the straight-line method to allocate the historical costs of assets, less their residual values, over their estimated useful lives. The estimated useful lives of depreciable property, plant and equipment are:

Buildings	30 to 40 years
Plant and machinery	5 to 15 years
Other operating assets	2 to 7 years

The residual values and estimated useful lives of assets are reviewed and adjusted, if appropriate, at each balance sheet date.

Gains and losses on disposal are determined by comparing disposal proceeds with carrying amount. These are recognized in the income statement in the period of disposal.

(2.7) Investment property

Investment property comprises land and / or buildings held to earn rentals or for capital appreciation. Investment property is measured on the same basis as land and buildings included in property, plant and equipment. The Group has elected not to take the option in

IAS 40 Investment Property to recognize its investment property at fair value. Investment property is disclosed separately from property, plant and equipment in accordance with IAS 1 Presentation of Financial Statements.

(2.8) Impairment of intangible assets, property, plant and equipment, and investment property

Intangible assets that have indefinite useful lives are not subject to amortization but are tested annually for impairment. Other intangible assets, property, plant and equipment, and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(2.9) Financial assets

For the purposes of identifying accounting policies applied, financial assets are classified into the following four categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the 2011 and 2012 years, the Group did not hold any investments in this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the 2011 and 2012 years, the Group did not hold any investments in this category.

Notes to the consolidated financial statements

Accounting policies applied to financial assets

The accounting policies applied to financial assets are as follows:

For all classes of financial assets, purchases and sales are recognized on trade date (the date on which the Group commits to purchase or sell the asset). Financial assets at fair value through profit or loss are initially recognized at fair value with applicable transaction costs immediately recognized in the income statement. All other financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently recognized at fair value. Loans and receivables and held-to-maturity investments are recognized at amortized cost determined using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are recognized in the income statement in the period they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognized in "Other comprehensive income" (OCI). When these securities are sold or impaired, the accumulated fair value adjustment is recycled to the income statement and recognized as part of gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If current bid prices are not available, fair value is determined using other information such as that derived from the market prices of other similar instruments, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss recognized in "Other comprehensive income" (OCI) (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is recycled to the income statement.

(2.10) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the standard cost method with variances capitalized at acquisition and production and recognized in the income statement together with the standard cost of inventory at time of sale. Cost determined under this method approximates cost determined under the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less costs of completion and direct selling expenses.

(2.11) Trade receivables

Trade receivables (see loans and receivables category of financial assets in note 2.9 above) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an adjustment for impairment. The amount of the adjustment for impairment is based on both an individual assessment according to known circumstances of specific trade receivables and a collective assessment using an aging calculation applied to all trade receivables, excluding those individually assessed, that are "past due" more than 31 days.

When there is objective evidence that a trade receivable is determined to be uncollectible, it is written off against the adjustment for impairment account. Examples of such objective evidence are significant financial difficulties of debtors, probability that debtors will enter bankruptcy or financial reorganization and default or delinquency in payments. Changes in the adjustment for impairment account as well as any subsequent recoveries of amounts previously written off are recognized in the income statement.

(2.12) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments, such as high-quality tradable bonds.

(2.13) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any group entity purchases the Hilti Corporation's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

(2.14) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

(2.15) Income taxes

Current income taxes

Income taxes payable and refundable relating to the current or prior years are classified, respectively, as current income taxes payable and current income taxes receivable.

Deferred income taxes

Deferred income taxes are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been legally enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of a temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(2.16) Employee benefits

Pension benefits

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic (one to three years) actuarial calculations. The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund and will have no legal or constructive obligation to pay further contributions if the fund cannot meet its employee service benefit obligations. A defined benefit plan is either a pension plan that predefines the amount of pension benefit that an employee will receive on retirement (usually dependent on one or more factors such as age, years of service and compensation) or a pension plan under which the Group has a legal or constructive obligation to pay further contributions if the fund cannot meet its employee service benefit obligations.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. For defined benefit plans, the liability recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated at least every three years by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in “Other comprehensive income” (OCI) in the period they arise through the consolidated statement of comprehensive income.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to:

- terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal;
- providing termination benefits as a result of an offer made to encourage voluntary redundancy; or
- providing termination benefits due to a requirement under law.
- Where a detailed formal plan exists, the liability is recognized as part of restructuring obligations in provisions (see note 2.17).

Long-service benefits

Some group entities provide jubilee and other similar long-service benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans.

Notes to the consolidated financial statements

Profit sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit sharing, based on changes in key financial results, such as sales, operating profit and net income, as specified in employment contracts.

(2.17) Provisions

The Group recognizes a provision when:

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

Major types of provisions recognized by the Group include provisions for warranty service costs, restructuring costs, and product liability and legal claims. Provisions for restructuring costs mostly comprise expected lease termination penalties and employee termination benefit payments. Provisions are not recognized for future operating losses. Where provisions relate to a number of similar obligations, such as provisions for warranty service costs, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is then recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(2.18) Trade and other payables

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

(2.19) Revenue recognition

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, the revenue can be measured reliably and the payment can be reasonably assured. Revenue from services rendered is recognized by reference to the stage of completion of the transaction at the balance sheet date. Revenue from sales of goods under finance leases is recognized in the periods the leases commence and the applicable interest income is recognized on an actuarial basis over the lease terms. All revenues from sales of goods and services rendered are recognized at normal selling price less applicable trade discounts and rebates. Revenue from operating leases is recognized on a straight-line basis over the lease terms.

(2.20)Dividend distributions

Dividend distributions to the Hilti Corporation's shareholders are recognized as liabilities in the Group's financial statements in the periods in which the dividends are approved by the Corporation's shareholders.

(2.21) Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury) under policies approved by the Board of Directors. Corporate Treasury identifies, evaluates and hedges certain financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as the use of derivative and non-derivative financial instruments, managing credit risk and investing excess liquidity.

Notes to the consolidated financial statements

Market risk

Currency risk

The Group is exposed to risk arising from various currency exposures, primarily with respect to the Euro and the US dollar. Currency risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations, when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

Currency risk arising from future operating transactions (sales and purchases of goods and services) and recognized assets and liabilities is managed by Corporate Treasury using hedging instruments, primarily forward contracts, cross-currency swaps and currency options. Corporate Treasury's risk management practice is to hedge between 50% and 100% of the Group's anticipated foreign exchange (FX) net cash in- or outflows for the subsequent 12 months. For hedge accounting purposes, forward contracts are designated against the relevant amounts of projected inter-company sales by the parent company and 100% (2011: 100%) of projected sales qualify as "highly probable" forecast transactions.

The four categories of recognized financial assets and liabilities having the largest currency translation risk exposure are trade and other receivables, cash and cash equivalents, trade and other payables and bonds. The currency denominations at the balance sheet date of the carrying amounts of these items are shown in notes 14, 18, 23 and 25 respectively. These items represent the largest portions of the balances underlying the Group's investments in foreign operations.

Currency exposures arising from open balances with third parties and / or group entities in trade and other receivables, trade and other payables, and bonds are reduced through the natural hedging (currency matching) of these items as well as managed using hedging instruments. Currency exposures arising from cash and cash equivalents are reduced by limiting non-Swiss franc-denominated investments to the main currencies of the operative business of the Group (primarily Euro and US dollar) and by limiting the proportions of investments in these currencies.

At December 31, if the Swiss franc had strengthened / weakened by 10% against the US dollar / Euro with all other variables held constant, net income for the year would have been affected as follows (financial amounts in CHF million):

Net income	Swiss franc strengthened (+10%)		Swiss franc weakened (-10%)	
	2012	2011	**2012**	2011
USD	(2.8)	(0.6)	2.8	0.6
EUR	(0.2)	(3.3)	0.2	3.3

These effects result from the translation of trade receivables, loans, cash and cash equivalents and derivative contracts held in foreign currencies.

At December 31, if the Swiss franc had strengthened / weakened by 10% against the US dollar / Euro with all other variables held constant, "Other comprehensive income" (OCI) would have been affected as follows (financial amounts in CHF million):

OCI	Swiss franc strengthened (+10%)		Swiss franc weakened (-10%)	
	2012	2011	**2012**	2011
USD	(1.7)	(1.4)	1.7	1.4
EUR	(8.0)	(20.8)	8.0	20.8

These effects result from (i) the translation of foreign currency long-term inter-company loans treated as equity and (ii) changes in the values (due to the respective Swiss franc movements) of CHF derivative contracts held to hedge foreign currency risk. However, these effects exclude the impacts of exchange differences arising on group entity financial instruments that are covered by the retranslation adjustments of net investments in foreign operations (see note 2.4, 4th and 5th bullet points under sub-heading "Translation on Consolidation").

Interest rate risk

The Group has significant investments in interest-bearing assets, mainly deposits, and significant long-term borrowings, mostly consisting of bonds the Group itself has issued. Interest-bearing assets and borrowings subject to variable rates or held for trading expose the Group to cash flow interest rate risk. Interest-bearing assets and borrowings subject to fixed rates and not held for trading expose the Group to fair value interest rate risk.

Virtually all the Group's interest-bearing assets are subject to variable rates or are reported at fair value through profit or loss because they are held for trading. All the Group's bond liabilities are reported at amortized cost. The interest-bearing assets are denominated primarily in Swiss franc and Euro investments (see note 18) and the bond liabilities are effectively denominated in a combination of Swiss franc and Euro. Interest rate risk arising from long-term financing (banking and capital market) liabilities is managed by Corporate Treasury by using hedging instruments, primarily interest rate swaps. Corporate Treasury's risk management practice is to hedge between 40% and 60% of the Group's relevant interest exposure.

Based on the December 31, levels of borrowings subject to variable rates and interest-bearing assets subject to variable rates or held for trading, an increase / decrease of ten basis points would have affected net income as follows (financial amounts in CHF million):

Net income	Ten basis point increase		Ten basis point decrease	
	2012	2011	**2012**	2011
All currencies	0.9	0.6	(0.9)	(0.6)

Separate simulations of the impact of interest rate changes on each of the Swiss franc, Euro and US dollar investment holdings have not been completed since an increase / decrease of ten basis points is considered reasonably possible for each of the three currencies.

Notes to the consolidated financial statements

Due to interest rate derivatives, "Other comprehensive income" (OCI) would have been impacted as follows (financial amounts in CHF million):

OCI	Ten basis point increase		Ten basis point decrease	
	2012	2011	2012	2011
USD	–	0.1	–	(0.1)

Other price risk

The Group is exposed to some securities price risk because of investments held by the Group which are at fair value through profit or loss. However, the impact of adverse price changes would be minor since the Group's investments in equities are relatively small. At the balance sheet date, the carrying value of such investments is CHF 16.4 million (2011: CHF 15.3 million). Accordingly, no sensitivity analysis has been undertaken.

Credit risk

Credit risk is managed on a group basis. Virtually all credit risk arises from cash and cash equivalents (which primarily consist of demand deposits with first-class financial institutions) and from trade receivables (which represent credit exposures to customers).

The Group has significant concentrations of credit risk arising from its investments in cash and cash equivalents. These concentrations relate only to demand deposits with banking institutions. Relevant credit information about the largest banking institution counterparties at the balance sheet date is given in note 18. A minimum credit rating of "A" applies to all counterparty institutions.

For trade receivables, the Group has policies in place to ensure that credit sales of products are made to customers with appropriate credit histories. In addition, an active credit management focus is maintained in all the Group's market organizations to ensure that the impact of credit risk is minimized. Details of the impairment estimates of trade receivables are given in note 14. The Group has no significant concentrations of corresponding credit risk.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Corporate Treasury. Corporate Treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn established borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example currency restrictions.

Surplus cash held by the operating entities over and above balance required for working capital management is transferred to Corporate Treasury. Corporate Treasury invests surplus cash in interest-bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held liquid funds of CHF 1,302.7 million (2011: CHF 1,062.5 million) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the periods from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments (financial amounts in CHF million):

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At December 31, 2012				
Borrowings	316.4	356.3	200.9	50.8
Finance lease liabilities	0.2	0.7	0.5	–
Trade and other payables (excluding finance lease liabilities)	315.4	0.8	6.8	13.2

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At December 31, 2011				
Borrowings	445.0	200.9	357.4	–
Finance lease liabilities	0.6	0.6	0.3	–
Trade and other payables (excluding finance lease liabilities)	277.4	6.4	4.1	13.3

All of the non-trading Group's derivative financial instruments are in hedge relationships and are disclosed in note 16.

The Group has an outstanding cross currency swap which is due in April 2014. This gross settled derivative financial instrument generates undiscounted contractual cash inflows of CHF 98.9 million (2011: CHF 229.7 million) and undiscounted contractual cash outflows of CHF 79.6 million (2011: CHF 190.1 million).

(2.22) Capital structure risk management

The Group's primary objective when managing capital is to add sustainable value for investors while ensuring the independence of the Group. In order to maintain or adjust the capital structure, the Group maintains a flexible dividend policy within the limits of its overall finance policies.

The Group monitors capital on the basis of the equity ratio measured as equity in percentage of total equity and liabilities. The Group views a high equity ratio as the basis for ensuring security, capability of taking risk, independence, flexibility and creditworthiness. The Group's objective is to maintain a sufficiently high equity ratio primarily to ensure independence from the influence of external creditors as well as to maintain a high external credit rating to help minimize the cost of debt if and when further debt is issued.

Notes to the consolidated financial statements

The Group's policy is to maintain a minimum equity ratio of 50% on a mid-term basis. Following is equity ratio information at the balance sheet date (financial amounts in CHF million):

	2012	2011
Total equity	2,296.6	2,211.9
Total equity and liabilities	4,559.3	4,367.8
Total equity in % Total equity and liabilities	50.4	50.6

The Group's credit rating as assessed by the Credit Suisse Banking Group during 2012 on the basis of the Group's 2011 Financial Report is "High A stable" (2011: "High A stable") (see Credit Suisse: Swiss Corporate Credit Handbook August 2012).

(2.23)Fair value estimation

IFRS 7 Financial Instruments – Disclosures requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value (financial amounts in CHF million):

	Level 1	Level 2	Level 3	Total balance
At December 31, 2012				
Assets				
Financial assets at fair value through profit and loss	35.8	–	–	35.8
Derivatives used for hedging	–	28.2	–	28.2
Liabilities				
Derivatives used for hedging	–	4.3	–	4.3

	Level 1	Level 2	Level 3	Total balance
At December 31, 2011				
Assets				
Financial assets at fair value through profit and loss	26.4	–	–	26.4
Derivatives used for hedging	–	51.7	–	51.7
Liabilities				
Derivatives used for hedging	–	15.4	–	15.4

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific factors relevant to the valuation of financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The fair value of investment property is determined as follows: The land component is determined by appraisal based on comparable property land values in the corresponding areas. The buildings component is determined as the estimated depreciated replacement cost of the applicable buildings. A valuation has not been undertaken by an independent valuer since total investment property is insignificant.

The carrying values of trade receivables and payables are assumed to approximate their fair values. The carrying value of trade receivables is the total balance that is contractually receivable less the applicable impairment adjustment (see loans and receivables category of financial assets in note 2.9 above). The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(2.24) Accounting for derivative financial instruments and hedging activities

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

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges);
- hedges of highly probable forecast transactions (cash flow hedges); and
- hedges of net investments in foreign operations (net investment hedges).

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and at each external reporting date, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to the consolidated financial statements

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in "Other comprehensive income" (OCI). The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts recognized in the "cash flow hedging reserve" are recycled to the income statement in the periods when the hedged item will affect profit or loss (for example, when the hedged forecast sale takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in equity at that time remains in equity and is recycled to the income statement when the forecast transaction is ultimately recognized in the income statement. However, when a forecast transaction is no longer expected to occur, the applicable cumulative gain or loss recognized in the "cash flow hedging reserve" is immediately recycled to the income statement.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the "cash flow hedging reserve". The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses recognized in the "cash flow hedging reserve" are recycled to the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 16.

(2.25) Changes in accounting policies

There have been no changes in accounting policies in the 2012 consolidated financial statements from those adopted in 2011.

Notes to the consolidated financial statements

(3) Critical accounting estimates and judgments

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

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

(3.1) Trade receivables

Losses on trade receivables are recognized when they are incurred, which requires management's best estimate of probable losses. Such estimate requires consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including financial health of specific customers and market sectors or collateral values. Detailed information concerning trade receivables is given in note 14.

(3.2) Inventories

Write-downs of inventories are recognized for particular items when net realizable value falls below cost. The determination of net realizable value is made using a valuation process based on the aging of items with aging parameters set based on estimates of historical loss experience. This process assumes a linear realizable value reduction based on age which might not always be reflective of market behavior. Detailed information concerning inventories is given in note 13.

(3.3) Defined benefit plans

The expense incurred under the defined benefit retirement plans is based upon statistical and actuarial calculations, and is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, expected returns that will be made on existing pension assets, future salary increases as well as future pension increases. Furthermore, the independent actuaries use statistically based assumptions covering future withdrawals of participants from the plan and estimates on life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences could significantly impact the amount of pension income or expense recognized in future periods. A change of the discount rate of +0.25% / -0.25% has an impact of CHF (47.6) million / CHF 50.6 million on the defined benefit obligation. Detailed information concerning the defined benefit plans is given in note 22.

(3.4) Income taxes

The measurement of current and deferred income tax liabilities or assets is dependent on the interpretation of income tax laws and regulations in the respective countries. Additionally, in tax audits the judgment made by management and tax consultants is finally checked and adapted. As a consequence deviations between the initial assumptions and the final determination of income taxes may lead to material changes to current or deferred income tax expense of the period in which income tax is definite. Furthermore, the recognition of deferred tax assets on tax loss carry forwards depends on the probability of future taxable profits of group entities. Several internal and external factors are used in the estimation of such future profits.

(3.5) Other critical accounting estimates and judgments

In the ordinary course of business, the company is or may be involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental, health and safety matters, etc. The company is currently not aware of any such matter that either individually or in the aggregate could likely have a material adverse effect on the company's future financial position or results of operations.

Notes to the consolidated financial statements

(4) Early adoption of IFRS requirements

During 2012, the Group has not early adopted the requirements of the following IFRS standards, which at December 31, 2012, have been issued but are not effective for the 2012 Financial Statements:

Standard / Amendment to Standard	Effective date	Content	Importance for the Group
IAS 1: Financial Statement presentation	July 1, 2012	Main change resulting from these amendments is to require classifications of items of "Other comprehensive income" (OCI) based on whether they are potentially subsequently recyclable to profit or loss.	No significant impact expected.
IAS 19: Employee Benefits	January 1, 2013	These amendments eliminate the corridor approach, calculate finance costs on a net funding basis and consider risk sharing elements between employer and employee in the determination of the DBO. In addition there are changed disclosure requirements.	The Group will adopt the revised IAS 19 as of January 1, 2013, with related retrospective application in 2012. Based on the current knowledge, the financial impacts of its retrospective application in 2012 are expected to be approximately as follows: • Net income: reduction of CHF 8 million • Equity: increase of CHF 35 million as of December 31, 2012 The disclosure requirements will result in some reclasses within provision details.
IAS 27 (revised 2011): Separate Financial statements	January 1, 2013	The revised IAS 27 includes dispositions on separate financial statements that are left after the control disposition has been included in the new IFRS 10.	No significant impact expected.
IAS 28 (revised 2011): Associates and joint ventures	January 1, 2013	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	No significant impact expected.
IFRS 1: First time adoption on government loans	January 1, 2013	This amendment addresses how first time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.	Not relevant.
IFRS 7: Financial Instruments Disclosure on asset and liability offsetting	January 1, 2013	The amendment includes new disclosure requirements in order to facilitate the comparison between financial statements prepared in accordance with IFRS and US GAAP.	No significant impact expected.
IFRS 10: Consolidated Financial Statements	January 1, 2013	The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. Basically the standard compromises IAS 27 Consolidated and Financial Statements and SIC-12 Consolidated Special Purpose Entities.	No significant impact expected.
IFRS 11: Joint arrangements	January 1, 2013	The standard requires the following distinction: • Joint operations which lead to partial recognition of assets, liabilities, revenues and expenses • Joint ventures which are accounted with the equity method	The Group has assessed IFRS 11's impact on joint operations and joint ventures. The impact on total assets & liabilities, as well as on the consolidated income statement is immaterial.

Notes to the consolidated financial statements

Standard / Amendment to Standard	Effective date	Content	Importance for the Group
IFRS 12: Disclosure of interest in other entites	January 1, 2013	IFRS 12 requires the disclosure for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	No significant impact expected.
IFRS 13: Fair value measurement	January 1, 2013	The amendment provides guidance on how to determine fair value measurements and requires disclosures about fair value measurements.	No significant impact expected.
IFRIC 20: Stripping costs in the production phase of a surface mine	January 1, 2013	The interpretation sets out the application for overburden waste removal (stripping) cost in the production phase of a surface mine.	Not relevant.
IAS 32: Financial instrument presentation	January 1, 2014	These amendments clarify some requirements for offsetting financial assets and financial liabilities in the balances sheet and their presentation.	No significant impact expected.
IFRS 9: Financial instruments	January 1, 2015	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	The Group has not yet assessed IFRS 9's full impact on classification and measurement of financial assets. However, it is expected that the adoption will not have a significant impact.

(5) Changes in the scope of consolidation

There have been no changes in the scope of consolidation in 2012.

(6) Financial assets and liabilities (financial amounts in CHF million)

Financial assets and liabilities listed according to the measurement categories identified under IAS 39 Financial Instruments: Recognition and Measurement and the corresponding balance sheet items are as follows:

IAS 39 measurement category	Corresponding balance sheet item(s)	2012	2011
Financial assets			
Financial assets at fair value through profit or loss (FVTPL)	Financial assets at fair value through profit or loss, Derivatives used for hedging	64.0	78.1
Held-to-maturity investments (HTM)		–	–
Loans and receivables (LR)	Cash and cash equivalents, Other financial investments, Trade and other receivables	2,566.5	2,321.7
Available-for-sale financial assets (AFS)		–	–
Total financial assets		2,630.5	2,399.8
Financial liabilities			
Financial liabilities at fair value through profit or loss (FVTPL)	Derivatives used for hedging	4.3	15.4
Financial liabilities measured at amortized cost	Bonds, Long-term bank borrowings, Trade and other payables, Short-term bank borrowings	1,203.6	1,244.2
Total financial liabilities		1,207.9	1,259.6

Notes to the consolidated financial statements

(7) Intangible assets (financial amounts in CHF million)

	Goodwill	Development costs	Other intangible assets	Total intangible assets
Cost 2012				
Opening balance at January 1, 2012	88.5	470.0	194.0	752.5
Currency translation adjustment	(1.9)	–	(1.1)	(3.0)
Change in scope of consolidation	–	–	–	–
Additions	–	56.8	5.1	61.9
Disposals	–	(2.1)	(3.2)	(5.3)
Other transfers	–	(0.1)	0.1	–
Closing balance at December 31, 2012	86.6	524.6	194.9	806.1
Accumulated amortization 2012				
Opening balance at January 1, 2012	–	(248.5)	(109.6)	(358.1)
Currency translation adjustment	–	–	0.7	0.7
Change in scope of consolidation	–	–	–	–
Additions	–	(51.9)	(25.1)	(77.0)
Impairment losses	–	(1.8)	(1.9)	(3.7)
Disposals	–	0.2	3.1	3.3
Other transfers	–	–	–	–
Closing balance at December 31, 2012	–	(302.0)	(132.8)	(434.8)
Net book values at December 31, 2012	86.6	222.6	62.1	371.3

	Goodwill	Development costs	Other intangible assets	Total intangible assets
Cost 2011				
Opening balance at January 1, 2011	88.2	448.6	160.9	697.7
Currency translation adjustment	0.3	–	(0.3)	–
Change in scope of consolidation	–	–	5.2	5.2
Additions	–	57.3	29.7	87.0
Disposals	–	(35.5)	(1.9)	(37.4)
Other transfers	–	(0.4)	0.4	–
Closing balance at December 31, 2011	88.5	470.0	194.0	752.5

Accumulated amortization 2011				
Opening balance at January 1, 2011	**–**	**(217.3)**	**(83.6)**	**(300.9)**
Currency translation adjustment	–	–	0.2	0.2
Change in scope of consolidation	–	–	–	–
Additions	–	(63.1)	(28.1)	(91.2)
Impairment losses	–	(3.6)	–	(3.6)
Disposals	–	35.5	1.9	37.4
Other transfers	–	–	–	–
Closing balance at December 31, 2011	**–**	**(248.5)**	**(109.6)**	**(358.1)**
Net book values at December 31, 2011	**88.5**	**221.5**	**84.4**	**394.4**

Of the intangible assets, only development costs are internally generated; all other intangible assets are acquired. Other intangible assets consist mainly of patents, brands, customer lists and database/application software licenses. Additions to accumulated amortization and impairment losses are included in depreciation and amortization (see note 32).

The goodwill of CHF 86.6 million (2011: CHF 88.5 million) arises from the acquisition of Unirac Inc. in 2010 and, for impairment testing purposes, is solely allocated to the Group's worldwide solar business as the cash-generating unit. To test for possible impairment of goodwill, the discounted value of the estimated future cash flows of the cash-generating unit (its "value in use") is compared with its carrying amount. The estimated future cash flows are based on a three-year forecast period – 2013 to 2015 – and a growth rate assumption of 2.0% (2011: 2.0%) for the terminal value beyond 2015 (2011: beyond 2015). The value in use is based on a discount rate of 10.7% before tax (2011: 12.8%). Based on the above inputs and assumptions, the cash-generating unit's value in use exceeds its carrying amount and this status would not change even if the growth rate assumption for the terminal value was reduced to zero and the discount rate before tax was increased by one percent.

(8) Property, plant and equipment (financial amounts in CHF million)

	Land and buildings	Plant and machinery	Other operating assets	Assets under construction	**Total tangible assets**
Cost 2012					
Opening balance at January 1, 2012	**751.9**	**747.7**	**530.0**	**41.0**	**2,070.6**
Currency translation adjustment	(6.6)	(1.1)	(3.2)	0.5	(10.4)
Change in scope of consolidation	–	–	–	–	–
Additions	11.2	29.0	37.8	47.9	125.9
Disposals	(2.2)	(13.7)	(44.5)	–	(60.4)
Transfers to investment properties	–	–	–	–	–
Other transfers	9.9	16.3	9.8	(36.0)	–
Closing balance at December 31, 2012	**764.2**	**778.2**	**529.9**	**53.4**	**2,125.7**

Notes to the consolidated financial statements

Accumulated depreciation 2012					
Opening balance at January 1, 2012	(366.4)	(552.6)	(405.2)	–	(1,324.2)
Currency translation adjustment	3.0	1.1	2.7	–	6.8
Change in scope of consolidation	–	–	–	–	–
Additions	(19.7)	(44.5)	(50.0)	–	(114.2)
Impairment losses	–	–	–	–	–
Disposals	2.0	13.1	39.3	–	54.4
Transfers to investment properties	–	–	–	–	–
Other transfers	–	–	–	–	–
Closing balance at December 31, 2012	(381.1)	(582.9)	(413.2)	–	(1,377.2)
Net book values at December 31, 2012	383.1	195.3	116.7	53.4	748.5

	Land and buildings	Plant and machinery	Other operating assets	Assets under construction	Total tangible assets
Cost 2011					
Opening balance at January 1, 2011	774.5	724.4	536.8	40.1	2,075.8
Currency translation adjustment	(8.3)	(9.3)	(10.7)	(1.8)	(30.1)
Change in scope of consolidation	2.9	0.6	0.2	–	3.7
Additions	7.9	34.5	48.6	31.8	122.8
Disposals	(11.7)	(15.9)	(49.1)	–	(76.7)
Transfers to investment properties	(23.0)	–	(2.8)	–	(25.8)
Other transfers	9.6	13.4	7.0	(29.1)	0.9
Closing balance at December 31, 2011	751.9	747.7	530.0	41.0	2,070.6
Accumulated depreciation 2011					
Opening balance at January 1, 2011	(375.5)	(526.9)	(407.8)	–	(1,310.2)
Currency translation adjustment	2.8	5.1	6.9	–	14.8
Change in scope of consolidation	–	–	–	–	–
Additions	(18.0)	(44.6)	(51.7)	–	(114.3)
Impairment losses	(3.7)	–	–	–	(3.7)
Disposals	10.1	14.2	45.2	–	69.5
Transfers to investment properties	17.9	–	2.7	–	20.6
Other transfers	–	(0.4)	(0.5)	–	(0.9)
Closing balance at December 31, 2011	(366.4)	(552.6)	(405.2)	–	(1,324.2)
Net book values at December 31, 2011	385.5	195.1	124.8	41.0	746.4

Other operating assets consist mainly of office equipment, testing instruments, leasehold improvements and vehicles.

Capital expenditure, shown as additions to cost, relates primarily to manufacturing facilities enhancements and extensions of sales organizations. Additions to accumulated depreciation are included in depreciation and amortization (see note 32).

Assets held under finance leases are included in plant and machinery and other operating assets at a net book value of CHF 3.2 million (2011: CHF 2.5 million). The liabilities arising from finance leases are detailed in note 25. Land and buildings with a book value of CHF 0.2 million (2011: CHF 0.2 million) serve as security for other payables (see note 25) with the total amount of CHF 2.1 million (2011: CHF 4.0 million).

Notes to the consolidated financial statements

(9) Investment property (financial amounts in CHF million)

	2012	2011
Cost		
Opening balance at January 1	33.0	7.2
Currency translation adjustment	–	–
Change in scope of consolidation	–	–
Additions	–	–
Disposals	(6.0)	–
Transfers	–	25.8
Closing balance at December 31	27.0	33.0
Accumulated depreciation		
Opening balance at January 1	(26.2)	(2.6)
Currency translation adjustment	–	–
Change in scope of consolidation	–	–
Additions	(0.2)	(0.6)
Impairment losses	(1.1)	(2.4)
Disposals	2.7	–
Transfers	–	(20.6)
Closing balance at December 31	(24.8)	(26.2)
Net book values at December 31	2.2	6.8
Fair value of investment property at December 31	5.6	19.3

The fair value of investment property is determined as at December 31. There are no restrictions on the realizability of investment property.

The following amounts related to investment property have been recognized in the income statement:

	2012	2011
Rental income	0.1	0.1
Direct operating expenses arising from investment properties that generated rental income	(0.1)	(0.3)
Direct operating expenses arising from investment properties that did not generate rental income	–	(0.3)

(10) Investments in associates and joint ventures (financial amounts in CHF million)

The Group has ownership interests in the following joint ventures:

- HILLOS GmbH, Jena (50% participation)
- Panasonic Electric Works Power Tools (Shanghai) Co. Ltd., Shanghai (49% participation)
- Racing Point Co. Ltd., Taipei (49% participation)
- Intelligent Construction Tools LLC, Delaware (50% participation)

Notes to the consolidated financial statements

Details concerning the investments are as follows:

	2012	2011
Carrying value of joint ventures		
Opening balance at January 1	12.1	10.9
Additions	–	–
Currency translation adjustment	(0.2)	(1.2)
Share of profit / (loss)	1.4	2.4
Closing balance at December 31	13.3	12.1

The following table summarises the total assets, liabilities, income and expenses of the joint ventures the group has an interest in. This information is based on positions in the financial statements of the joint ventures for the relevant year:

	2012	2011
Summary of financial information on joint ventures		
Current assets	42.0	40.0
Non-current assets	6.1	7.7
Current liabilities	11.8	13.7
Non-current liabilities	8.1	8.0
Equity	28.2	26.0
Income	99.8	110.2
Expense	(97.4)	(107.2)

(11) Deferred income taxes (financial amounts in CHF million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts are as follows:

	2012			2011		
	Assets	Liabilities	Net assets	Assets	Liabilities	Net assets
Recovery of deferred tax balances						
More than 1 year	163.7	(142.4)	21.3	151.4	(138.4)	13.0
Less than 1 year	101.4	(4.3)	97.1	90.6	(3.0)	87.6
Total	265.1	(146.7)	118.4	242.0	(141.4)	100.6
Components of deferred tax balances						
Inventories	54.7	(1.5)	53.2	48.2	(0.1)	48.1
Fixed & intangible assets	62.1	(39.9)	22.2	60.8	(43.5)	17.3
Provisions	67.3	(1.3)	66.0	60.4	(1.0)	59.4
Receivables	16.2	(101.6)	(85.4)	18.8	(91.6)	(72.8)
Tax losses	31.4	–	31.4	26.6	–	26.6
Other	33.4	(2.4)	31.0	27.2	(5.2)	22.0
Total	265.1	(146.7)	118.4	242.0	(141.4)	100.6
Offsetting	(118.1)	118.1	–	(111.6)	111.6	–
Total offset	147.0	(28.6)	118.4	130.4	(29.8)	100.6

The movements in net deferred tax assets (liabilities) during the period 2011 to 2012 are as follows:

	Inventories	Fixed and intangible assets	Provisions	Receivables	Tax losses	Other	Total
Net deferred income tax assets (liabilities)							
Opening balance at 1 January 2012	48.1	17.3	59.4	(72.8)	26.6	22.0	100.6
Changes in scope of consolidation	–	–	–	–	–	–	–
(Charged) / credited to income statement	6.0	5.3	(4.1)	(13.0)	4.8	9.7	8.7
(Charged) / credited to OCI	–	–	11.4	–	–	–	11.4
Exchange rate differences	(0.9)	(0.4)	(0.7)	0.4	–	(0.7)	(2.3)
Closing balance at 31 December 2012	53.2	22.2	66.0	(85.4)	31.4	31.0	118.4
Opening balance at 1 January 2011	43.7	7.3	43.5	(63.4)	23.6	16.7	71.4
Changes in scope of consolidation	–	(1.0)	–	–	–	–	(1.0)
(Charged) / credited to income statement	5.0	12.0	3.3	(11.5)	3.3	4.2	16.3
(Charged) / credited to OCI	–	–	12.5	–	–	1.4	13.9
Exchange rate differences	(0.6)	(1.0)	0.1	2.1	(0.3)	(0.3)	–
Closing balance at 31 December 2011	48.1	17.3	59.4	(72.8)	26.6	22.0	100.6

The category "Inventories" includes the tax effects of temporary differences arising on unrealized inter-company profits as well as those arising on differences between tax and accounting inventory measurements at the legal entity level. The category "Fixed and intangible assets" includes the tax effects of temporary differences arising both on intangible assets and on property, plant and equipment. The category "Other" includes the tax effects on temporary differences arising on accruals and financial instruments. The category "Provisions" includes items charged / credited to OCI which are tax effects of temporary differences arising on defined benefit pension plan actuarial gains / losses adjustments.

Deferred income tax assets are recognized for tax loss carry forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. Details are as follows:

	2012	2011
Total tax loss carry forwards	358.1	336.5
Tax loss carry forwards recognized in deferred tax	231.1	194.2
Unused tax loss carry forwards	127.0	142.3
Expiration of unused tax loss carry forwards:		
Expiration < 1 years	4.9	2.8
Expiration 1 to <= 5 years	7.6	9.9
Expiration > 5 years or no expiration date	114.5	129.6
Tax effect of unused tax loss carry forwards	36.3	40.5
Unremitted earnings subject to withholding tax or other taxes	263.4	347.7

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries totaling CHF 263.4 million (2011: CHF 347.7 million). Such amounts are permanently re-invested.

(12) Other financial investments (financial amounts in CHF million)

	2012	2011
Maturity		
1 to < 2 years	1.7	2.0
2 to < 3 years	0.1	0.9
3 to < 4 years	–	–
4 to < 5 years	1.5	–
>= 5 years	13.9	13.7
Total other financial investments	**17.2**	**16.6**
Further information		
Fair values	17.2	16.6
Average effective interest rates (in %)	1.7	1.5

Other financial investments are recognized at amortized cost. These comprise mainly long-term loans granted to third parties, restricted capitalized excesses of employee benefit plans, deposits (for example, in respect of rented premises) and other investments in equities.

(13) Inventories (financial amounts in CHF million)

	2012	2011
Raw materials	62.8	74.3
Work in progress	8.4	9.5
Finished goods	484.1	532.1
Total inventories	**555.3**	**615.9**

The change in inventories includes a currency translation impact which reduces the inventories by CHF 4.5 million in 2012. This is due to the change in closing rates in 2012 compared to those in 2011.

Allowance made for possible inventory losses due to age and obsolescence totals CHF 55.1 million (2011: CHF 57.2 million). The change in the allowance recognized in the income statement is CHF (2.1) million (2011: CHF (0.6) million). This change is included in the line "Change in inventory."

Inventories totaling CHF 113.7 million (2011: CHF 98.2 million) serve as security for bank borrowings of CHF 27.5 million (2011: CHF 37.4 million) (see notes 24 and 28).

Notes to the consolidated financial statements

(14) Trade and other receivables (financial amounts in CHF million)

	2012	2011
Trade receivables	1,237.7	1,249.2
Less adjustment for impairment of trade receivables	(99.8)	(105.4)
Trade receivables net	**1,137.9**	**1,143.8**
Other receivables	108.7	98.8
Total trade and other receivables	**1,246.6**	**1,242.6**
Current portion	897.5	930.6
Non-current portion	349.1	312.0
Total trade and other receivables	**1,246.6**	**1,242.6**
Further information		
Average effective interest rates (in %)	4.0	3.6

	2012	2011
Maturity of non-current portion		
1 to < 2 years	188.5	166.0
2 to < 3 years	102.5	91.6
3 to < 4 years	42.3	42.3
4 to < 5 years	8.4	8.5
>= 5 years	7.4	3.6
Total non-current trade and other receivables	**349.1**	**312.0**

	2012	2011
Past due aging of gross trade receivables not determined to be impaired		
Past due 1 - 31 days	90.4	90.6

	2012	2011
Aging of gross trade receivables individually determined to be impaired		
Not due	3.0	3.8
Past due 1 - 90 days	5.1	3.1
Past due 91 - 180 days	5.7	5.0
Past due 181 - 360 days	12.4	9.2
Past due > 360 days	22.5	30.8
Uncollectible notes	6.8	10.2
Total aging of gross trade receivables individually determined to be impaired	**55.5**	**62.1**

	2012	2011
Movements in the adjustment for the impairment of trade receivables		
Opening balance of adjustment for the impairment of trade receivables at January 1	105.4	117.2
Additional impairment adjustment charged to income statement during year	33.7	34.5
Write-offs of trade receivables charged to impairment adjustment account during year	(39.3)	(46.3)
Closing balance of adjustment for the impairment of trade receivables at December 31	**99.8**	**105.4**

	2012	2011
Currency denominations of the carrying amounts of trade and other receivables		
EUR	604.7	640.4
USD	123.7	128.5
Other	518.2	473.7
Total trade and other receivables	**1,246.6**	**1,242.6**

The change in trade and other receivables includes a currency translation impact which reduces the trade and other receivables by CHF 11.3 million in 2012. This is due to the change in closing rates in 2012 compared to those in 2011.

The net change in the adjustment for the impairment of trade receivables is recognized in the income statement in the line “Other operating expenses.”

Receivables totaling CHF 166.8 million (2011: CHF 172.6 million) serve as security for bank borrowings of CHF 95.1 million (2011: CHF 105.5 million) (see notes 24 and 28).

Other receivables consist primarily of clearing balances from the offsetting of VAT, deposits, vendors with debit balances and other advances.

Details of the finance lease receivables included in trade receivables are as follows:

	2012			2011		
	Gross investment in the lease	Unearned finance income	Net investment in the lease	Gross investment in the lease	Unearned finance income	Net investment in the lease
< 1 year	269.9	40.2	229.7	256.8	32.1	224.7
1 to < 5 years	377.1	32.2	344.9	313.5	27.2	286.3
>= 5 years	0.1	–	0.1	0.1	–	0.1
Total at December 31	**647.1**	**72.4**	**574.7**	**570.4**	**59.3**	**511.1**
Unguaranteed residual values			–			–
Accumulated allowance for uncollectible finance lease receivables			(34.8)			(36.0)
Contingent rents recognized as income from financial lease			–			–

(15) Accrued income and prepayments

Accrued income and prepayments cover mainly prepayments for property, plant and equipment and prepaid operating expenditure to be allocated as expense in the next accounting period.

(16) Derivative financial instruments (financial amounts in CHF million)

(16.1) Derivative contracts to hedge the foreign currency risks

The Group enters into derivative contracts to hedge the foreign currency risks arising from forecast foreign currency sales and purchases transactions and foreign currency investment positions. The applicable derivative contracts are designated as cash flow and fair value hedges, respectively. The accounting treatment is described in the accounting policies, notes 2.23 and 2.24. Details of derivative contracts outstanding at balance sheet date are as follows:

	USD	EUR	Other	Total
2012				
Contract face amounts				
Foreign currency forward contracts	185.1	(3.8)	248.0	429.3
Foreign currency options	–	–	–	–
Cross-currency swap	92.9	–	–	92.9
Totals	**278.0**	**(3.8)**	**248.0**	**522.2**
Contract values				
Foreign currency forward contracts	2.0	–	2.8	4.8
Foreign currency options	–	–	–	–
Cross-currency swap	19.2	–	–	19.2
Totals	**21.2**	**–**	**2.8**	**24.0**
Recognition of contract values				
Contract values recognized in income statement during current and prior years	20.9	–	1.3	22.2
Contract values recognized in the cash flow hedging reserve in equity	0.3	–	1.5	1.8
Totals	**21.2**	**–**	**2.8**	**24.0**
Movements of contract values recognized in the cash flow hedging reserve in equity				
Balance at start of year	(0.2)	–	(1.1)	(1.3)
Gains / (losses) recognized in OCI during year	0.3	–	1.5	1.8
(Gains) / losses recycled through OCI to income statement during year	0.2	–	1.1	1.3
Balance at end of year	**0.3**	**–**	**1.5**	**1.8**

There was no ineffectiveness to be recognized in the income statement.

The cross-currency swap contract has a maturity of more than 12 months (2014). Foreign currency forward contracts with a face amount of CHF 6.0 million (EUR) have a maturity of more than 12 months (2014). All other contracts have a maturity of less than 12 months.

	USD	EUR	Other	Total
2011				
Contract face amounts				
Foreign currency forward contracts	98.1	81.0	239.3	418.4
Foreign currency options	–	–	–	–
Cross-currency swap	92.9	116.4	–	209.3
Totals	**191.0**	**197.4**	**239.3**	**627.7**
Contract values				
Foreign currency forward contracts	(2.2)	1.2	(4.8)	(5.8)
Foreign currency options	–	–	–	–
Cross-currency swap	17.6	24.0	–	41.6
Totals	**15.4**	**25.2**	**(4.8)**	**35.8**
Recognition of contract values				
Contract values recognized in income statement during current and prior years	15.6	25.2	(3.7)	37.1
Contract values recognized in the cash flow hedging reserve in equity	(0.2)	–	(1.1)	(1.3)
Totals	**15.4**	**25.2**	**(4.8)**	**35.8**
Movements of contract values recognized in the cash flow hedging reserve in equity				
Balance at start of year	8.7	–	1.4	10.1
Gains / (losses) recognized in OCI during year	(0.2)	–	(1.2)	(1.4)
(Gains) / losses recycled through OCI to income statement during year	(8.7)	–	(1.3)	(10.0)
Balance at end of year	**(0.2)**	**–**	**(1.1)**	**(1.3)**

(16.2) Derivative contracts to hedge interest rate risks

The Group enters into derivative contracts to hedge the interest rate risks arising from loans with variable interest rates. The applicable derivative contracts are designated as cash flow or fair value hedges. Gains and losses recognized in the cash flow hedging reserve in equity on interest rate swap contracts will be continuously released to the income statement until the repayment of the bank borrowings. The accounting treatment is described in the accounting policies, notes 2.23 and 2.24. Details of derivative contracts outstanding at balance sheet date are as follows:

	USD	EUR	Total
2012			
Outstanding interest rate swaps			
Contract face amounts	111.2	23.1	134.3
Recognition of contract values			
Contract values recognized in income statement during current and prior years	1.1	(0.4)	0.7
Contract values recognized in the cash flow hedging reserve in equity	(0.8)	–	(0.8)
Totals	**0.3**	**(0.4)**	**(0.1)**
Movements of contract values recognized in the cash flow hedging reserve in equity			
Balance at start of year	(1.2)	–	(1.2)
Gains / (losses) recognized in OCI during year	0.4	–	0.4
(Gains) / losses recycled through OCI to income statement during year	–	–	–
Balance at end of year	**(0.8)**	**–**	**(0.8)**

	USD	EUR	Total
2011			
Outstanding interest rate swaps			
Contract face amounts	116.3	148.7	265.0
Recognition of contract values			
Contract values recognized in income statement during current and prior years	1.5	0.4	1.9
Contract values recognized in the cash flow hedging reserve in equity	(1.2)	(0.2)	(1.4)
Totals	**0.3**	**0.2**	**0.5**
Movements of contract values recognized in the cash flow hedging reserve in equity			
Balance at start of year	(1.2)	–	(1.2)
Gains / (losses) recognized in OCI during year	(0.7)	–	(0.7)
(Gains) / losses recycled through OCI to income statement during year	0.7	–	0.7
Balance at end of year	**(1.2)**	**–**	**(1.2)**

The fixed interest rates vary from 1.3% to 4.9% (2011: 3.4% to 4.9%) and the main floating rates are EURIBOR and LIBOR.

Notes to the consolidated financial statements

(16.3) Reconciliations

Derivative contracts to hedge	Foreign currency risks	Interest rate risks	Total
2012			
Current assets	7.9	1.1	9.0
Non-current assets	19.2	–	19.2
Current liabilities	(3.1)	(0.3)	(3.4)
Non-current liabilities	–	(0.9)	(0.9)
Net balance sheet positions	**24.0**	**(0.1)**	**23.9**
Cash flow hedging reserve in equity	1.8	(0.8)	1.0
Gains / (losses) recognized in OCI during year	1.8	0.4	2.2
(Gains) / losses recycled through OCI to income statement during year	1.3	–	1.3

Derivative contracts to hedge	Foreign currency risks	Interest rate risks	Total
2011			
Current assets	8.2	–	8.2
Non-current assets	41.6	1.9	43.5
Current liabilities	(14.0)	–	(14.0)
Non-current liabilities	–	(1.4)	(1.4)
Net balance sheet positions	**35.8**	**0.5**	**36.3**
Cash flow hedging reserve in equity	(1.3)	(1.2)	(2.5)
Gains / (losses) recognized in OCI during year	(1.4)	(0.7)	(2.1)
(Gains) / losses recycled through OCI to income statement during year	(10.0)	0.7	(9.3)

The cash flow hedging reserve in equity net of tax amounts to CHF 0.9 million (2011: CHF (2.2) million).

(17) Other financial assets at fair value through profit or loss (financial amounts in CHF million)

Other financial assets at fair value through profit or loss are financial assets classified as held for trading. There are no financial assets designated as financial assets at fair value through profit or loss.

Financial assets under this heading comprise:

- investments in deposits, bonds and equities restricted to (1) the funding of losses arising from damages to assets and losses arising from product-related obligations, and (2) the funding of a deferred compensation plan for employees; and
- other investments in equities.

These financial assets are all classified as current assets because they are expected to be traded within 12 months of the balance sheet date. However, their contractual maturities mostly differ from this position. Relevant information is as follows:

	2012	2011
Maturity		
0 to < 1 years	15.5	6.2
1 to < 2 years	9.2	9.9
2 to < 3 years	–	0.6
3 to < 4 years	1.3	–
4 to < 5 years	–	1.3
>= 5 years	9.8	8.4
Total financial assets at fair value through profit or loss	35.8	26.4

(18) Cash and cash equivalents (financial amounts in CHF million)

Cash includes cash on hand and demand deposits. The movement in cash and cash equivalents is shown in detail in the cash flow statement.

The Group has legal or economic restrictions on the ability of subsidiaries to transfer funds to the parent in the amount of CHF 51.9 million (2011: CHF 27.7 million).

Following are the currency denominations of the carrying amounts of cash and cash equivalents:

	2012	2011
CHF	809.7	631.6
EUR	265.2	227.3
USD	40.9	33.7
Other	186.9	169.9
Total cash and cash equivalents	1,302.7	1,062.5

The table below shows the rating and balance of the major counterparties at the balance sheet date:

Counterparty	Rating	Balance
2012		
Credit Suisse	A+	272.3
UBS Investment Bank	A	116.5
LGT Bank Liechtenstein	A+	108.0
2011		
Credit Suisse	A+	129.8
UBS Investment Bank	A	100.4
LGT Bank Liechtenstein	A+	70.2

The bank ratings 2012 are the latest prepared and published by Standard & Poors on their website (2011: bank ratings have been made and published by Standard & Poors). Management does not expect any losses from non-performance by these counterparties.

Cash and cash equivalents include a deposit of CHF 477.1 million (2011: CHF 474.3 million) with an investment company owned by the shareholder (for details see note 42).

Notes to the consolidated financial statements

(19) Assets classified as held for sale

At balance sheet date 2012 and 2011 no assets are classified as held for sale.

(20) Equity (financial amounts in CHF million)

The share capital consists of 176’000 registered shares with a par value of CHF 500 each, and the participation capital consists of 774’400 participation certificates with a par value of CHF 50 each. The participation capital has no voting rights. All the capital is fully paid in and is entitled to dividends.

The capital reserve contains the share premium from capital increases and capital accruing from mergers in previous years.

A dividend in respect of the year ended 31 December 2012 of CHF 51.5 per participation certificate and of CHF 515 per share, amounting to a total of CHF 130.5 million (financial year 2011: CHF 46.9 million), is to be proposed at the 2012 annual general meeting. This future proposed dividend is not recognised in these financial statements.

Other comprehensive income (OCI) displays revenue and expense items arising in the current year that are recognised directly in equity and such items directly recognised in equity in past years that are recognised in the current year's income statement. OCI therefore displays all current year movements of the items and components of equity described as follows:

- Gains and losses on cash flow hedges either taken to equity or recycled to the income statement are recognized in the cash flow hedging reserve. This reserve contains the cumulative gains and losses arising on the derivative contracts hedging intra-group foreign currency sales that have not occurred at each balance date and interest rate swap contracts (see note 16).
- Actuarial gains and losses on defined benefit pension plans are recognized in retained earnings (note 22).
- Foreign currency translation differences arise from the translation of group companies’ financial statements and long-term inter-company loans. They are recognized in the foreign currency translation reserve and the non-controlling interest.
- Deferred tax directly taken to or transferred from equity relating to the previously described components is separately disclosed. These items are included in the reserve where the underlying components are included.

	Foreign currency translation reserve	Cash flow hedging reserve	Retained earnings	Non-controlling interest	Total
2012					
Gains / (losses) on cash flow hedges taken to equity	–	2.2	–	–	2.2
Deferred tax on gains / losses on cash flow hedges taken to equity	–	(0.2)	–	–	(0.2)
(Gains) / losses on cash flow hedges transferred from equity to income statement	–	1.3	–	–	1.3
Deferred tax on gains / losses on cash flow hedges transferred from equity to income statement	–	(0.2)	–	–	(0.2)
Actuarial gains / (losses) on defined benefit plans	–	–	(68.8)	–	(68.8)
Deferred tax on actuarial gains / losses on defined benefit plans	–	–	11.4	–	11.4
Foreign currency translation differences	(6.3)	–	–	(0.4)	(6.7)
Deferred tax on items taken directly to or transferred from equity	–	–	–	–	–
Total other comprehensive income 2012	(6.3)	3.1	(57.4)	(0.4)	(61.0)

2011					
Gains / (losses) on cash flow hedges taken to equity	–	(2.1)	–	–	(2.1)
Deferred tax on gains / losses on cash flow hedges taken to equity	–	0.3	–	–	0.3
(Gains) / losses on cash flow hedges transferred from equity to income statement	–	(9.3)	–	–	(9.3)
Deferred tax on gains / losses on cash flow hedges transferred from equity to income statement	–	–	1.1	–	1.1
Actuarial gains / (losses) on defined benefit plans	–	–	(91.8)	–	(91.8)
Deferred tax on actuarial gains / losses on defined benefit plans	–	–	12.5	–	12.5
Foreign currency translation differences	(35.0)	–	–	0.5	(34.5)
Deferred tax on items taken directly to or transferred from equity	–	–	–	–	–
Total other comprehensive income 2011	**(35.0)**	**(11.1)**	**(78.2)**	**0.5**	**(123.8)**

(21) Provisions (financial amounts in CHF million)

	Employee benefit obligations excluding pension and termination benefit obligations	Restructuring obligations	Warranty obligations	Product liability provisions	Other provisions	Total provisions
Opening balance at January 1, 2012	64.9	1.3	67.7	4.9	21.3	160.1
Additions	22.0	3.4	72.9	1.9	14.4	114.6
Amounts used	(6.5)	(0.6)	(53.0)	(1.6)	(5.8)	(67.5)
Unused reversals	(1.3)	(0.4)	(6.2)	(0.9)	(0.9)	(9.7)
Conversion difference	(0.2)	–	(0.5)	–	–	(0.7)
Closing balance at December 31, 2012	78.9	3.7	80.9	4.3	29.0	196.8

	Employee benefit obligations excluding pension and termination benefit obligations	Restructuring obligations	Warranty obligations	Product liability provisions	Other provisions	Total provisions
Opening balance at January 1, 2011	50.0	4.9	59.0	9.4	24.6	147.9
Additions	24.6	0.1	56.7	2.4	1.4	85.2
Amounts used	(8.7)	(3.2)	(37.7)	(4.4)	(4.2)	(58.2)
Unused reversals	(0.6)	(0.4)	(8.8)	(2.5)	(0.4)	(12.7)
Conversion difference	(0.4)	(0.1)	(1.5)	–	(0.1)	(2.1)
Closing balance at December 31, 2011	64.9	1.3	67.7	4.9	21.3	160.1

Notes to the consolidated financial statements

	2012	2011
Current portion of total provisions	116.8	51.4
Non-current portion of total provisions	80.0	108.7
Total provisions as at December 31	**196.8**	**160.1**

Employee benefit obligations excluding pension and termination benefit obligations comprise a long-term strategic bonus obligation, social fund obligations and other social obligations to employees such as for jubilee payments. The relevant period for the long-term strategic bonus is 2010 – 2012 with payment to be made in 2013. Historically, the level of outflows concerning other employee benefit obligations (excluding long-term strategic bonus) has been constant each year. Information concerning pension fund obligations is given in note 22.

Restructuring obligations mainly relate to reorganization projects of certain sales organizations.

Warranty obligations cover normal and extended service warranties on sold products. Outlays in respect of such warranties are expected on an ongoing basis. Additions to this provision follow the sales development and the amounts are used with a time lag of around one to two years.

Product liability provisions are the estimated obligations arising from additional product-related exposures and legal claims that are not covered by the normal and extended service warranties. Outlays and settlements are expected over a deferred period. Certainty concerning the timing and level of outflows is low. The estimates are based on past incidents, which provide the best basis to estimate current exposure.

Other provisions are amongst others built up for obligations regarding to legal claims, job accidents and insurance contracts.

(22) Pension and termination benefit obligations (financial amounts in CHF million)

Pension and termination benefit obligations at the balance sheet date are as follows:

	2012	2011
Pension obligations	296.9	265.7
Termination benefit obligations	40.6	37.5
Total pension and termination benefit obligations	**337.5**	**303.2**

(22.1) Pension obligations

Pension plans operated by the Group comprise both defined contribution plans and defined benefit plans.

Defined contribution plans

The employer’s contribution totals CHF 20.4 million (2011: CHF 19.4 million).

Defined benefit plans

Details of recognized net liabilities are as follows:

	2012	2011
Present value of unfunded obligations	(13.7)	(14.7)
Present value of funded obligations	(1,099.9)	(999.1)
Fair value of plan assets	816.7	748.1
Net liability	**(296.9)**	**(265.7)**

Notes to the consolidated financial statements

Movements of the plan assets are as follows:

	2012	2011
Balance at January 1	748.1	760.3
Expected return on plan assets	29.5	31.5
Actuarial gains and losses	38.9	(50.0)
Employer contributions	41.9	32.9
Employee contributions	17.5	17.5
Benefits paid	(56.5)	(42.7)
Settlements	(4.3)	–
Exchange differences	1.6	(1.4)
Balance at December 31	816.7	748.1

Movements of the defined benefit obligation are as follows:

	2012	2011
Balance at January 1	(1,013.8)	(949.9)
Current service cost	(41.9)	(42.9)
Interest cost	(30.5)	(31.4)
Actuarial gains and losses	(107.7)	(41.8)
Benefits paid	58.7	43.1
Past service cost	16.9	7.3
Curtailments and settlements	5.5	–
Exchange difference	(0.8)	1.8
Balance at December 31	(1,113.6)	(1,013.8)

Breakdown of net periodic pension cost recognized in the income statement is as follows:

	2012	2011
Current service cost	(41.9)	(42.9)
Interest cost	(30.5)	(31.4)
Expected return on plan assets	29.5	31.5
Past service cost	16.9	7.3
Curtailments and settlements	1.2	–
Employee contributions	17.5	17.5
Net periodic pension cost	(7.3)	(18.0)

Changes of the net liability recognized in the balance sheet are as follows:

	2012	2011
Balance at January 1	(265.7)	(189.6)
Exchange differences	0.8	0.4
Total expense charged in the income statement	(7.3)	(18.0)
Contributions paid	41.9	32.9
Benefits paid on unfunded portions of partly funded plans	2.2	0.4
Recognition of actuarial gains and losses	(68.8)	(91.8)
Balance at December 31	(296.9)	(265.7)

Notes to the consolidated financial statements

Amounts for surplus / (deficit) and experience adjustments for the current and four previous periods are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligation	(1,113.6)	(1,013.8)	(949.9)	(883.6)	(809.4)
Plan assets	816.7	748.1	760.3	757.5	714.1
Surplus / (deficit)	**(296.9)**	**(265.7)**	**(189.6)**	**(126.1)**	**(95.3)**
Experience adjustments on plan liabilities	(31.5)	9.7	3.7	(5.2)	(13.4)
Experience adjustments on plan assets	39.1	(50.0)	(14.5)	(0.9)	(93.4)

Actuarial assumptions are based on long-term economic factors in the respective countries (weighted average). The significant actuarial assumptions are:

	2012	2011
Discount rate	2.3%	3.0%
Expected return on plan assets	4.1%	4.1%
Salary development	1.8%	1.8%
Retirement benefit development	0.3%	0.3%

The overall expected rate of return on assets, which reflects the different major categories of plan assets, is the weighted average of the expected rate of return of the assets of each individual plan included in the overall group plan assets.

The employer's best estimate of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date is CHF 25.8 million (2011: CHF 27.9 million).

The actual return on plan assets was CHF 68.4 million (2011: CHF (18.5) million).

Major categories of plan assets as percentages are as follows:

	2012	2011
Equity instruments	23.4%	18.6%
Debt instruments	45.4%	49.9%
Property	12.6%	11.6%
Other assets	18.6%	19.9%

In the balance sheet, the net liability is included in pension and termination benefit obligations (see table at start of note) and, in the income statement, the various components of the net periodic pension cost are included as follows:

- interest cost and expected return on plan assets – in other revenues and expenses (net); and
- remaining components – in personnel expenses.

The cumulative actuarial losses recognized in equity as a result of incremental recognitions in the other comprehensive income (OCI) of periods to date totals CHF 267.3 million (2011: CHF 198.5 million).

(22.2) Termination benefit obligations

The obligation for termination benefits included in the balance sheet in pension and termination benefit obligations (see table at start of note) excludes the obligation for termination benefits recognized as part of restructuring obligations (which are instead included in provisions (see note 21)).

Notes to the consolidated financial statements

(23) Bonds (financial amounts in CHF million)

The bonds were issued by Hilti Corporation. Further details of the individual bonds are included in the key figures.

	2012	2011
Maturity		
< 1 year	149.7	299.8
1 to < 2 years	299.1	149.3
2 to < 3 years	32.0	298.5
3 to < 4 years	–	–
4 to < 5 years	131.5	–
>= 5 years	47.7	–
No maturity	–	–
Total bonds	660.0	747.6
Currency		
CHF	448.8	747.6
EUR	211.2	–
Total bonds	660.0	747.6
Further information		
Fair values	678.8	775.7
Average effective interest rates (in %)	3.0	3.5

The Euro bonds (“Schuldscheindarlehen”) are not tradeable on any recognized stock exchange.

(24) Long-term bank borrowings (financial amounts in CHF million)

	2012	2011
Maturity		
1 to < 2 years	40.2	35.0
2 to < 3 years	19.5	31.8
3 to < 4 years	3.5	13.9
4 to < 5 years	0.6	0.5
>= 5 years	0.5	–
Total long-term bank borrowings	64.3	81.2
Currency		
USD	27.5	40.6
EUR	36.8	40.5
others	–	0.1
Total long-term bank borrowings	64.3	81.2
Further information		
Average effective interest rates (in %)	2.6	2.5

CHF 18.3 million (2011: CHF 28.1 million) of the total long-term bank borrowings are secured by inventories totaling CHF 75.8 million (2011: CHF 98.2 million) and receivables totaling CHF 66.0 million (2011: CHF 104.2 million). Another CHF 36.6 million (2011: CHF 40.3 million) of the total long-term bank borrowings are secured by receivables totaling CHF 36.8 million (2011: CHF 40.3 million) (see notes 13 and 14).

(25) Trade and other payables (financial amounts in CHF million)

	2012	2011
Trade payables	187.8	167.5
Other payables	149.8	135.2
Total trade and other payables	**337.6**	**302.7**
Current portion	315.6	278.0
Non-current portion	22.0	24.7
Total trade and other payables	**337.6**	**302.7**
Further information		
Average effective interest rates (in %)	0.1	0.1
Maturity of non-current portion		
1 to < 2 years	1.5	7.0
2 to < 3 years	1.7	2.5
3 to < 4 years	1.4	0.6
4 to < 5 years	4.2	1.3
>= 5 years	13.2	13.3
No maturity	–	–
Total non-current trade and other payables	**22.0**	**24.7**
Currency denominations of the carrying amounts of trade and other payables		
EUR	147.6	127.3
CHF	75.1	71.9
USD	29.5	24.1
Other	85.4	79.4
Total trade and other payables	**337.6**	**302.7**

The change in trade and other payables includes a currency translation impact which reduces the trade and other payables by CHF 1.9 million in 2012. This is due to the change in closing rates in 2012 compared to those in 2011.

Other payables include liabilities for personnel expenses totaling CHF 7.8 million (2011: CHF 2.8 million), liabilities for social contributions totaling CHF 26.1 million (2011: CHF 11.3 million) and liabilities for source-deducted taxes and VAT totaling CHF 58.8 million (2011: CHF 50.7 million).

CHF 2.1 million (2011: CHF 4.0 million) of the other payables are secured by mortgages over land and buildings totaling CHF 0.2 million (2011: CHF 0.2 million) (see note 8).

Details of the finance lease liabilities included in other payables are as follows:

	2012			2011		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
< 1 year	0.2	–	0.2	0.8	0.1	0.7
1 to < 5 years	1.2	0.1	1.1	0.9	0.1	0.8
>= 5 years	–	–	–	–	–	–
Total at December 31	**1.4**	**0.1**	**1.3**	**1.7**	**0.2**	**1.5**

Details of the assets held under finance leases are included in note 8. Under the terms of the finance lease agreements, no contingent rents are payable. No sublease payments on finance leases are expected to be received. The commitments arising from operating lease contracts are detailed in note 39.

(26) Current income taxes payable and receivable

Current income taxes payable and receivable consist of income taxes payable and refundable relating to the current or prior years. Details concerning deferred income tax liabilities and assets are shown in note 11.

(27) Accrued liabilities and deferred income

Accrued liabilities and deferred income comprise short-term liabilities, which include estimates, short-term expense accruals and deferrals of income already received but attributable to subsequent accounting periods.

(28) Short-term bank borrowings (financial amounts in CHF million)

	2012	2011
Currency		
EUR	64.8	32.2
BRL	17.6	11.6
USD	11.5	9.6
JPY	10.6	17.3
MXN	9.7	13.7
other	27.5	28.3
Total short-term bank debts	**141.7**	**112.7**
Further information		
Average effective interest rates (in %)	3.2	5.2

CHF 9.2 million (2011: CHF 9.4 million) of the total short-term bank borrowings are secured by inventories totaling CHF 37.9 million (2011: CHF 24.5 million) and receivables totaling CHF 33.0 million (2011: CHF 26.0 million). CHF 31.0 million (2011: CHF 27.2 million) of the total short-term bank borrowings are secured by receivables totaling CHF 31.0 million (2011: CHF 27.2 million) (see notes 13 and 14).

Notes to the consolidated financial statements

(29) Net sales (financial amounts in CHF million)

Categories of net sales are as follows:

	2012	2011
Net sales of goods	4,066.4	3,835.3
Net sales of services	137.2	162.2
Total net sales	**4,203.6**	**3,997.5**

The above categories "Net sales of goods" and "Net sales of services" in terms of IAS 18 Revenue represent, respectively, revenue from sales of goods and revenue from rendering of services.

A breakdown of net sales geographies and by major countries is given in note 37.

(30) Material costs (financial amounts in CHF million)

	2012	2011
Materials	(1,268.1)	(1,401.0)
Outsourced manufacturing	(14.0)	(17.0)
Total material costs	**(1,282.1)**	**(1,418.0)**
Change in inventory	(56.1)	62.4
Total material costs including change in inventory	**(1,338.2)**	**(1,355.6)**

(31) Personnel expenses (financial amounts in CHF million)

Personnel expenses comprise wages and salaries and social contributions. Social contributions include expenses for pensions and similar liabilities in addition to social security contributions.

	2012	2011
Salaries and wages	(1,363.6)	(1,277.5)
Social charges	(324.5)	(294.6)
Total personnel costs	**(1,688.1)**	**(1,572.1)**

The breakdown of the number of employees by function is as follows:

	2012	2011
Sales	16,419	17,040
Research and development	1,094	1,104
Production	2,775	2,843
Administration	851	861
Total employees (as at December 31)	**21,139**	**21,848**

(32) Depreciation and amortization

This position comprises depreciation, amortization and impairment losses on intangible assets, property, plant and equipment and investment property. Depreciation and amortization are shown in all disclosures at the average rate. In 2012 impairment losses have been booked on development projects and other intangible assets due to the phase out of the related products. In 2011 impairment losses were booked on aborted development projects and the termination of relocation plans.

Notes to the consolidated financial statements

(33) Other operating expenses

The major items included in other operating expenses are expenditures for rent, outward freight, travel expenses, maintenance and transportation.

In 2012 there were no major items requiring separate disclosure under this heading. 2011 other operating expenses include a reimbursement of CHF 28.2 million from the insurance relating to a fire in the central warehouse in France. The related expenses of CHF 19.2 million are reported in the different expense categories. The gain of CHF 9.0 million relates to lost sales and the difference between the book values and the replacement costs of assets.

(34) Other revenues and expenses (net) (financial amounts in CHF million)

Other revenue and expenses (net) comprise:

- all interest and dividend income
- all realized and unrealized gains / losses from investment securities
- all gains / losses from the hedging of foreign currency investment securities, foreign currency receivable / payable balances and forecast foreign currency transactions other than those gains / losses recognized in the cash flow hedging reserve in equity at the balance sheet date
- expected return on defined benefit pension plan assets, and interest cost on defined benefit pension plan obligations.

Amounts are as follows:

	2012	2011
Interest and dividend revenues	5.7	7.8
Gains / (losses) arising from valuation changes on financial assets and fair value hedging instruments	(2.1)	(2.2)
Gains / (losses) on foreign currency hedging instruments	(3.3)	(16.8)
Gains / (losses) on foreign currencies	(15.0)	(22.1)
Expected return on plan asset (defined benefit plans)	29.5	31.5
Interest costs (defined benefit plans)	(30.5)	(31.4)
Total other revenues and (expenses) (net)	(15.7)	(33.2)

(35) Finance costs (financial amounts in CHF million)

Finance costs include interest expense on bonds and bank debts.

The following gains and losses are included in finance costs:

	2012	2011
Interest expense	(40.3)	(41.6)
Other gains / (losses)	(15.9)	(15.9)
Total gains / (losses) on financial liabilities measured at amortized cost	(56.2)	(57.5)

Interest expense on financial liabilities measured at amortized cost represents the total interest expense on financial liabilities not at fair value through profit or loss.

Finance costs are reported at the gross interest expense amount. Interest income from investments is separately included in “Other revenue and expenses (net)”.

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(36) Income tax expense (financial amounts in CHF million)

	2012	2011
Current tax	(45.1)	(38.7)
Deferred tax	9.1	16.3
Total income tax expense	**(36.0)**	**(22.4)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2012	2011
Net income before income tax	**230.0**	**118.9**
Tax calculated at domestic tax rates applicable to profits in the respective countries	(38.3)	(13.5)
Income not subject to tax	5.8	5.2
Expenses not deductible for tax purposes	(17.9)	(8.3)
Utilization of previously unrecognized tax losses	5.0	0.3
Tax losses for which no deferred tax asset has been recognized	(2.7)	(8.8)
Tax attributable to prior years	10.1	0.1
Other	2.0	2.6
Income tax expense	**(36.0)**	**(22.4)**
Weighted average applicable tax rate (in %)	16.7	11.4

The amount in the position "Other" is mainly due to changes in tax rates, expense / income subject to different tax rates and non-recoverable withholding taxes on intercompany dividends or interest payments.

(37) Segment information (financial amounts in CHF million)

In accordance with IFRS 8 Operating Segments, paragraph 5, the Group operates in only one single operating segment. Additional information concerning products, services and geographical areas is as follows:

Net sales information about products and services

		2012	2011
Electric Tools & Accessories	Products	1,954.1	1,823.3
Electric Tools & Accessories	Services	109.4	142.3
Total Electric Tools & Accessories		**2,063.5**	**1,965.6**
Fastening & Protection Systems	Products	2,112.3	2,012.0
Fastening & Protection Systems	Services	27.8	19.9
Total Fastening & Protection Systems		**2,140.1**	**2,031.9**
Total Group		**4,203.6**	**3,997.5**

Notes to the consolidated financial statements

Net sales information about geographical areas

	2012	2011	Change in CHF (%)	Change in local currencies (%)
Europe excl. Eastern Europe	2,137.7	2,239.7	(4.6)	(1.9)
North America	858.1	711.9	20.5	13.4
Latin America	156.0	118.2	32.2	32.4
Asia/Pacific	560.6	487.7	15.0	9.5
Eastern Europe/Middle East/Africa	491.2	440.0	11.6	8.9
Total Group	**4,203.6**	**3,997.5**	**5.2**	**4.4**

Net sales information by geographical areas is based on the country of third party customer.

Net sales information for major countries

	2012	2011
USA	691.2	572.6
Germany	601.2	590.1
France	385.4	421.7
Liechtenstein (country of domicile)	59.2	80.5
Other countries	2,466.6	2,332.6
Total Group	**4,203.6**	**3,997.5**

Net sales by major countries are based on the country of domicile of the respective group entities.

The Group has no customer exceeding the threshold of 10% of the Group's revenue.

Selected non-current assets information for major countries *

	2012	2011
Liechtenstein (country of domicile)	494.3	503.0
Germany	192.8	198.0
USA	131.2	142.0
Austria	86.6	91.7
Other countries	217.1	212.9
Total Group	**1,122.0**	**1,147.6**

* excluding non-current financial assets and deferred taxes

(38) Contingent liabilities (financial amounts in CHF million)

	2012	2011
Guarantees	7.6	8.0
Other contingent liabilities	2.4	1.6
Total contingent liabilities	**10.0**	**9.6**

Management considers the possibility of any outflow in settlement to be remote.

Notes to the consolidated financial statements

(39) Other commitments (financial amounts in CHF million)

Payment commitments arising from non-cancellable operating lease contracts are as follows:

	2012	2011
< 1 year	86.1	76.7
1 to < 5 years	135.1	125.2
>= 5 years	16.9	16.3
Total at December 31	238.1	218.2
Future minimum sublease payments expected to be received	–	–
Sublease payments received in current period	–	–
Contingent rent expense for operating leases	0.1	0.1

Other financial commitments are as follows:

	2012	2011
Total delivery and purchase commitments	6.9	7.1
Total commitments for the acquisition of intangible assets	1.0	0.1
Total commitments for the acquisition of property, plant and equipment	10.5	14.7
Total commitments for software licences and maintenance fees	40.8	36.2
Total other commitments	21.5	24.4
Total other financial commitments	80.7	82.5

(40) Financial assets pledged as collateral

Details of receivables pledged as collateral for recognized liabilities are given in note 14. There are no other financial assets pledged as collateral for recognized liabilities or for contingent liabilities.

(41) Research and development expenditure

Expenditure on research and development in the reporting period amounted to CHF 174.5 million (2011: CHF 184.0 million).

(42) Related party disclosures (financial amounts in CHF million)

Key management personnel compensation

Details of compensation of key management personnel are as follows:

	2012		2011	
	Number of members	Re-muneration	Number of members	Re-muneration
Board of Directors	7	2.9	7	2.5
Corporate Management (Executive Board and Executive Management Team)	23	34.9	24	28.7
Total	30	37.8	31	31.2

	2012	2011
Salaries and other short-term employee benefits	22.5	16.0
Post-employment benefits	2.4	2.5
Other long-term benefits	12.9	12.7
Termination benefits	–	–
Share-based payment	–	–
Total employee benefits to key management	37.8	31.2

Employee benefits to key management include both fixed and variable components. The variable components are performance-linked and include a long-term bonus which is payable only if certain predetermined specific financial targets linked to the sustainable development and growth of the Group's business are achieved. In accordance with IAS 19 Employee Benefits, the 2012 portion of the estimated ultimate amount payable has been recognized as an obligation at December 31, 2012. The classification of the long-term strategic bonus in the above compensation categories is determined by maturity.

Ownership of parent

100% of the registered shares of the Hilti Corporation are owned by the Martin Hilti Family Trust.

Cash deposit at shareholder

Cash and cash equivalents include a deposit of CHF 477.1 million (2011: CHF 474.3 million) with an investment company owned by the Martin Hilti Family Trust. This deposit is repayable on demand and earns interest at market rate, which amounts to CHF 2.7 million (2011: CHF 3.6 million).

Other transactions and balances with shareholder

The Hilti Corporation rendered accounting, administration, rental and other support services to the Martin Hilti Family Trust. The amount invoiced was CHF 1.0 million (2011: CHF 1.2 million). These services were charged at cost. Additionally, the Hilti Corporation has a current liability to the Martin Hilti Family Trust of CHF 0.1 million (2011: CHF 0.1 million).

Notes to the consolidated financial statements

Joint venture

Details of transactions and balances between the Group and its joint ventures HILLOS GmbH, Jena, Racing Point Co. Ltd., Taipei, Panasonic Electric Works Power Tools (Shanghai) Co. Ltd., Shanghai and Intelligent Construction Tools LLC, Delaware, are as follows:

Transactions with joint ventures	2012 Received by Hilti Group	2012 Sold or given by Hilti Group	2011 Received by Hilti Group	2011 Sold or given by Hilti Group
Goods	78.8	–	75.2	–
Services	–	0.6	–	0.4
Fixed assets	–	–	–	–
Financial assets (finance arrangements)	–	–	–	–
Interest payments	0.1	–	0.1	–
Settlement of liabilities	–	–	–	–
Financial leasing	–	–	–	–
Operating leasing or rent	–	–	–	–
Transfer of research and development	–	–	–	–
Licenses	–	–	–	–
Total	**78.9**	**0.6**	**75.3**	**0.4**

Balances outstanding with joint ventures at December 31	Assets	Liabilities	Assets	Liabilities
Current	7.1	1.7	6.9	0.6
Non-current	–	–	–	–
Total	**7.1**	**1.7**	**6.9**	**0.6**

Post-employment benefit plans

Details of transactions and balances with pension funds that are related parties to the Hilti Group are as follows:

Transactions with related party pension funds	2012 Received by Hilti Group	2012 Sold or given by Hilti Group	2011 Received by Hilti Group	2011 Sold or given by Hilti Group
Pension contributions	1.6	46.1	1.5	38.5
Services	–	0.3	–	0.3
Fixed assets	–	–	–	–
Financial assets	–	–	–	–
Financial liabilities (finance arrangements)	–	–	–	–
Interest payments	–	–	–	–
Settlement of liabilities	–	–	–	–
Other	–	–	–	–
Total	**1.6**	**46.4**	**1.5**	**38.8**

Balances outstanding concerning related party pension funds at December 31	Assets	Liabilities	Assets	Liabilities
Current	–	–	–	–
Non-current	–	–	–	0.6
Total	**–**	**–**	–	0.6

There were neither expenses nor provisions for bad debts relating to these pension funds.

(43) Business combinations (financial amounts in CHF million)

Business combinations 2012:
There were no acquisitions during the 2012 year.

Business combinations 2011:
On 23 June 2011, the Group acquired 100% of the share capital of Transportes Continentales S.A., Panama and on 21 July 2011, the group acquired 100% of the share capital of Eurofox GmbH, Gewerbepark 10, 2821 Lanzenkirchen, Austria for CHF 9.0 million in total for both interests. At that date, the fair value of the net assets and liabilities equaled CHF 9.0 million. The acquired businesses contributed revenues of CHF 1.6 million and net profit of CHF 0.1 million to the Group for that period. If the acquisitions had occurred on 1 January 2011, group revenue would have increased by a further CHF 3.0 million and net income would have been decreased by CHF 0.2 million in 2011.

Details of the purchase consideration are as follows:

Purchase consideration	2011
Cash paid	8.2
Deferred payment of purchase price to sellers	0.8
Total purchase consideration	**9.0**

The assets and liabilities as at date of acquisitions arising from the acquisition are as follows:

	Fair value
Cash and cash equivalents	1.0
Property, plant and equipments	3.7
Patents, technology	4.2
Trademarks, brand	1.0
Customer relationship	–
Inventories	1.0
Deferred tax assets	–
Trade and other receivables	0.9
Trade and other payables	(0.2)
Other liabilities	(1.6)
Deferred tax liabilities	(1.0)
Fair value of net assets	**9.0**
Total purchase consideration	**9.0**
Purchase consideration settled in cash	8.2
Cash and cash equivalents in subsidiary acquired	1.0
Cash outflow on acquisition	**7.2**

(44) Events after the reporting period

There were no significant events after the reporting period.

Notes to the consolidated financial statements

(45) Group Companies

Country	Company name and location	Activity S = sales R = research D = development P = production Se = services H = holding

Parent company

Liechtenstein	Hilti Corporation, Feldkircherstrasse 100, Postfach 333, 9494 Schaan, Tel. +423 234 2111, Fax +423 234 2965, www.hilti.com	S, R, D, P, Se, H

Main, 100% owned consolidated group companies (subsidiaries – including production plants and market organizations)

Albania	Hilti Albania sh.p.k., Tirana	S
Algeria	Hilti Construction Equipements EURL, Alger	S
Argentina	Hilti Argentina S.R.L., Buenos Aires	S
Australia	Hilti (Aust.) Pty. Ltd., Rhodes New South Wales	S
	Hilti Mining Engineering Australia Pty Ltd, Rhodes New South Wales	P
	Hilti Tendon Technologies, Rhodes New South Wales	D
Austria	Hilti Austria Gesellschaft m.b.H., Wien	S
	Hilti Holding GmbH, Wien	H
	Hilti Aktiengesellschaft Zweigniederlassung Thüringen, Thüringen	P
	Eurofox GmbH, Lanzenkirchen	S, P, D
Belarus	Hilti BY FLLC, Minsk	S
Belgium	Hilti Belgium N.V., Asse-Zellik	S
Bosnia-Herzegovina	Hilti Systems BH d.o.o. Sarajevo, Sarajevo	S
Brazil	Hilti do Brasil Comercial Ltda., São Paulo	S
Bulgaria	Hilti (Bulgaria) EOOD, Sofia	S
Canada	Hilti (Canada) Corporation, Mississauga, Ontario	S
	Unirac (Canada) Corporation, Toronto	S
Chile	Hilti Chile Limitada, Santiago de Chile	S
China	Hilti (China) Ltd., Zhanjiang	P
	Hilti (China) Distribution Ltd., Shanghai	S
	Hilti (Shanghai) Ltd., Shanghai	P
Colombia	Hilti Colombia S A S, Bogota D.C.	S
Croatia	Hilti Croatia d.o.o., Sesvete	S
Czech Republic	Hilti ČR spol.sr.o., Průhonice	S
Denmark	Hilti Danmark A/S, Rødovre-Copenhagen	S
Estonia	Hilti Eesti OÜ, Tallinn	S
Finland	Hilti (Suomi) OY, Vantaa	S
France	Hilti France S.A., Versailles	S
Germany	Hilti Deutschland AG (Liechtenstein), Zweigniederlassung Deutschland	S
	Hilti GmbH Industriegesellschaft für Befestigungstechnik, Kaufering	P
	Hilti Entwicklungsgesellschaft mbH, Kaufering	D
	Hilti Kunststofftechnik GmbH, Nersingen	P
	Hilti Deutschland Dienstleistung GmbH, Kaufering	Se

	Hilti Deutschland Logistik GmbH, Oberhausen	Se
Great Britain	Hilti (Gt. Britain) Ltd., Manchester	S
	Hilti Invest Ltd., Jersey, St. Helier	Se
Greece	Hilti Hellas S.A., Eastern Attiki	S
Hong Kong	Hilti Asia Ltd., Kowloon, Hong Kong	H, Se
	Hilti (Hong Kong) Ltd., Kowloon, Hong Kong	S
Hungary	Hilti (Hungária) Szolgáltató Kft., Budapest	S
	Hilti Szerszám Kft., Kecskemét	P
India	Hilti India Private Ltd., New Delhi	S
	Hilti Manufacturing India Private Limited, Mumbai	P
Indonesia	P.T. Hilti Nusantara, Jakarta	S
Ireland	Hilti (Fastening Systems) Ltd., Dublin	S
Israel	Hilti (Israel) Ltd., Petach Tiqva	S
Italy	Hilti Italia S.p.A., Sesto San Giovanni	S
Japan	Hilti (Japan) Ltd., Yokohama	S
Kazakhstan	Hilti Kazakhstan LLP, Almaty	S
Korea	Hilti (Korea) Ltd., Seoul	S
Latvia	Hilti Services Limited, Riga	S
Liechtenstein	Hilti Deutschland AG, Schaan	S
	Hilti (Schweiz) AG, Adliswil, Zweigniederlassung Schaan	S
	IVV-Internationale Vertrieb- und Verbund-Aktiengesellschaft, Schaan	S
Lithuania	Hilti Complete Systems UAB, Vilnius	S
Luxembourg	Hilti Belgium S.A. "Succursale", Luxembourg	S
Malaysia	Hilti (Malaysia) Sdn. Bhd., Petaling Jaya	S
	Hilti Asia IT Services Sdn Bhd, Petaling Jaya	Se
Mexico	Hilti Mexicana, S.A. de C.V., Mexico City, Tlalnepantla	S
	Hilti Operaciones de Mexico S.A. de C.V., Matamoros	P
Montenegro	Hilti Montenegro doo Podgorica, Podgorica	S
Morocco	Hilti Maroc S.A., Casablanca	S
Netherlands	Hilti Nederland B.V., Berkel en Rodenrijs	S
	Hilti International Finance B.V., Amsterdam	H
New Zealand	Hilti (New Zealand) Limited, Auckland	S
Panama	Hilti Latin America S.A., Panama	S
	Transportes Continentales S.A., Panama	Se
Philippines	Hilti (Philippines) Inc., Metropolitan Manila	S
Poland	Hilti (Poland) Sp. z o.o., Warsaw	S
Portugal	Hilti (Portugal) - Produtos e Serviços Lda., Porto	S
Puerto Rico	Hilti Caribe LLC, San Juan, Hato Rey	S
Romania	Hilti Romania S.R.L., Otopeni	S
Russian Federation	Hilti Distribution Ltd., Moscow	S
Serbia	Hilti SMN d.o.o., Belgrade	S
Singapore	Hilti Far East Private Ltd., Singapore	S
Slovakia	Hilti Slovakia spol.sr.o., Bratislava	S
Slovenia	Hilti Slovenija d.o.o., Ljubliana	S
South Africa	Hilti (South Africa) (Pty) Ltd., Johannesburg/Midrand	S
Spain	Hilti Española, S.A., Madrid	S
Sweden	Hilti Svenska AB, Arlöv-Malmö	S

Notes to the consolidated financial statements

Switzerland	Hilti (Schweiz) AG, Adliswil	S
	Hilti Befestigungstechnik AG, Buchs	Se
	Hilti-Finanz GmbH, Chur	H
Syria	Hilti Syria LLC, Damascus	S
Taiwan	Hilti Taiwan Co., Ltd., Taipei	S
Thailand	Hilti (Thailand) Ltd., Bangkok	S
Turkey	Hilti Inşaat Malzemeleri Ticaret A.Ş., Istanbul	S
Ukraine	Hilti (Ukraine) Ltd., Kiev	S
United Arab Emirates	Hilti Middle East FZE, Jebel Ali-Free Zone, Dubai	Se
USA	Hilti Inc., Tulsa, Oklahoma	S
	Hilti of America, Inc., Delaware	H
	Hilti Holdings Limited, Delaware	S, H
	Diamond B., Inc., California	P
	Hilti Solar North America, Delaware	H
	Unirac Inc., Albuquerque	S, R, D, P
Venezuela	Hilti Venezuela S.A., Caracas	S
Vietnam	Hilti Vietnam Company Limited, Ho Chi Minh City	S

Less than 100% owned consolidated group companies (subsidiaries)

Bahrain	Hilti Bahrain Co. W.L.L., Manama (49% participation)	S
Qatar	Hilti Qatar W.L.L., Doha (49% participation)	S
Saudi Arabia	Hilti Saudi Arabia for Construction Tools LLC, Riyadh (51% participation)	S
United Arab Emirates	Hilti Emirates LLC, Abu Dhabi (49% participation)	S

Less than 100% owned joint ventures and associates

China	Panasonic Electric Works Power Tools (Shanghai) Co. Ltd., Shanghai (49% participation)	P
Germany	HILLOS GmbH, Jena (50% participation)	P
Taiwan	Racing Point Co. Ltd., Taipei (49% participation)	P
USA	Intelligent Construction Tools LLC, Delaware (50% participation)	R, D, P

Auditors' report on the consolidated financial statements

Report of the Group Auditors to the General Meeting of Hilti Aktiengesellschaft, Schaan

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Hilti Aktiengesellschaft, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 19 to 77), and the consolidated management report on pages 7 to 9 for the year ended December 31, 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Liechtenstein law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Liechtenstein law as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

The consolidated management report is in accordance with the consolidated financial statements.

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

PricewaterhouseCoopers AG

René Rausenberger   Ralf Zwick
Auditors in charge

St. Gallen, March 6, 2013

Financial statements of Hilti Corporation, Schaan (including branches)

Financial statements

Balance sheet of Hilti Corporation as at December 31
(financial amounts in CHF million)

	Note		2012	2011
ASSETS				
Intangible fixed assets	4		37.2	46.4
Tangible fixed assets	5		330.4	327.4
Financial investments	6		2,473.9	2,474.6
Total fixed assets			2,841.5	2,848.4
Inventories	7		177.3	200.8
Accounts receivables	8		540.7	603.1
Cash			481.9	235.2
Accrued income and prepayments			63.9	64.8
Total current assets			1,263.8	1,103.9
TOTAL ASSETS			4,105.3	3,952.3
EQUITY AND LIABILITIES				
Share capital			88.0	88.0
Participation capital			38.7	38.7
Legal reserves			108.4	108.4
Foreign currency translation reserve			(10.9)	(10.6)
Retained earnings brought forward			960.5	1,061.2
Net income			(48.1)	(53.8)
Total equity	9		1,136.6	1,231.9
Provisions	10		43.3	34.2
Borrowings, payables and other liabilities	11		2,809.6	2,603.5
Accrued liabilities and deferred income			115.8	82.7
Total liabilities			2,968.7	2,720.4
TOTAL EQUITY AND LIABILITIES			4,105.3	3,952.3

Financial statements

Income statement of Hilti Corporation for the year ending December 31
(financial amounts in CHF million)

	Note		2012	2011
Net sales			1,817.6	1,894.5
Change in inventory of finished goods and work in progress			(1.6)	(0.5)
Capitalized own production			4.5	1.8
Other operating revenues			8.5	19.0
Total operating revenues			**1,829.0**	**1,914.8**
Material costs	12		(1,002.7)	(1,080.1)
Personnel expenses	13		(337.4)	(298.2)
Depreciation	14		(54.1)	(61.3)
Other operating expenses			(411.8)	(422.9)
Total operating expenses			**(1,806.0)**	**(1,862.5)**
Operating result			**23.0**	**52.3**
Financial revenues	15		8.7	17.4
Financial expenses	16		(78.7)	(123.3)
Financial result			**(70.0)**	**(105.9)**
Net income before tax expenses			**(47.0)**	**(53.6)**
Tax expenses	17		(1.1)	(0.2)
Net income			**(48.1)**	**(53.8)**

Notes to the financial statements

(1) General information

Hilti Corporation is a limited liability company incorporated and domiciled in the Principality of Liechtenstein. Its registered office is at Feldkircherstrasse 100, 9494 Schaan, Liechtenstein. Hilti Corporation is the parent and main operating company of the Hilti Group. The shareholders and holders of participation certificates have an interest in the Group through their interest in Hilti Corporation. The accompanying Group's consolidated financial statements are the most significant indicator of the Group's financial position and financial performance.

(2) Accounting policies

(2.1) Overview

In contrast to the Group's consolidated financial statement which have been prepared in accordance with International Financial Reporting Standards (IFRS), the financial statements of Hilti Corporation have been prepared in accordance with Liechtenstein's corporations law, the Personen- und Gesellschaftsrecht (PGR). As a result, there are significant differences between treatments in the financial statements of Hilti Corporation and treatments in the Group's consolidated financial statements. The significant measurement, recognition and presentation differences are listed below. Apart from these differences, the accounting policies adopted for the measurement, recognition and presentation of financial statement items in both sets of financial statements are substantially the same.

(2.2) Differences in accounting policies to those of the Group

The following table identifies the relevant financial statement items and the corresponding treatments where the accounting policies adopted for the measurement and recognition of items in the financial statements of Hilti Corporation are significantly different from those adopted in the Group's consolidated financial statements.

Relevant financial statement item	Treatment in financial statements of Hilti Corporation	Treatment in financial statements of Hilti Group
Valuation of fixed assets and inventories	In accordance with taxation rules pursuant to Article 1086 of the PGR	At lower of market value and historical cost subject to adjustment for depreciation or obsolescence based on economic estimates
Valuation of investments in associated companies and joint ventures	At historical cost	In accordance with the equity method of accounting
Valuation of provisions	Based on business risk criteria	In accordance with the best estimate of the amounts required to satisfy existing obligations
Reporting of derivative instruments hedging anticipated operating transactions (cash flow hedges)	Recognized at fair value with value changes reported directly in the income statement	Recognized at fair value with value changes reported as part of equity and recycled to the income statement when the anticipated operating transactions occur
Reporting of development costs	All immediately expensed	For qualifying new product developments, capitalized during the development phases and subsequently amortized over the sales lives of the new products while other development costs are immediately expensed
Measurement of pension plan obligation	Treated as defined contribution plan	Treated as defined benefit plan with cumulative actuarial gains/losses recognized directly in equity

Notes to the financial statements

The following table identifies the significant presentation differences relating to items in the financial statements of Hilti Corporation and the corresponding items in the Group's consolidated financial statements.

Relevant financial statement item	Presentation in financial statements of Hilti Corporation	Presentation in financial statements of Hilti Group
Investments in deposits, bonds and equities restricted to the funding of losses arising from damages to assets and losses arising from product-related obligations	Included in "Financial investments"	Included in "Financial assets at fair value through profit or loss" under current assets heading
Recognized values of derivative financial instruments	Included in "Accrued income and prepayments" or "Accrued liabilities and deferred income" as applicable	Presented as a separate line item "Derivative financial instruments" under each of the current and non-current assets and liabilities headings
Short-term tax obligations	Included in "Provisions"	Presented as a separate line item "Current income taxes payable" under current liabilities heading

(2.3) Changes in accounting policies

There have been no material changes in accounting policies in the 2012 financial statements of Hilti Corporation from those adopted in 2011.

(3) Exchange rates

For details of foreign exchange rates of principal currencies that have been applied for translation into Swiss francs, see note 2.4 of the Group's consolidated financial statements.

(4) Intangible fixed assets (financial amounts in CHF million)

	Rights	Other intangible assets	Prepayments or assets under development	**Total intangible assets**
Cost				
Opening balance at January 1, 2012	12.9	75.0	–	87.9
Currency translation differences	–	–	–	–
Additions	–	3.8	–	3.8
Disposals	–	(1.0)	–	(1.0)
Transfers	–	–	–	–
Closing balance at December 31, 2012	12.9	77.8	–	90.7
Accumulated amortization				
Opening balance at January 1, 2012	(8.0)	(33.5)	–	(41.5)
Currency translation differences	–	–	–	–
Additions	(1.3)	(11.7)	–	(13.0)
Disposals	–	1.0	–	1.0
Transfers	–	–	–	–
Closing balance at December 31, 2012	(9.3)	(44.2)	–	(53.5)
Net book values at December 31, 2012	3.6	33.6	–	37.2
Net book values at December 31, 2011	4.9	41.5	–	46.4

Notes to the financial statements

(5) Tangible fixed assets (financial amounts in CHF million)

	Land and buildings	Plant and machinery	Other operating equipment	Prepay-ments or assets under construction	Total tangible assets
Cost					
Opening balance at January 1, 2012	373.6	441.7	145.2	26.9	987.4
Currency translation differences	(0.3)	(0.5)	(0.1)	(0.1)	(1.0)
Additions	0.9	21.1	7.4	25.2	54.6
Disposals	(6.8)	(7.9)	(9.3)	(3.9)	(27.9)
Transfers	3.6	4.6	0.8	(9.0)	–
Closing balance at December 31, 2012	371.0	459.0	144.0	39.1	1’013.1
Accumulated depreciation					
Opening balance at January 1, 2012	(162.0)	(386.4)	(111.6)	–	(660.0)
Currency translation differences	0.1	0.4	0.1	–	0.6
Additions	(4.6)	(25.5)	(11.0)	–	(41.1)
Disposals	3.4	6.5	7.9	–	17.8
Transfers	(0.9)	–	0.9	–	–
Closing balance at December 31, 2012	(164.0)	(405.0)	(113.7)	–	(682.7)
Net book values at December 31, 2012	207.0	54.0	30.3	39.1	330.4
Net book values at December 31, 2011	211.6	55.3	33.6	26.9	327.4

The insurance value of tangible fixed assets at the balance sheet date is CHF 779.6 million (2011: CHF 793.0 million).

(6) Financial investments (financial amounts in CHF million)

	Share-holdings	Loans to group companies	Other financial invest-ments	Total financial invest-ments
Cost				
Opening balance at January 1, 2012	2,399.4	81.6	21.7	2,502.7
Currency translation differences	–	2.6	–	2.6
Additions	8.5	–	13.6	22.1
Disposals	(3.9)	(19.7)	(0.2)	(23.8)
Closing balance at December 31, 2012	2,404.0	64.5	35.1	2,503.6
Accumulated valuation allowance				
Opening balance at January 1, 2012	(28.1)	–	–	(28.1)
Currency translation differences	–	–	–	–
Additions	(1.6)	–	–	(1.6)
Disposals	–	–	–	–
Closing balance at December 31, 2012	(29.7)	–	–	(29.7)
Net book values at December 31, 2012	2,374.3	64.5	35.1	2,473.9
Net book values at December 31, 2011	2,371.3	81.6	21.7	2,474.6

Notes to the financial statements

A list of group companies, directly or indirectly held by Hilti Corporation, is included on pages 75 to 77 of this Financial Report. Pursuant to Article 1094 (3) of the PGR, some details relating to investments in group companies have not been disclosed in this list.

(7) Inventories (financial amounts in CHF million)

	2012	2011
Raw materials	35.7	47.0
Consumables	10.2	9.4
Production in progress	6.1	7.6
Finished products and goods held for resale	125.3	136.8
Total inventories	**177.3**	**200.8**

(8) Accounts receivables (financial amounts in CHF million)

	2012	2011
Trade accounts receivables from third parties	17.2	20.3
Trade accounts receivables from group companies	410.7	459.8
Total trade accounts receivables	**427.9**	**480.1**
Other accounts receivables from third parties	20.7	19.8
Other accounts receivables from group companies	92.1	103.2
Total other accounts receivables	**112.8**	**123.0**
Total accounts receivables	**540.7**	**603.1**

(9) Equity (financial amounts in CHF million)

	Share and PC capital	Legal reserves	Foreign currency translation reserve	Retained earnings	Total equity
Equity at January 1, 2012	126.7	108.4	(10.6)	1'007.4	1'231.9
Dividend paid 2012	–	–	–	(46.9)	(46.9)
Foreign currency translation differences	–	–	(0.3)	–	(0.3)
Net income 2012	–	–	–	(48.1)	(48.1)
Equity at December 31, 2012	126.7	108.4	(10.9)	912.4	1'136.6

The share capital consists of 176,000 registered shares with a par value of CHF 500 each and the participation capital consists of 774,400 participation certificates with a par value of CHF 50 each. The participation capital has no voting rights. All the capital is fully paid in and is entitled to dividends.

The currency translation differences arise from the inclusion of the income statement and balance sheet items of Plant Thüringen, Austria, which are denominated in Euro. The foreign currency translation reserve comprises the accumulated foreign currency gains and losses recognized in equity since 2003.

Notes to the financial statements

(10) Provisions (financial amounts in CHF million)

	2012	2011
Provisions for pensions and similar obligations	6.5	6.1
Tax obligations	–	–
Other provisions	36.8	28.1
Total provisions	**43.3**	**34.2**

Other provisions relate mainly to product liability and employee benefit obligations.

(11) Borrowings, payables and other liabilities (financial amounts in CHF million)

	2012			2011		
	Short-term	Long-term	Total	Short-term	Long-term	Total
2.75% bond 2006/2013	149.7	–	149.7	–	149.3	149.3
3.50% bond 2008/2012	–	–	–	299.8	–	299.8
3.25% bond 2009/2014	–	299.1	299.1	–	298.5	298.5
Euro bonds 2012/2015-2019 (EUR 175 million)	–	211.2	211.2	–	–	–
Total bonds	**149.7**	**510.3**	**660.0**	**299.8**	**447.8**	**747.6**
Bank borrowings	**0.4**	**–**	**0.4**	**0.1**	**–**	**0.1**
Trade accounts payables third parties	93.5	–	93.5	85.7	–	85.7
Trade accounts payables group companies	74.3	–	74.3	74.3	–	74.3
Total trade accounts payables	**167.8**	**–**	**167.8**	**160.0**	**–**	**160.0**
Other liabilities owing to third parties	17.7	4.6	22.3	19.4	3.3	22.7
Other liabilities owing to group companies	48.4	1,910.7	1,959.1	45.3	1,627.7	1,673.1
Total other liabilities	**66.1**	**1,915.3**	**1,981.4**	**64.8**	**1,631.0**	**1,695.8**
Total borrowings, payables and other liabilities	**384.0**	**2,425.6**	**2,809.6**	**524.7**	**2,078.8**	**2,603.5**

The contractual maturity of short-term liabilities is less than one year and for long-term liabilities over one year.

Long-term liabilities to the Hilti Foundation in Thüringen, Austria, are secured by a mortgage on the property in Thüringen for CHF 0.3 million (2011: CHF 0.3 million).

(12) Material costs (financial amounts in CHF million)

	2012	2011
Raw materials, consumables and bought-in goods for resale	(991.9)	(1,065.7)
Outsourced manufacturing	(10.8)	(14.4)
Total material costs	**(1,002.7)**	**(1,080.1)**

Notes to the financial statements

(13) Personnel expenses (financial amounts in CHF million)

	2012	2011
Wages and salaries	(281.0)	(251.0)
Pension contributions	(36.2)	(36.4)
Other social contributions	(20.2)	(10.8)
Total personnel expenses	**(337.4)**	**(298.2)**

(14) Depreciation and amortization

This position comprises depreciation and amortization on tangible and intangible fixed assets.

(15) Financial revenues (financial amounts in CHF million)

	2012	2011
Financial investment revenues from third parties	2.6	8.1
Financial investment revenues from group companies	3.6	7.7
Total revenues from financial investments	**6.2**	**15.8**
Revenues from cash and marketable securities invested with third parties	2.5	1.6
Revenues from cash and marketable securities invested with group companies	–	–
Total revenues from cash and marketable securities	**2.5**	**1.6**
Total financial revenues	**8.7**	**17.4**

(16) Financial expenses (financial amounts in CHF million)

	2012	2011
Depreciation on financial assets	**(1.6)**	**(1.2)**
Interest and similar expenses incurred to third parties	(29.4)	(36.1)
Interest and similar expenses incurred to group companies	(34.9)	(31.1)
Total interest and similar expenses	**(64.3)**	**(67.2)**
Operating currency and hedge gains / (losses)	**(12.8)**	**(54.9)**
Total financial expenses	**(78.7)**	**(123.3)**

(17) Tax expenses

For income tax purposes, dividends received are tax exempt.

Notes to the financial statements

(18) Derivative financial instruments (financial amounts in CHF million)

Hilti Corporation enters into derivative contracts to hedge mainly foreign currency risks arising from forecast foreign currency sales and purchases transactions. Derivative contracts are recognized when the applicable forecast transactions occur. Until then they remain off-balance sheet. Recognized (i.e. on-balance sheet) derivative contracts are reported at fair value. Changes in the fair value of recognized derivative contracts are reported in the income statement. In accordance with Article 1093 of the PGR, details of the on- and off-balance sheet derivative contracts outstanding at balance sheet date are as follows:

	2012	2011
Contract face amounts		
Foreign currency forward contracts	429.3	418.4
Foreign currency options	–	–
Interest rate swaps	111.2	251.9
Cross-currency swaps	92.9	209.3
Total contract face amounts	**633.4**	**879.6**
Contract values		
Foreign currency forward contracts	4.8	(5.8)
Foreign currency options	–	–
Interest rate swaps	0.3	0.7
Cross-currency swaps	19.2	41.6
Total contract values	**24.3**	**36.5**
Reporting of contract values		
Contract values recognized (on-balance sheet)	24.3	39.0
Contract values unrecognized (off-balance sheet)	–	(2.5)
Total contract values	**24.3**	**36.5**

(19) Segment information

Pursuant to Article 1094 (2) of the PGR, a breakdown of net sales has not been disclosed.

(20) Contingent liabilities (financial amounts in CHF million)

	2012	2011
Credit facilities guarantees	–	–
Other guarantees	13.9	13.9
Total contingent liabilities	**13.9**	**13.9**

(21) Commitments (financial amounts in CHF million)

Payment commitments arising from operating lease contracts and service contracts are as follows:

	2012	2011
Expiring within 1 year	0.5	0.7
Expiring between 1 and 5 years	0.6	0.8
Total commitments	**1.1**	**1.5**

Notes to the financial statements

(22) Remuneration of the Board of Directors and the Corporate Management

For details of the remuneration of the Board of Directors and the Corporate Management, see note 42 of the Group's consolidated financial statements.

(23) Number of employees

The breakdown of employees by nationality is as follows:

Country	2012	%	2011	%
Austria	883	45	901	43
Germany	391	20	424	20
Liechtenstein	187	9	206	10
Switzerland	241	12	263	13
Other countries	271	14	295	14
Total employees	1,973	100	2,089	100

(24) Management report

Pursuant to Article 1121 (3) of the PGR, the management report of Hilti Corporation has been combined with the consolidated management report. The consolidated management report is on pages 7 to 9 of this Financial Report.

(25) Appropriation of retained earnings (financial amounts in CHF million)

	2012	2011
Profit brought forward	960.5	1,061.2
Net income	(48.1)	(53.8)
At the disposal of the General Meeting	912.4	1,007.4
Proposal by the Board of Directors		
Dividend of		
CHF 515 (2011: CHF 185) per share	90.6	32.6
CHF 51.5 (2011: CHF 18.5) per participation certificate	39.9	14.3
Appropriation to other reserves	–	–
Balance carried forward	781.9	960.5
Total	912.4	1,007.4

Auditors’ report on the financial statements

Report of the Statutory Auditors to the General Meeting of Hilti Aktiengesellschaft, Schaan

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on pages 81 to 91 and the management report of Hilti Aktiengesellschaft on pages 7 to 9 for the year ended December 31, 2012.

These financial statements and the management report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Liechtenstein, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements and the management report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Liechtenstein law. Furthermore, the accounting records and financial statements and the management report and the proposed appropriation of available earnings comply with Liechtenstein law and the company’s articles of incorporation.

The management report is in accordance with the financial statements.

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

PricewaterhouseCoopers AG

René Rausenberger Ralf Zwick
Auditors in charge

St. Gallen, March 6, 2013

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Next information

May 16, 2013: Interim financial information for January to April 2013

September 27, 2013: Interim financial information for January to August 2013

March 14, 2014: Financial Report for the year 2013


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