ARBONIA

ANNUAL REPORT 2018

OVERVIEW OF DIVISIONS

HVAC DIVISION

Areas of activity
Fan Coils
Heat pumps
Radiant panels
Radiators
Surface temperature control
Unit heaters
Ventilation

Brands
Arbonia
Brugman
Kermi
Prolux
Sabiana
Superia
Tecna
Vasco

Production sites
Corbetta (I)
Dilsen (BE)
Legnica (PL)
Plattling (D)
Stríbro (CZ)
Tubbergen (NL)

Average headcount 2018 (full-time equivalent)
2609

Investments in 2018
CHF 61.8 million

SANITARY EQUIPMENT DIVISION

Areas of activity
Acrylic bathtubs and shower trays
Shower areas
Shower enclosure
Shower stalls

Brands
Baduscho
Kermi
Koralle

Production sites
Dagmersellen (CH)
Plattling (D)

Average headcount 2018 (full-time equivalent)
798

Investments in 2018
CHF 9.6 million

WINDOWS DIVISION

Areas of activity
Aluminium windows
Exterior doors
Lift-and-slide doors
Vinyl windows
Vinyl/aluminium windows
Wood windows
Wood/Aluminium windows

Brands
Dobroplast
EgoKiefer
Slovaktual
Wertbau

Production sites
Langenwetzendorf (D)
Lublin (PL)
Pravenec (SK)
Zambrow (PL)

Average headcount 2018 (full-time equivalent)
2859

Investments in 2018
CHF 28.8 million

DOORS DIVISION

Areas of activity
Functional doors
Interior doors
Frames

Brands
Garant
Invado
Prüm
RWD Schlatter

Production sites
Amt Wachsenburg (D)
Ciasna (PL)
Roggwil (CH)
Weinsheim (D)

Average headcount 2018 (full-time equivalent)
1869

Investments in 2018
CHF 34.2 million

KEY FIGURES

in CHF million	Full year 2018[1]	Full year 2017[1]	Full year 2016	Full year 2015	Full year 2014[1]
Net revenue	**1374.0**	**1245.6**	**995.3**	**941.4**	**1017.4**
EBITDA	**130.5**	**120.3**	**68.7**	**26.6**	**78.3**
EBIT	**61.0**	**61.3**	**29.1**	**–158.4**	**33.4**
Group result	**38.7**	**37.5**	**7.6**	**–177.1**	**11.3**
Total assets	**1511.9**	**1416.6**	**1526.9**	**900.5**	**969.5**
Shareholders' equity	**887.7**	**863.1**	**728.8**	**351.8**	**363.0**
in % of total assets	**58.7**	**60.9**	**47.7**	**39.1**	**37.4**
Net indebtedness	**116.8**	**43.3**	**225.1**	**21.7**	**222.3**
Cash flow from operating activities	**69.6**	**68.8**	**32.0**	**54.5**	**39.4**
Free cash flow	**–53.8**	**190.4**	**–67.3**	**16.0**	**–51.9**
Investments	**136.0**	**105.1**	**62.1**	**21.9**	**47.7**
Average headcount (full-time equivalent)	**8198**	**7754**	**6325**	**6186**	**6057**
Market capitalisation	**750**	**1129**	**1123**	**450**	**449**

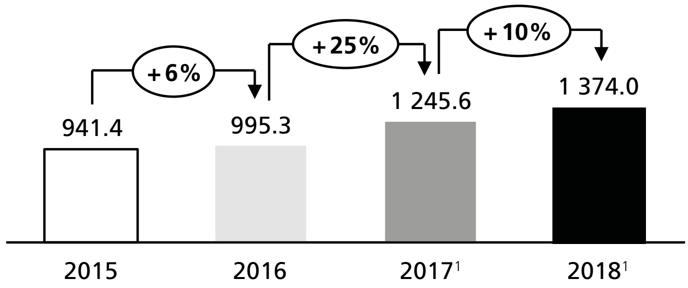
[1] Continuing operations

INFORMATION FOR INVESTORS[2]

	2018	2017	2016	2015	2014
Share price on 31.12. in CHF	**10.8**	**16.3**	**16.4**	**10.1**	**18.2**
Market capitalisation in CHF million[3]	**750.3**	**1128.9**	**1123.2**	**450.0**	**449.3**
Earnings per share in CHF	**0.7**	**0.7**	**0.2**	**–6.1**	**0.6**
Price/earnings ratio per share[3]	**16.3**	**24.2**	**102.3**	**–1.7**	**22.0**
Gross dividend per share in CHF	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**

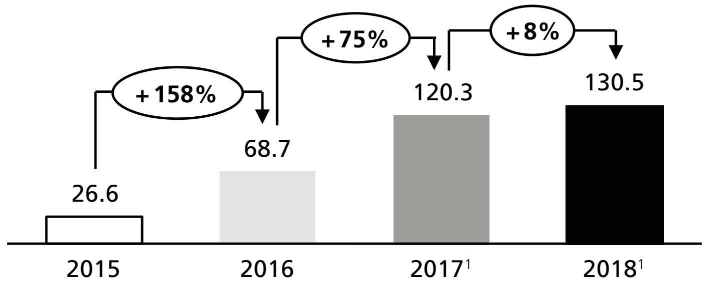
[2] Adjusted for 2015 capital increase
[3] Calculated on the basis of the share price on 31 December

NET REVENUE



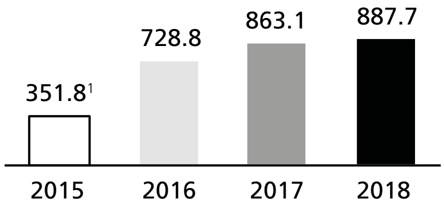
[1] Continuing operations

EBITDA[2]



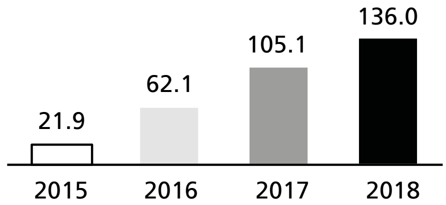
[1] Continuing operations, [2] Incl. special effects

SHAREHOLDERS' EQUITY[1]

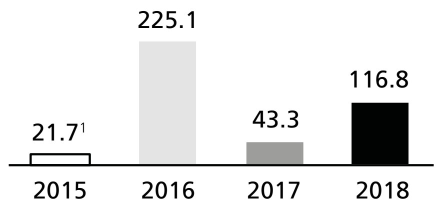


[1] H1 2015: CHF 186.8 Mio.

INVESTMENTS



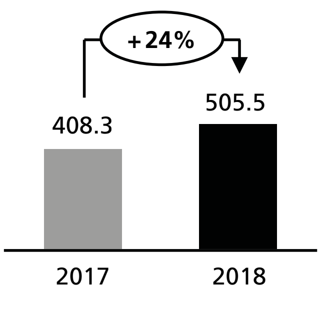
NET INDEBTEDNESS



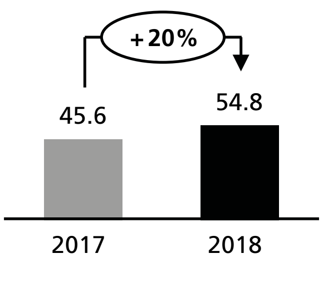
[1] H1 2015 CHF 229 Mio.

HVAC DIVISION[1]

Revenue development
(in CHF million)



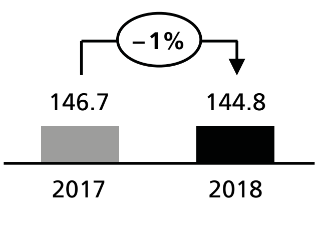
EBITDA development
without special effects
(in CHF million)



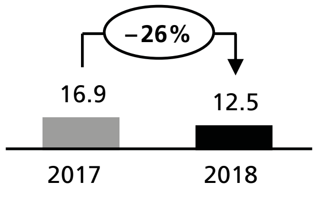
[1] In 2017 excl. Vasco Group and Tecna

SANITARY EQUIPMENT DIVISION

Revenue development
(in CHF million)

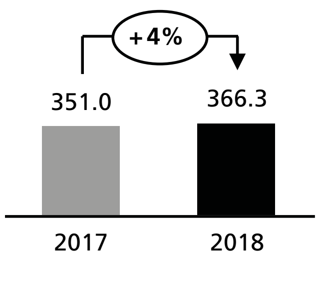


EBITDA development
without special effects
(in CHF million)

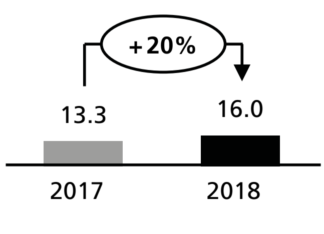


WINDOWS DIVISION

Revenue development
(in CHF million)

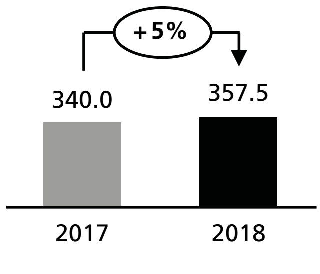


EBITDA development
without special effects
(in CHF million)



DOORS DIVISION

Revenue development
(in CHF million)



EBITDA development
without special effects
(in CHF million)

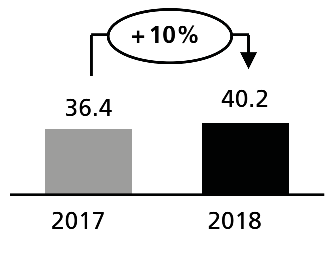


Table of Content

Report section

Management Report of the Group

Letter to the Shareholders ... 3
ARBONIA DIGITAL ... 10
The product portfolio of Arbonia ... 13
Divisions ... 16
Heating, Ventilation and Air Conditioning ... 18
Sanitary Equipment ... 26
Windows ... 34
Doors ... 42

Group

Human Resources ... 51
Corporate Governance ... 55
Compensation Report ... 75
Report of the Statutory Auditors on the Compensation Report ... 85

Financial section

Financial Report

Financial Commentary ... 90
Consolidated Financial Statement Arbonia Group ... 93
Report of the Statutory Auditors on the Consolidated Financial Statement ... 171
Financial Statements Arbonia AG ... 179
Report of the Statutory Auditors on the Financial Statements ... 187

Supplementary Information for Investors ... 191
Glossary ... 192
History ... 194
Addresses ... 196
Dates ... 197
Publication Information ... 198

LETTER TO THE SHARE-HOLDERS

In order to consolidate its strategic position as a leading European building component supplier, Arbonia once again took important steps in the 2018 financial year. With the acquisition of Vasco in western Europe, the company has expanded its geographical presence as well as added to its portfolio of heating, ventilation and air conditioning. At the end of 2018, Arbonia completed its activities to concentrate production at locations with the best-possible cost basis. In these competence centres with state-of-the-art infrastructure, the company pools its know-how close to its sales markets. The divestment of non-essential properties freed up capital for the systematic further development of the company.

As it starts the 2019 financial year, Arbonia is confident that it is well placed – both from an industrial and financial perspective – to successfully sustain the position it has attained.

Dear Shareholders

Dear Ladies and Gentlemen

In the 2018 financial year, the Arbonia Group was affected by various trends. The company recorded stable organic growth and an encouraging increase in profitability. In the second half of the year, momentum declined as expected, as a result of macroeconomic and industry-specific developments in major markets, but also on account of internal challenges, such as the relocation of wood/aluminium window production from Switzerland to eastern Germany.

In 2018, Arbonia increased Group revenue by 10.3% compared to the previous year to CHF 1 374.0 million (previous year: CHF 1 245.6 million). The activities of the Vasco Group, which were consolidated on 1 June 2018, contributed with CHF 58.8 million to Arbonia's growth. EBITDA increased by 8.5% and reached CHF 130.5 million with special effects (previous year: CHF 120.3 million). In adjusted terms, Arbonia increased its EBITDA by 13.6% from CHF 101.3 million to CHF 115.1 million. Considerably higher depreciations in the reporting year meant that EBIT did not rise, resulting in Arbonia achieving a level of CHF 61.0 million (previous year: CHF 61.3 million). Excluding special effects, EBIT reached CHF 47.8 million (CHF 42.6 million in the previous year), equating to a 12.4% increase. Arbonia achieved a company result of CHF 46.0 million. In the previous year, this figure was CHF 46.4 million.

The continued strengthening of Arbonia's financial footing over recent years means that it is able to offer shareholders a dividend for the 2018 financial year for the first time since the 2013 financial year.

Market environment

In the reporting year, Germany was the largest sales market followed by Switzerland, Poland, Italy and France. Arbonia attained around 80% of its annual revenue in these core markets.

Concerns over interest rates and the economy, the escalating trade dispute between the USA and China, the continuing uncertainty surrounding Brexit and Italy's national debt dampened the mood in the global economy, particularly in the second half of 2018. These uncertainties also influenced the forecasts issued in relation to the construction industry. In the reporting year, Arbonia battled against rising raw material prices, including for aluminium, steel and glass, as well as an increase in labour costs, particularly in Central and Eastern Europe.

In **Germany**, development of the construction industry remained stable, though the lack of skilled workers and sites for construction has been curbing the boom experienced in the new construction sector for some time now. The shortage of skilled construction workers led to a preference for new construction, which further restricted the more profitable renovations business in the reporting year. The effects of the general pessimistic economic outlook, however, were also felt in 2018. Lower incoming orders in the industry led to a drop in commercial expenditure on buildings.

In **Switzerland**, capacity remained stable. However, the large amount of new construction activity seen in recent years, driven by low interest rates, has led to imbalances on the property market. The increasing number of income properties remaining vacant is leading to increased competition, with pressure on rents. This development is also making energy efficiency refurbishments less attractive, as such renovations increase the value of the property. Overall, the risk that new residential construction in Switzerland will experience an even greater correction than has long since been expected is looking increasingly likely. In contrast, however, the office building sector recorded healthy growth.

In Eastern Europe, Arbonia's most significant market, **Poland**, continued to experience pleasing growth. However, a lack of skilled workers presented challenges and became an even more exacerbated issue – as did unsatisfactory productivity levels, which were well below the EU average. The negative effects of the lack of skilled workers and increasing wages on economic development have already been felt in **Slovakia** and the **Czech Republic**, where Arbonia also has production sites.

In **Italy**, 2018 was characterised by ongoing political instability and the country's dramatic budget dispute with the EU. These problems led to a general air of uncertainty in the economy, credit risks and postponements to investments, as well as stagnating consumption and the country ultimately falling into recession.

Growth in **France** slowed, especially in the second half of the year, and real earnings only registered a slight increase. The protests held by the "yellow vest" movement, which flared up towards the end of the year, also brought political uncertainty and further subdued the economy. This also had a negative impact on the mood of building contractors. Expectations for new construction business and energy efficiency refurbishments are therefore low in the sector for 2019.

General activities of the Arbonia Group

In the 2018 financial year, Arbonia implemented further strategic measures which enabled it to strengthen its profile as well as its industrial and financial basis for long-term business growth. The former Building Technology Division was split up at the start of 2018; since then, its market segments have been represented by the two new, independent divisions of HVAC (Heating, Ventilation and Air Conditioning) and Sanitary Equipment. Also in January, Arbonia successfully completed the sale of the profile systems business unit, which had been initiated at the end of 2017, thus focusing the Doors Division on its business with interior doors. The Arbonia Group now consists of four divisions: HVAC, Sanitary Equipment, Windows and Doors.

One area of focus in the reporting year concerned bolstering the HVAC Division from a strategic and an industrial perspective. In May, Arbonia announced the acquisition of the Belgian Vasco Group, the market leader for radiators in the Benelux countries, which has production plants in Belgium, the Netherlands and Poland. This enabled the division to add regionally established brands to its portfolio, expand its geographical presence in western Europe and helped it to consolidate its position in the radiator industry. In the autumn, Arbonia acquired Tecna, its former HVAC distribution partner for the Iberian Peninsula, boosting its direct business.

In 2018, Arbonia pursued its strategic goal of aligning its property ownership with operational needs by selling three properties in Switzerland. During the first half of the year, it sold the window production property in Villeneuve (CH). With retroactive effect from 1 October, the company sold an industrial property in Dietlikon (CH) which it had not been using since it withdrew from the kitchen business in 2014. In December, Arbonia sold a plot of undeveloped land at its headquarters in Arbon (CH). All properties were purchased by property development companies. Arbonia is using the substantial proceeds from these divestments to finance its general business operations.

In order to secure solid medium to long-term financing of the Arbonia Group by means of an additional source, a bonded loan was issued in April 2018. Due to strong demand for the bonds with terms of 5, 7 and 10 years, the volume was able to be increased from the original EUR 75 million to EUR 125 million.

In the reporting year, Arbonia invested a total of CHF 136.0 million. Further investment projects worth CHF ~100 million are planned for 2019.

In order to ensure continuity at senior management level, the Board of Directors of Arbonia AG appointed Daniel Wüest as its Chief Financial Officer (CFO) and member of Group Management in December 2018. He will assume responsibility for Corporate Finance from Felix Bodmer on 12 April 2019, the date of the Annual General Meeting. A Swiss national, Daniel Wüest (born 1970) is an economist specialising in finance and banking. He has a proven international track record and has been familiar with the Arbonia Group for many years on account of his former work as a consultant.

Strategies and developments in the divisions

In 2015, Arbonia launched a comprehensive programme to achieve financial and strategic goals by the end of 2018. Key measures included the relocation of the production footprint and focusing on divisional strategies. In order to build on the solid foundations it enjoys today, Arbonia has defined four strategic approaches for the entire industrial business:

- Establishment and expansion of highly productive production centres and deepening of vertical integration
- Development of product and market platforms
- Development of a comprehensive, cross-divisional digitisation strategy based on improved, automated processes
- Acceleration of regional expansion

Detailed information is provided in addition to the following overview in the separate division chapters from page 18.

As of 1 January 2018, the **HVAC Division** (Heating, Ventilation and Air Conditioning) has been an independent part of the former Building Technology Division. It is therefore reporting its own key figures for a complete financial year for the first time. The division pursues two key strategic goals:

1. To adapt its product portfolio and market presence in line the growing number of products/services and markets
2. To play a leading role in the consolidation of the European radiator market and in doing so to expand both regionally and in terms of the portfolio it offers.

The division made an important step towards achieving these goals with the acquisition of the Belgian Vasco Group in May 2018. In the HVAC business, Vasco expanded Arbonia's market presence in western European countries and deepened vertical integration, as it produces pipes for underfloor heating itself. For several years, radiators have represented over 90% of the division's overall revenue, with steel panel radiators in the DACH region accounting for over 65%. In 2018, despite consolidated growth, radiators only accounted for under 65% of overall revenue, less than 40% of this being steel panel radiators, which are largely being sold in emerging markets such as Eastern Europe and Russia. However, a significant proportion of the division's consolidated revenue growth in 2018 was in the product segment of heat pumps, floor heating, convectors, and air-conditioning and ventilation technology, which is set to account for 40 – 50% of revenue in the future.

By making considerable investments, Arbonia has in recent years also modernised its production facilities in the German town of Plattling in order to improve both quality and supply availability. To centralise its expertise in competence centres and to further increase its competitiveness, the HVAC Division is intending to focus its production here and on other highly automated locations. In the Russian town of Stupino, the construction of a new radiator production plant, which was started in 2018, is on track; the plant is set to be put into operation in spring 2019.

The **Sanitary Equipment Division**, which was also formed on 1 January 2018 from the former Building Technology Division, further adapted and standardised its processes at the Plattling location in Germany during the reporting year, following the relocation of the Koralle brand's production facilities to the site in the previous year. The targeted increase in production efficiency was achieved by the end of the reporting year. Nevertheless, the division battled against losses from excessive retail concentration of the Kermi and Koralle brands in Germany. Difficult market conditions in France were also cause for concern and brought about a general downtrading of sales activities, meaning that the division, along with its distribution partner, was forced to accept losses. A whole host of measures are being evaluated or have already been implemented to take important steps which will enable Arbonia to set the course for its production, product development, sales and services activities in 2019.

The **Windows Division** is working towards becoming the European market leader in the windows sector. It is striving to gain a sustainable competitive advantage by consolidating manufacturing in Eastern European competence centres.

Relocation of production from the plant in Altstätten (CH) to the state-of-the-art wood competence centre in Langenwetzendorf (D), which started in 2017, involved a huge amount of work. Following considerable delays to the plant's ramp-up process, which were caused by a combination of factors including a shortage of skilled workers, a difficult training period with the Eastern European workforce and the fact that operations had to continue in parallel at the Swiss plant, Wertbau made huge strides in productivity in the summer and has been working at the desired level since November. The aim is to close the Altstätten (CH) production plant fully in 2019 and to only continue to run a service shop.

In the reporting year, the division strengthened its market position with new products, particularly involving vinyl and vinyl/aluminium. The pioneering product platform for wood/aluminium windows, which was launched in the previous year and operates across companies and markets, has continued to demonstrate its worth. In Switzerland, the division was able to gain market shares as a result. In 2018, the vinyl competence centre in Pravenec (SK) commenced series production of insulating glass at a state-of-the-art facility, allowing it to shorten production lead times, enhance quality and decrease dependency on local suppliers. What's more, standardising profile and fitting systems has reduced both costs and complexity.

At the end of 2016, Arbonia significantly strengthened its **Doors Division** with the acquisition of the Looser Group. This market-leading provider of interior doors was a perfect addition to Arbonia's doors business, both in terms of the products it offers and its production facilities. The Looser Group's doors companies were incorporated promptly in 2017 and the division focuses on the interior doors business. Proof that this strategic step was the right one and that it was implemented effectively can be seen in the pleasing business activities recorded in the reporting year and the fact that encouraging order volumes are already in place for the start of 2019. As in the previous year, the production plants in Germany and Poland were operating at the limits of their capacity and are now being modernised and extended. In Poland, the foundations for a new door production facility have already been laid and a new warehouse has been put into operation.

In Switzerland, demand for interior doors from the Prüm brand developed very positively. Business with the specialist trade in Switzerland gained momentum as a result of the merger, benefitting both functional doors from RWD Schlatter and standard doors from Prüm.

From a strategic perspective, Arbonia is aiming to assume a leading role in relation to the rapidly advancing digitisation of the property industry ("prop tech") and consequently has acquired shares in the Berlin-based (D) PropTech company KIWI.KI GmbH. KIWI and the Doors Division have jointly developed the "SmartDOOR", a door enhanced with digital access technology from KIWI which cannot be seen from the outside. Housing providers can use this digital access system to digitise their key management and at the same time provide their tenants with increased comfort. Managers and owners can manage access rights online in real time and therefore no longer have to meet tenants in person to hand over keys.

Outlook

In recent months, the IMF and various economic research institutes have issued negative statements regarding the global economic outlook. Trade conflicts, the current uncertainty surrounding the United Kingdom's exit from the EU, Italy's national debt, and the prospect of an end to expansionary monetary policy are presented as the known risks. A number of forecasts are indicating that there could be an end to almost ten years of continuous growth.

In the reporting year, there were already signs that the favourable development of the construction industry and demand is set to weaken in 2019 on account of the problems stated, such as capacity limits, a lack of skilled workers and further increases to labour costs. It is our assumption that – following an accelerated period of recovery up until 2017 – the construction industry may lose some momentum in the medium term and construction volumes may decline to varying degrees depending on the market compared against the previous year.

Guidance

Nevertheless, for 2019, we are anticipating organic revenue growth of ~3% and an operating EBITDA of CHF 128 – 136 million. The effect of IFRS 16 is set to come to approx. CHF 10 million, which is included in the EBITDA to this amount and will primarily be neutralised in depreciations and, to a small extent, in financial expenses. In the 2019 financial year, we will be continuing to invest to the amount of CHF ~100 million, just as we did in previous years, as we are confident that this is the way to guarantee sustainable growth. At the Annual General Meeting, the Board of Directors will apply to pay a dividend for the 2018 financial year for the first time since the 2013 financial year.

Where 2019 is concerned, it cannot be denied that we are anticipating that the global economy will continue to slow down. This development will affect our markets, even if to varying degrees. Nevertheless, following high investment in measures to increase efficiency and modernise our plants and the introduction of new activities to add value, we believe that we are in a good initial position to successfully sustain this even in a challenging environment.

Acknowledgements

Despite establishing solid industrial and financial foundations, Arbonia continues to operate in a highly competitive industry. Our customers come to expect a lot from us in terms of the product quality of our renowned brands as well as our efficiency and value for money. Parallel to this, requirements in relation to cooperation within the Group are continuing to increase: production facility relocations, acquisitions and market expansion mean that our cultural diversity is growing. All these developments placed huge demands on Arbonia's employees and managers in the 2018 financial year. On behalf of the Board of Directors and Group Management, we would like to thank all those involved for their outstanding dedication. We would also like to thank our customers and suppliers and most notably you, our dear shareholders, for your trust.

Alexander von Witzleben
Chairman of the Board of Directors
and CEO

Felix Bodmer
CFO

ARBONIA DIGITAL – TOMORROW'S GROWTH

Arbonia is opening the new **ARBONIA DIGITAL** unit in Berlin (D) as a way of driving forward digital innovation.

"Digitisation" – there is hardly any other word that is used as often as this one in connection with the changes taking place in the business landscape. It filters through all industries and is seen as both an opportunity and a threat. Arbonia consistently sees digital revolution as an opportunity – both for business development and for the growth of the divisions – a standpoint demonstrated by the fact it has founded an independent digital unit in Berlin (D). ARBONIA DIGITAL develops pioneering technological solutions, services and business models, thereby providing the foundations for constant innovation.

It is already becoming apparent that the real winners of digitisation are the companies that place customers, along with their needs and patterns of behaviour, at the heart of their philosophy.

Customers are at the heart of this strategy. In an environment where product features and prices are no longer enough to stand out from the competition, exceptional customer experiences in relation to sales, marketing and service are becoming crucial factors for success. Other companies are also transforming their value-added chains and employing new technologies to make their processes more efficient and their products more cost-effective. However, it is generally technologies and systems that form the core of these initiatives and investments. Arbonia is taking a different path, as technical advancement alone is not only difficult to achieve, it is also virtually impossible to maintain in the long run. It is already becoming apparent that the real winners of digitisation are the companies that place customers, along with their needs and patterns of behaviour, at the heart of their philosophy. With ARBONIA DIGITAL, Arbonia is anchoring its efforts to achieve consistently positive customer experiences in the organisational culture of the Group, and in doing so, is setting the course for future growth.

MISSION

As a future-oriented Group, Arbonia will not only develop as a result of digitisation – it will also play an active role in driving it forward. The heart of this strategy is the founding of an independent digital unit in Berlin (D). As a way of ensuring innovation, ARBONIA DIGITAL will be developing pioneering technological solutions, services and business models for all divisions.

SYNERGIES

The deep understanding of the needs of target groups and the associated market trends is the basis for success in today's digital world. With this in mind, the digital unit will be working closely with the divisions to test their innovations with customers and partners while they are still at an early stage. This approach ensures that only solutions and products which have a conclusive positive effect on the growth of the entire Group are developed.

FUTURE

With lean processes, agile ways of working and a professional vision, ARBONIA DIGITAL is the answer to the extremely dynamic nature of the economic and technological trends which are making the future increasingly unpredictable.
Berlin (D) is the European hub for digital innovation. ARBONIA DIGITAL will be working from this location to pave the way for the Group's digital future.

"OUR AIM IS TO ORIENT OUR PRODUCTS AND PROCESSES IN SUCH A WAY THAT EVERY BUSINESS UNIT, EVERY ACTION AND EVERY CHANGE IS CONDUCIVE TO A POSITIVE EXPERIENCE FOR THE CUSTOMER."

Alexander von Witzleben,
Chairman of the Board of Directors and CEO

THE WHOLE IS MORE THAN THE SUM OF THE PARTS.
THE ARBONIA PRODUCT PORTFOLIO.

DIVISIONS

ARBONIA

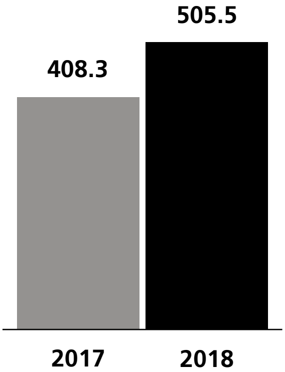
Heating, Ventilation and Air Conditioning (HVAC)	Sanitary Equipment	Windows	Doors
KERMI	KERMI	EgoKiefer Fenster und Türen	PRÜM Türen die zu Ihnen passen
SABIANA IL CLIMA AMICO	Koralle	Fenster & Türen Slovaktual	INVADO
arbonia	Baduscho	WERTBAU Mehr Licht zum Leben	GARANT Türen für Ihr Zuhause
prolux		dobroplast	RWD Schlatter Objekttüren nach Mass
VASCO			
TECNA			
BRUGMAN			
superia			

HVAC DIVISION

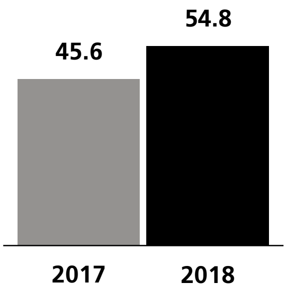
The Heating, Ventilation and Air Conditioning (HVAC) Division is a leading provider of heat transfer products for all application areas – from residential construction to commercial and industrial buildings. The main brands Kermi, Arbonia, Sabiana and Prolux were supplemented in the reporting year as a result of the acquisition of the Vasco Group, and its brands Vasco, Brugman, Superia as well as Tecna S.L. The division's production sites are located in Germany, the Czech Republic, Italy, Belgium, Poland and the Netherlands. It is also served by numerous distribution sites in Europe and a global network of exclusive sales partners to enable customer proximity.

HEATING, VENTILATION AND AIR CONDITIONING

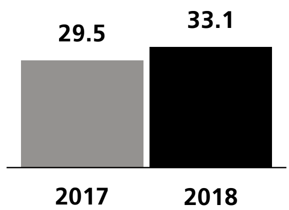
Net revenue
in CHF million



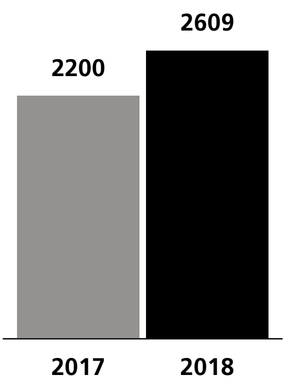
EBITDA
without special effects
in CHF million



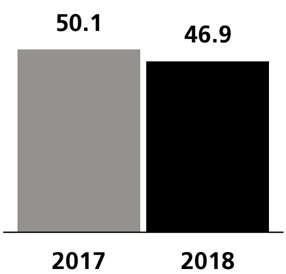
EBIT
without special effects
in CHF million



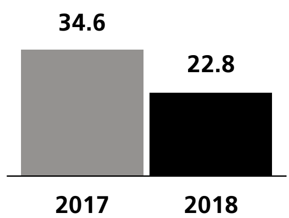
Average headcount
(full-time equivalent)



EBITDA
with special effects
in CHF million



EBIT
with special effects
in CHF million



Market development

The HVAC Division achieved a total revenue of CHF 505.5 million (previous year: CHF 408.3 million). The Vasco Group and Tecna S.L. acquisitions are included in the growth figure of 23.8% on a pro rata temporis basis. When adjusted for currency and acquisition effects, the division demonstrated its growth strength through revenue growth of 5.0%. Despite the highly competitive market environment and the challenging development of costs, the division was able to improve the EBITDA without special effects of this reporting year to CHF 54.8 million compared to the previous year (CHF 45.6 million) and to further increase competitiveness through investments in the production sites. The unadjusted EBITDA amounted to CHF 46.9 million (previous year: CHF 50.1 million). The division achieved an EBIT of CHF 22.8 million, which in the previous year was CHF 34.6 million. Without special effects, the division had an EBIT of CHF 33.1 million (previous year: CHF 29.5 million).

As a result of high levels of customer trust, low interest rates and stable property markets, new home construction activity shows attractive growth throughout Europe as in previous years. However, a lack of available capacity in the installation trade means that this growth in new construction is having a detrimental effect on renovation activity.

In Germany, which continues to be the division's most important market, the bottleneck in skilled employees within the sanitary equipment and heating trade, combined with a lack of available building plots, hampered the residential construction situation, which in itself was positive. In spite of this, in the reporting year the division succeeded in further growth in Germany with its wide-ranging product portfolio. The division was also able to generate substantial revenue growth in the domestic market of Switzerland thanks to a combination of sustained strong developments in the construction of rented housing and low interest rates. In Italy, construction activity in 2018 only showed slow recovery following a number of difficult years, while building refurbishment and modernisation activities remained stable.

By acquiring the Vasco Group in May 2018, the HVAC Division was able to fundamentally expand its market access to the important markets of Belgium and the Netherlands. As a result, the HVAC Division is also taking an active part in the European market consolidation in the area of design and steel panel radiators. With the announced closure of the steel panel radiator plant in Zedelgem (BE) in November, the division is consistently pursuing its strategy for the continued optimisation of its production footprint.

The division additionally succeeded in a strategic expansion of its market presence in Europe, with the acquisition in September 2018 of Tecna S.L., a long-standing distribution partner of Sabiana in Spain and Portugal.

In Russia, the new product standardisation for radiators entered into force in mid-2018, temporarily hampering local operating activities. However, after having received the necessary certification, these increased again significantly in the final months of the reporting year and will continue to increase after the opening of the steel panel radiator plant in the metropolitan area of Moscow (RUS) in 2019, for which construction is currently on schedule.

Products, technology and innovation

Not only has the HVAC Division grown by over 65% over the past five years, but it has also fundamentally changed and expanded its product portfolio and market presence. For several years, radiators have represented over 90% of the division's overall revenue, with steel panel radiators in the DACH region accounting for over 65%. In 2018, despite consolidated growth, radiators only accounted for under 65% of overall revenue, less than 40% of this being steel panel radiators, which are largely being sold in emerging markets such as Eastern Europe and Russia. However, the most significant proportion of the division's consolidated revenue growth in 2018 was in the product segment heat pumps, floor heating, convectors, and air-conditioning and ventilation technology. This proportion has risen to over CHF 200 million over the past five years. Furthermore, the substantially expanded range of electric heat exchangers is providing an increasingly significant contribution to the division's continued growth.

In the water-based heat exchanger segment, new products in the area of design and steel panel radiators contributed significantly to the division's success. What's more, innovative solutions in regulation and ventilation technology increased the interest of specific target groups, such as the residential industry. The heat pump product range for private housing construction was optimised for room cooling. In addition, the division introduced new radiant panels for industrial heating and commercial construction, as well as new ceiling cassette units with higher cooling performance in order to expand its market-leading product portfolio.

Through its market penetration strategy, the division supports the product range of the centralised and decentralised ventilation, which is now complete for every application area and every type of building. In Switzerland, for example, a new generation of centralised ventilation systems is in the market launch phase under the brand name Prolux.

This generation has a unique price-performance ratio while also being extremely compact and exceptionally quiet. In principle, the platform strategy introduced to product development enables every individual requirement of a regional market or distribution channel to be optimally addressed.

Alongside the product ranges for heat transfer through water and through air, the division is focusing on completing its portfolio for electrically-driven heat transfer. Specifically, this includes new radiators for standard operation or additional electrical operation, which are being presented at the ISH 2019 trade fair in Frankfurt (D), in order to expand market cultivation activities to include electrical installations.

As part of continual process and manufacturing optimisation, the investment measures initiated at the different sites were successfully continued or finalised in the reporting year. The division invested around CHF 25 million in Plattling (D), with the beneficiaries including a project for fully automating the final assembly and packing processes, and a new welding line for steel panel radiators. Furthermore, the division focused on digitisation to diversify its production and expand its distribution and service activities by developing digital tools and optimising product data management.

Based on a complete portfolio of heat transfer products, the division offers the ideal solution for all sales channels and users to meet every comfort requirement as well as for use in every type of building and application.

Sustainability

The principles of sustainability have been an integral part of the HVAC Division's corporate philosophy for decades now, and are applied in the areas of product development, production, and customer and staff relationships. By applying a management system certified under ISO 9001/14001/50001 (Quality/Environment/Energy), the division focuses on all processes, from development through to disposal. The advantages that energy efficiency offers to customers and the environmentally responsible use of resources are at the heart of all newly developed products, which meet the highest energy standards.

Sustainability is also a key focus in the area of energy consumption. Italian company Sabiana, for example, produces over 75% of its annual energy from photovoltaic installations, and in Plattling (D), a state-of-the-art energy data logging system enables weaknesses in production to be analysed and inefficient consumers to be replaced effectively.

The obligation to define suitable employee protection goals is a standard element of corporate policy. Each year, the company introduces prevention campaigns focusing on a range of different subjects and managers also receive training in the area of responsibility for occupational safety, as a means of giving safety-related issues more prominence.

Outlook

For 2019, the HVAC Division expects the market environment to remain satisfactory in economic terms, although some country-specific slowdown is starting to be felt. For example, there is currently growing concern in Switzerland about the high number of empty rental properties. The insufficient capacity in the installation trade, mainly in the domestic market, will be an ongoing topic. The two latest acquisitions, the Vasco Group and Tecna S.L., have opened many possibilities for further growth and increased efficiency of the division, such as the announced closure of the Zedelgem (BE) production site in 2019, and the subsequent relocation of production to the highly automated sites in Plattling (D) and Tubbergen (NL). Furthermore, the production launch of steel panel radiator manufacturing in Stupino (RUS), scheduled for Q2 of 2019, is a crucial milestone for the planned revenue growth in the Russian market.

Thanks to its consistently implemented strategy, expansion of its regional presence and continuous product innovations in relation to heat transfer involving water, air and electricity, the division is superbly placed to achieve further growth.

HIGHLIGHTS

Trade fairs attended in 2018

In the reporting year, the diverse HVAC Division brands presented their new products at numerous trade fairs throughout Europe, including in Basel (CH), Milan (I), Wels (AT), Essen (D), Nuremberg (D) and Hamburg (D).

Column radiators for Charité hospital in Berlin

Charité in Berlin (D), with over 3 000 beds, is one of Europe's largest and most modern university hospitals. Complex renovations were recently carried out on the high-rise ward. Ludes Generalplaner GmbH from Berlin (D) carried out the planning for the work. Arbonia delivered around 35 000 column radiators as part of the renovations.

arbonia

"Skystar Jumbo" cassette unit

The new "Skystar Jumbo" cassette fan coil by Sabiana was successfully launched in 2018. The product boasts a high cooling capacity and an innovative design. With six different models, it can be installed in every type of building.

SABIANA IL CLIMA AMICO

300 "Avero V" for Sue & Til

The housing project Sue & Til in Winterthur (CH) was equipped with over 300 "Avero V" ventilation units by Prolux.

prolux

New ventilation training centre in Dilsen

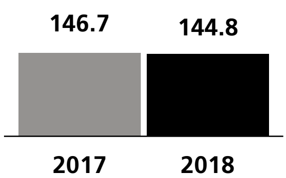
Given the increasingly stringent requirements in installation and ventilation technology, businesses depend on the professional support of manufacturers now more than ever. In the Dilsen (DE) production plant, Vasco is therefore offering training on ventilation to installers and tradespeople in a dedicated training centre with 120 m² of space.

VASCO

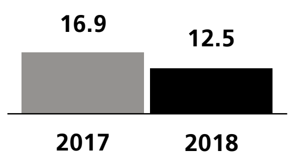
SANITARY EQUIPMENT
DIVISION

The Sanitary Equipment Division has positioned itself as a specialist in shower enclosures, offering highly effective shower solutions for all generations, lifestyles and types of residence. It is the European market leader thanks to its Kermi, Koralle and Baduscho brands, which are well known in the sanitary industry. In addition to the integrated production site in Germany and a locally oriented production facility in Switzerland, the division also has distribution companies in Austria, Poland, the Czech Republic, Russia and China.

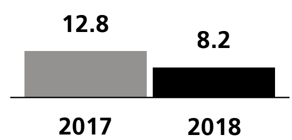
Net revenue
in CHF million



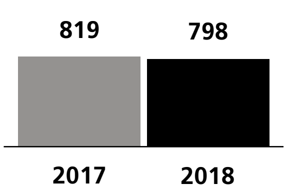
EBITDA
without special effects
in CHF million



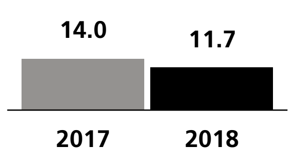
EBIT
without special effects
in CHF million



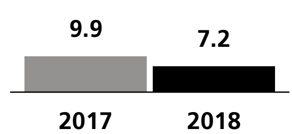
Average headcount
(full-time equivalent)



EBITDA
with special effects
in CHF million



EBIT
with special effects
in CHF million



Market development

The Sanitary Equipment Division recorded total revenue of CHF 144.8 million, a figure that was 1.3% below the previous year's value (CHF 146.7 million). The currency-adjusted revenue development amounted to –4.1%. Noticeable difficulties were experienced in the very challenging markets in France and Germany in particular, while Switzerland saw pleasing developments. At CHF 11.7 million, the EBITDA figure was unable to match the previous year's value (CHF 14.0 million). Excluding special effects, the division achieved an EBITDA of CHF 12.5 million (previous year: CHF 16.9 million). At CHF 7.2 million, EBIT was also below the previous year's level (CHF 9.9 million). Excluding special effects, EBIT amounted to CHF 8.2 million (previous year: CHF 12.8 million).

In the previous financial year, the division was once again faced with increasing raw material prices, rising labour costs and, lately, higher freight and customs costs. The large number of changes and innovations in relation to production continued to have a negative impact on productivity. The effects of the CHF/EUR exchange rate also had a detrimental impact. High pricing pressure and the challenging competitive situation meant that it was not possible to fully offset the cost effects in all markets. However, numerous measures have now been implemented successfully and various further initiatives to boost revenue and increase efficiency have been initiated.

The general trend which presents the bathroom as a place of well-being continues unabated, a fact that is borne out by consumers' willingness to purchase high-quality sanitary products in the domestic markets. However, in Germany, the division's most important sales market, the widespread shortage of skilled workers in the sanitary and heating trades meant that the limited capacity was frequently taken by the booming new construction industry and, in particular, by the heating sector. This therefore had an adverse effect on the renovation and modernisation market which is far more important to the division. As a result of this and the acquisition of the Koralle brand in 2016, the division was forced to accept transitional losses in Germany during the reporting year. By contrast, revenue development in Switzerland followed a positive trend, supported by a stable construction industry and continuing high demand for customised shower solutions. In France, challenging changes in the market and a general down-trading trend made sales activities difficult, meaning that the division, along with its distribution partner, was forced to accept losses.

Important strategic decisions also shaped the reporting year for the Sanitary Equipment Division, in terms of both production as well as sales and service activities. In relation to manufacturing, a number of measures to optimise processes and increase efficiency were launched at the start of the year. The aim was to make even better use of the opportunities afforded by the consolidation of production activities in Plattling (D), which was completed in 2017. Against this backdrop, the reporting year can therefore be seen as a transitional year. The division also regarded the capacity shortages experienced in the installation sector as an opportunity and decided to further expand its already broad range of sales and service activities in order to meet the needs of the specialist and wholesale trade. Together with its market partners, the division took advantage of the opportunities presented by digitisation to further optimise processes. The division took a proactive approach in response to the increasing significance of own trade brands and developed target-group-specific solutions which are tailored to the needs of the commercial and trade sectors.

Products, technology and innovation

The continuing and increasing trend for customised shower solutions – particularly for floor-level showers – is one that the Sanitary Equipment Division is following closely by offering a wide range of design options. Although offering this range of variants presents particular challenges, it also allows the division to continually enhance its development and production expertise.

On 1 January 2018, Koralle was successfully integrated into the SAP ERP system, which the division has been using for many years. Over the course of the year, processes have been continuously fine-tuned – work which has been a pleasing learning curve for all users. During the introduction of the system, it was possible to standardise almost all internal processes as well as those that are not related to specific customers and brands – the fruits of which the division will continue to benefit from for years to come. This will also allow the division to tap into further potential, particularly in relation to purchasing, production and logistics.

Object construction is accounting for an ever-increasing proportion of the division's activities. In addition to classic applications in the hotel and rental property sectors as well as the construction of retirement homes, it has been possible to approach new target groups, such as the shipbuilding sector. One recent success saw a shipyard award the division the contract for the production of around 2300 shower cubicles. The continuous transfer of know-how regarding product technology, processing and sales enables the division to maintain a high level of performance in the increasingly strong object-oriented business.

With respect to digitisation, a number of individual processes, particularly in relation to the incoming orders process, were able to be condensed and optimised. Spare parts ordering is already fully digitised and the provision of BIM data for the division's products has already been implemented in many areas, as has the development of social media activities. The online product-specific search function for wholesalers has also met with strong approval. End customers have the option to search directly for local wholesalers or tradespeople who have the product they are looking for in their showrooms.

At the Plattling (D) site, structural modifications were made which will optimise incoming goods processes. In addition, projects to further enhance automation in production have been started. In spring 2018, the division invested in new machines and tools for the Kermi brand for the launch of the "PEGA" series and additions to the "NICA" and "LIGA" series. For the Koralle brand, this process took place for two new series in the third quarter. Further investments and initiatives relating to digitisation are also already in the pipeline.

Sustainability

Work to optimise packaging is an ongoing process which was further accelerated in 2018. In order to reduce transport weight, the wooden slats that had previously been used were replaced with lighter honeycomb boards made from cardboard. These boards offer comparable protective properties but have a much lower environmental impact. The optimised packaging density and, as a result, the improved utilisation of transport pallets led to a significant decrease in transport and logistics costs as well as sustainably reducing the burden on the environment.

Outlook

The capacity shortages experienced in the installation sector will continue to limit opportunities for growth in the sanitary market. The situation is not expected to ease in the short term, especially in Germany, Austria and Switzerland.

In order to offset the negative external factors, particularly in Germany and France, a whole host of measures are being evaluated or have already been implemented to take important steps which will enable the division to set the course for its production, product development, sales and service activities in 2019.

The Sanitary Equipment Division is therefore viewing the 2019 financial year with cautious optimism. The major international ISH trade fair in Frankfurt (D) is sure to provide stimuli. In addition, ongoing projects and investments in production efficiency and processes are set to reveal their positive effects. Thanks to its expertise as the European market leader for shower enclosures, the division is therefore well placed to sustainably generate growth and profit in the future.

HIGHLIGHTS

Appearance at a number of trade fairs

The companies of the Sanitary Equipment Division showcased their portfolios at renowned industry trade fairs in Basel (CH), Wels (AT), Essen (D), Nuremberg (D) and Hamburg (D). Thanks to numerous new products and effective communication at the trade fair stands which were tailored to each brand, the division was able to put on a convincing display to a broad trade audience.

Baduscho kits out chalet village in Austria

Baduscho fitted the bathrooms at the chalet village in the Hohe Tauern National Park in the Austrian town of Neukirchen with the "JOY 1" series. Further chalets of this kind are also being planned.

Baduscho

"Kermi PASA" incorporated in White Tower Hotels

The frameless "Kermi PASA" shower enclosures have been installed in 345 rooms at the White Tower Hotel, part of Bavaria Towers in Munich (D).

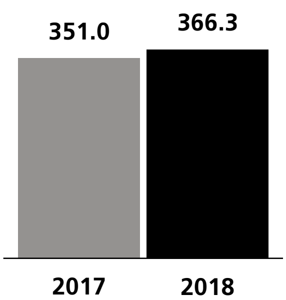
"Koralle Architect" delivers limitless planning freedom for shower solutions

With sophisticated fastening techniques for walls and floors, Koralle Architect enables customised designs to be created for every building situation.

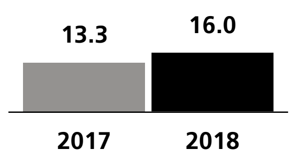
WINDOWS
DIVISION

Consisting of EgoKiefer, Wertbau, Slovaktual and Dobroplast, the Windows Division is one of Europe's leading window manufacturers. The four companies offer customised window systems made of wood, wood/aluminium, vinyl, vinyl/aluminium and aluminium, designed to accommodate every building situation. The extensive range of windows is further complemented by balcony and lift-and-slide doors, front doors and shade solutions. The products are made in the three production competence centres in Germany, Slovakia and Poland, as well as in a service shop for custom solutions in Switzerland. In its target markets, the division operates its own decentralised sales organisations and extensive dealer networks.

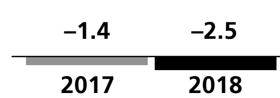
Net revenue
in CHF million



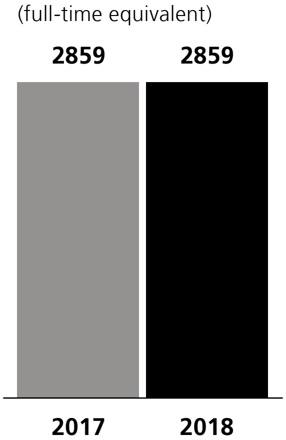
EBITDA
without special effects
in CHF million



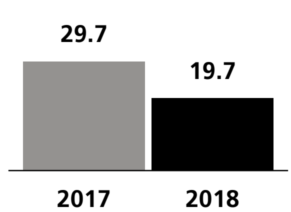
EBIT
without special effects
in CHF million



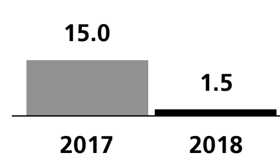
Average headcount
(full-time equivalent)



EBITDA
with special effects
in CHF million



EBIT
with special effects
in CHF million



Market trends

The Windows Division increased its revenue by 4.4% to CHF 366.3 million (previous year: CHF 351.0 million) during the reporting year. When adjusted for currency effects, this resulted in growth of 2.7%. EBITDA fell from CHF 29.7 million in the previous year to CHF 19.7 million due to the sale of the property in Altstätten (CH) in December 2017. Without special effects, EBITDA grew from CHF 13.3 million in the previous year to CHF 16.0 million. This was achieved in spite of the negative impact of significant increases in the CHF/EUR exchange rate, particularly in the first half of the year, which had an adverse effect on the result due to production within the eurozone and the high proportion of sales in Switzerland. In addition, the decision to relocate wood/aluminium production from Switzerland to Thuringia (D) further impacted on the division's result. Against this backdrop, the division's profitability performance at EBITDA level is positive. The EBIT shifted from CHF 15.0 million in the previous year to CHF 1.5 million, and without special effects from CHF –1.4 million in the previous year to CHF –2.5 million.

For the Windows Division, the 2018 reporting year was further marked by the completion of the relocation of wood/aluminium window production from Altstätten (CH) to Langenwetzendorf (D). After a challenging first half of the year in which planned production volumes at the plant in Thuringia (D) were still behind schedule, monthly output was able to be doubled in the second half of the year. As a result, the workforce at the Altstätten (CH) production plant has again been significantly reduced for 2019. Over the course of 2019, the aim is to complete a final reduction of the production staff in Altstätten (CH) to the size of a service shop.

EgoKiefer successfully raised its revenue and volume of incoming orders in 2018. This positive trend can be attributed not least to a balanced mix of sales channels and considerable growth in business with specialist companies. Profitability of the business is anticipated to improve further thanks to selective prioritisation during the bidding phase and methodical project management during order handling. Business with specialist trade partners was also encouraging in 2018. Thanks to a comprehensive service package and an attractive product range, EgoKiefer was able to acquire new partners and boost revenue with existing partners. In the autumn, EgoKiefer invited all its specialist trade partners to a partner day at the new wood/aluminium production competence centre in Langenwetzendorf (D) to show its appreciation. This enabled the partners to see the state-of-the-art production facilities in person and to share their experiences with the local Wertbau management team.

In 2018, German company Wertbau focused its efforts on increasing output in wood/aluminium window production. Over the course of the year, significant improvements were able to be made to both productivity and output thanks to the extraordinary levels of commitment shown by the entire workforce. Currently, around two-thirds of the wood and wood/aluminium production for the Swiss market takes place in Langenwetzendorf (D). The division is confident that this proportion can be increased further in 2019. With respect to the market, Wertbau finished the year with a slight growth in revenue.

At the Pravenec (SK) site, the division commissioned a state-of-the-art insulating glass facility in 2018 and started to operate it at full capacity during the second half of the year. In addition to significant cost reductions, this facility has above all also shortened production lead times, enhanced quality and improved processes as it has decreased the company's dependency on local suppliers. During 2019, around 80% of the total vinyl and vinyl/aluminium range from EgoKiefer and Slovaktual will be produced using insulating glass from this facility. With respect to the market, Slovaktual maintained its revenue compared with the previous year. While increases in market shares were able to be achieved in the key Slovakian domestic market, revenue decreased in Austria. With the introduction of the new "Optim" vinyl window system, which impresses with exceptional thermal transmittance values and technical properties, in 2019 the division is launching a window that is tailored to the needs of Slovakian and Austrian distributors.

Business in the Polish market was encouraging. On account of the Dobroplast brand, the division has grown to become one of the leading window manufacturers in this dynamic market in recent years. With the launch of the new "P-Line" window system, Dobroplast is setting new standards in terms of quality and technology. The product also enables it to increase its market penetration in the mid and upper price segments. Dobroplast's export business also followed a positive trend. In the German market especially, the division continues to see significant potential for growth.

Products, technology and innovation

The Windows Division is continuing to focus resolutely on a strategy of technology-based cost leadership. Through a high degree of vertical integration and standardised product ranges, the aim is to make use of synergies across the division and generate competitive advantages. Against this backdrop, 2018 also saw the harmonisation of the fitting and profile range in addition to the commissioning of the insulating glass facility. As well as resulting in significant cost reductions, standardising the ranges also allows production capacities to be made more flexible and processes to be improved.

The new wood/aluminium window range is setting new standards in terms of finish quality and design options. At Swissbau 2018 in Basel (CH), EgoKiefer presented the new range to the general public. Since then, it has been continually extended and improved.

The new vinyl window generation is currently being launched on the Slovakian and Swiss markets. Thanks to their exceptional technical properties and outstanding thermal insulation standards, these windows play a significant role in reducing the amount of energy buildings consume.

Another important focus of the division was to increase digitisation. During the reporting year, the scheduling of the entire service and assembly workforce in Switzerland was moved to a fully automated and digital solution. The division is currently working on new digital sales approaches which aim to further simplify the sales process for partners and end customers in the target markets. With respect to production, the Arbonia Group is focusing firmly on state-of-the-art production technologies. For example, at the new wood/aluminium production plant in Langenwetzendorf (D), every window component is fitted with an RFID chip so that the entire production process can be tracked in real time and simulated.

Sustainability

As around 75% of household energy consumed is caused by heating costs, the insulation of the exterior walls, ceilings, floors, roofs and, above all, the doors and windows is a key factor for saving energy and increasing energy efficiency. Through the continual innovation of all its window ranges, the Windows Division is making a major contribution in this regard.

The new vinyl and vinyl/aluminium generation in particular offers improved energy efficiency. Thanks to an optimised overall depth, wider and therefore more energy-efficient glass packages can be used in both new constructions as well as in renovations, making a valuable contribution to further reducing energy consumption and lowering CO^2 emissions. The new wood/aluminium windows as well as the vinyl windows from EgoKiefer are certified to the Minergie standard and demonstrate exceptional environmental performance thanks to their high quality standards and long product service life.

Also in respect to production, the Windows Division follows principles which allow resources to be used sparingly at all stages. For example, the wood chippings at the Langenwetzendorf (D) plant are used to heat the production facilities, and thanks to coextrusion systems installed at both the Pravenec (SK) and Zambrow (PL) sites, off-cuts from vinyl profiles are now fed back into the production process instead of being thrown away.

Outlook

As the 2018 reporting year draws to a close, the production transfer and restructuring process for the Windows Division is largely complete. The additional costs incurred as a result of relocating wood/aluminium production from Switzerland to Langenwetzendorf (D), which still had a significant impact on the 2018 results, will no longer be a factor in 2019. What's more, the reduction in the workforce at the Altstätten (CH) production site is set to have a positive impact on the results.

As a result of the investment activities of recent years (including the division's own insulating glass production facility), standardisation of the product ranges and modernisation of production facilities in Zambrow (PL), the division anticipates further improvements in productivity and profitability.

With respect to the market, the division expects healthy demand to continue in 2019. In all markets, it anticipates slight growth in the sales market as well as revenue growth at the same level as 2018.

HIGHLIGHTS

Glattpark, Zürich (CH) ©maaars architektur visualisierungen

Realisation of large-scale projects involving the new wood/aluminium window

The new wood/aluminium window from the Langenwetzendorf (D) plant has enabled EgoKiefer to carry out a number of successful large-scale projects. These include two large construction sites in the Zurich area – the "Glattpark" and "Guggach" – which both offer space for over 250 apartments.

EgoKiefer
Fenster und Türen

Launch of the "P-Line" product range

In spring 2018, the new "P-Line" product range was launched on the Polish market. The vinyl window is setting new standards in terms of quality and technology. The product launch was accompanied by a revamp of the brand identity and the introduction of innovative shop-in-shop systems which enable the Dobroplast distributors to serve their customers on a small scale.

dobroplast

Market launch of the new "Optim" window range on the Slovakian market

The new "Optim" vinyl window was launched as a way to drive growth in the Slovakian market. Thanks to maximum thermal insulation properties with an overall depth of just 76 mm, it can be used in new constructions and renovations as required. The premium profile system with branded fitting ensures the long-term functionality of the window and increases customer loyalty.

Fenster & Türen
Slovaktual®

Start of new wood/aluminium production

Full productive capacity was reached at the wood/aluminium production competence center in Langenwetzendorf (D) in spring/summer 2018 with the commissioning of the wood profiling system. The multi-stage profiling system features an automatic planer and three processing gantries with automatic mechanisms for changing the cutter heads and linked, continuous transportation of the wood by means of alternating clamped transfer stations. This machine is unique in the wood processing industry and has never been built on this scale before.

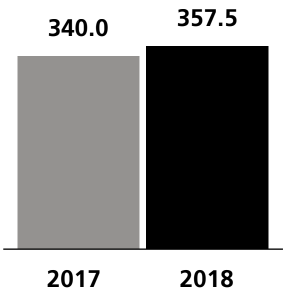
WERTBAU®
Mehr Licht zum Leben

DOORS
DIVISION

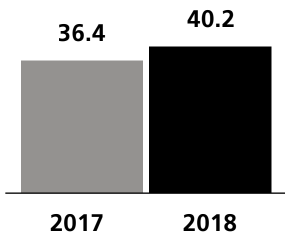
Consisting of the companies Prüm, Garant, Invado and RWD Schlatter, the Doors Division is one of Europe's leading providers of interior doors and timber frames. The Doors Division has four production sites: two in Germany, one in Switzerland and one in Poland. In all three domestic markets, the division offers its customers a comprehensive range of products from standard doors through to complex functional doors.


303

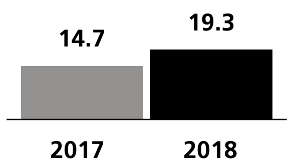
Net revenue
in CHF million



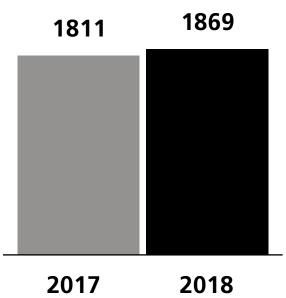
EBITDA
without special effects
in CHF million



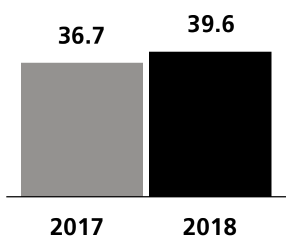
EBIT
without special effects
in CHF million



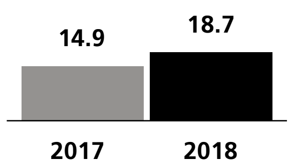
Average headcount
(full-time equivalent)



EBITDA
with special effects
in CHF million



EBIT
with special effects
in CHF million



Market trends

During the reporting year, the Doors Division achieved a revenue of CHF 357.5 million (previous year: CHF 340.0 million), which represents growth of 5.1%. Adjusted for currency effects, the revenue increased by 2.1%. The division's EBITDA amounted to CHF 39.6 million (CHF 36.7 million in the previous year). Without special effects, EBITDA grew from CHF 36.4 million in the previous year to CHF 40.2 million. The result for the EBIT amounted to CHF 18.7 million (CHF 14.9 million in the previous year). Excluding special effects, this resulted in an EBIT of CHF 19.3 million (CHF 14.7 million in the previous year).

The 2018 reporting year was also marked by a fundamentally promising market environment for the Doors Division. With more than a 60% share of total revenue, Germany was the division's most important market by far, followed by Switzerland and Poland. In Switzerland, however, the division recorded a slight decrease in revenue with RWD Schlatter. This was due to changes in market cultivation activities, as it has increased its focus on profitability in the contractor services business.

The German market also continued to experience very positive growth. The total market for interior doors grew by around 3 – 4% in 2018 compared to the previous year. This continues to be attributed to the positive trend in residential construction, where new constructions in particular have increased.

Renovations, on the other hand, recorded a slightly negative performance and non-residential construction remained constant. The revenue growth of Prüm and Garant was above market growth. The division expects the positive market environment to also continue in 2019 and 2020, despite the assumption that new construction activity in particular will decline slightly. The increased availability of tradespeople means that residential renovations are set to increase somewhat over the next few years. Overall, the division anticipates total market growth of 1–2% a year. With Prüm and Garant, the division holds a market share of just over 20% of the German interior door market.

The Swiss residential market remained at the same high level as previous years. The continued high demand for investment properties due to a lack of investment alternatives remains the most important factor supporting the Swiss construction market. The non-residential sector experienced a decline and there were no economic stimuli for commercial properties. Demand for construction in the public sector, including hospitals and schools, on the other hand, recorded steady demand. RWD Schlatter is excellently positioned in this segment. In total, the division achieved a market share of almost 20% in Switzerland.

The Polish residential market continued to benefit from strong economic growth in the country. The number of apartments completed in 2018 increased by 2.5% compared to the previous year. This growth was driven by good labour market conditions with rising wages and falling unemployment. This positive trend is expected to continue in 2019 even though economic growth is anticipated to decline to some extent. With Invado, the division has a market share of 4% in the Polish market.

Products, technology and innovation

In anticipation of the BAU trade fair in Munich (D) in January 2019, the Doors Division has launched a whole host of new products on the market. Highlights include the "SmartDOOR", hotel system doors and the new premium edge.

In October 2018, Arbonia acquired a minority interest in KIWI.KI GmbH, a PropTech company from Berlin (D). KIWI is known for its key-less access system for building and apartment doors in apartment blocks. In conjunction with the company, the Doors Division has developed a "SmartDOOR" with which it intends to take advantage of and shape the opportunities offered by digitisation. Integrating the KIWI access system in the division's doors allows the doors and associated access rights to be managed online via the KIWI portal. Accordingly, users can be created and access rights assigned and then deleted again with ease should the need arise. In addition, the portal also enables doors to be opened at the click of a mouse. Authorised persons can unlock the front door with ease via the KIWI transponder or the KIWI app. As a result, building managers no longer have to engage in unnecessary work or worry about having the right keys at the right time in the right place. The innovative KIWI technology is suitable for all doors within an apartment block and works alongside the conventional locking system.

In conjunction with door fittings specialist Häfele, the division has developed a hotel system door. It is known among experts in the field that door planning and implementation work is one of the most problematic tasks in the construction industry. In addition to meeting the design demands of architects, ensuring the necessary fitting accuracy and fulfilling the requirements of standards, functionality, safety and security and quality in long-term use also come into play. The new concept provides a simple complete solution for the customer and comprises the door leaf, finish, fitting and door frame. The complete solution makes the processes easier for both planners, installers and users alike.

Right from the very beginning, the Doors Division has been focusing on developing new ideas and making improvements to product quality as a way of setting itself apart from the competition. With an innovative and pioneering door edgebanding system involving an invisible joint, Prüm and Garant are ascending to a new level of quality. In total, the division has invested around CHF 22 million in these new systems. Thanks to this new production method, Prüm and Garant are setting completely new standards right across the door industry and demonstrating to their customers that they are innovative partners striving to meet the highest quality standards.

In addition to the new premium edge technology, the division also invested in boosting its productivity and capacity as well as in developing its logistics processes over the course of the reporting year. For example, investments in an additional processing centre for custom doors as well as in a single-sided postforming system has helped ease a major bottleneck in Prüm's production operations. At Garant, the division is also planning to invest in a fully automated processing centre for custom doors. What's more, it will be commencing work on installing a complete frame production line at the end of 2019. At Invado, the new door production hall was completed during the reporting year, meaning that work on installing the new production machinery can be started in 2019.

Sustainability

Energy and material efficiency are permanent areas of focus for the Doors Division. For example, hall lighting is gradually being converted to LED lighting, and when new machines and systems are purchased, efforts are made to ensure that the drives and motors used comply with the latest efficiency classes. In addition, continual improvements to systems ensure that productivity is permanently increasing and the energy required to manufacture each component is continuously decreasing.

Employee well-being is also a matter of great concern for the division. To name just a couple of examples, the canteens and social spaces at Prüm in Germany and Invado in Poland have been modernised over the course of the reporting year.

Outlook

For 2019, the Doors Division expects to see a continued positive if slightly more cautious economic climate in its domestic markets. The limited numbers of tradespeople in the construction industry are curbing the potential for growth.

The Doors Division is tackling this tough environment by making substantial investments to continue to improve its competitiveness. With this in mind, the division is focusing on pushing ahead with process optimisations, efficiency improvements and continued automation over the coming years. At Prüm, the focus of investments in 2019/2020 will primarily be on expanding logistics operations. In 2019, the production site is being extended to include a highly automated loading area which will enable the division to optimise and greatly accelerate the provision and loading process as a whole. Following this, the division is planning to extend its high-bay warehouse by 60% in 2020. As a result, an additional 13 finishes will be able to be supplied directly from the warehouse within a very short period of time. Garant will be receiving a fully automated processing centre for custom doors. What's more, work on installing a complete frame production line is set to commence at the end of 2019. Invado will be commissioning its new door leaf and frame production lines. RWD Schlatter, meanwhile, will be being equipped with a modern coating facility and a new highly flexible processing centre in 2019/2020.

HIGHLIGHTS

System door: A simple total solution for the customer

The two companies Prüm and Häfele cooperate to offer doors as complete solutions. This makes it much easier for planners, investors and assembly companies: A door system from the Prüm Häfele cooperation is an individual and needs-based package. Easy to plan. Easy to order. Easy to install.

PRÜM
Türen die zu Ihnen passen

Development of "SmartDOORS"

In October 2018, Arbonia acquired a minority interest in KIWI, a PropTech company from Berlin (D). KIWI is the market leader in Germany for key-less access systems for housing companies. In conjunction with the Doors Division, "Smart-DOOR" models were developed in 2018 which have KIWI technology installed in the door leaf at the factory.

Premium edge

With the premium edge, Prüm and Garant are opening up a whole new chapter in door edgebanding. The system is characterised by especially high impact and shock resistance. To achieve this, the division relies on innovative Airtec technology which involves applying an edge band to the door rebate using the hot air method.

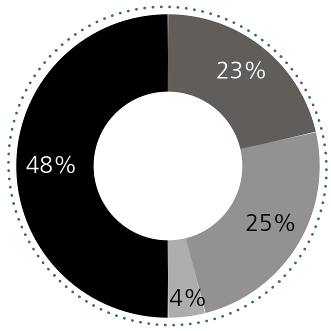
PRÜM
Türen die zu Ihnen passen

GARANT
Türen für Ihr Zuhause

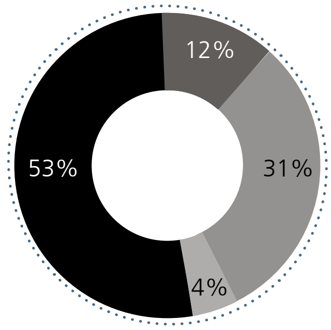
HUMAN RESOURCES

The corporate success of the Arbonia Group is highly dependent on the work of skilled and highly motivated employees who are passionate about and demonstrate their long-term loyalty to the company. Given the ever-decreasing availability of skilled workers and ever-increasing competition to find the right employees for the company, to motivate them and retain them over the long term, it is becoming more and more important to be seen as an attractive employer. In addition to a fair compensation policy, the Arbonia Group provides a number of incentives including a range of employee programmes, professional development measures and alternative development models to promote the careers of its employees in various fields of activity.

AVERAGE HEADCOUNT (FULL-TIME EQUIVALENT) 2015



AVERAGE HEADCOUNT (FULL-TIME EQUIVALENT) 2018



- Switzerland
- Western Europe (D West, BE, NL, FR, AT, DK, UK)
- Southern Europe (I, ES, others)
- Eastern Europe (D East, PL, CZ, SK, RUS)

Workforce development

As of 31 December 2018, Arbonia incl Vasco and Tecna had a workforce of 7874.5 employees (full-time equivalents), representing an increase of 9.5% (previous year: 7193.4 FTE's). This growth primarily stems from the takeover of the Vasco Group in May 2018.

Introduction of company health management scheme

As an attractive employer, the company should work to promote the health, motivation and personal responsibility of its employees. In the reporting year, Arbonia has therefore introduced the company health management scheme known as "FITGSUND" at all its Swiss locations. The programme brings together all measures relating to preventive healthcare – from managing daily schedules to workplace equipment. In addition to courses on avoiding trip hazards, training is also offered on ergonomics in the workplace, accidents during leisure time and stress management. By providing courses on the subject of "healthy management", Arbonia is also ensuring that its managers understand the importance of health management for the benefit of their employees. Further aspects on the agenda in this regard include programmes to help employees quit smoking, information on medical check-ups and the provision of water coolers and fruit to encourage employees to follow a healthy diet. The long-term aim is to roll this programme out across the entire Arbonia Group.

Evaluation of roles

Over the past year, all key roles and top performers in the Group and the companies have been evaluated and a new Arbonia grading system has been developed. This provides a basis for strategic HR development and enables further applications to be established in HR management.

Shortage of skilled workers in Eastern Europe

Over the past two years, Eastern Europe has experienced an economic boom. This is also reflected in wage growth, lower staff retention rates for the company and a general shortage of workers. During the reporting year, this new situation also heightened the demands placed on Human Resources at Arbonia, particularly in the Windows Division, as its centres of production expertise are located exclusively in Eastern Europe.

The unemployment rate in Thuringia (D) – the location of the wood competence centre for the Windows Division – has reached its lowest level since Germany's reunification. As is the case throughout Germany, skilled tradespeople are in particularly short supply and are highly sought-after. In order to position Wertbau as a more attractive employer among its existing employees, a range of measures were introduced, including revising the wage system, holding events and offering small loyalty rewards. To recruit new employees, the division also turned to Poland and the Balkans, where it got in touch with local carpentry associations and also looked to contact tradespeople directly.

In the vinyl competence centre in Slovakia too, it is becoming increasingly difficult to fill vacancies in production and administration roles, as the unemployment rate at this location has also fallen to a historic low. To mitigate this situation to some extent, the centre was able to recruit production employees from Serbia with the assistance of a specialist agency.

For the competence centre in Poland, the division primarily recruited production employees from Ukraine. In addition, workers from Nepal, Georgia, Moldova, Belarus and the Philippines were employed on a short-term basis. However, the integration of employees with different geographical and cultural backgrounds required a very high level of support to be provided – from both an administrative and cultural perspective, which is why the division has primarily focused on recruiting personnel in neighbouring countries. As the recruitment measures described were not sufficient to fill all existing vacancies and prevent further vacancies, however, retention measures were also initiated at Dobroplast, with the aim of retaining existing employees over the long term. For example, a sport and insurance programme has been set up and open days for schools and representatives from authorities have been introduced.

Professional development measures in the Doors Division

Promoting the appeal of Arbonia as an employer is also an important core element in the Doors Division. During the reporting year, it carried out extensive and structured succession planning for the first time for its first and second tier management levels, with the aim of continually expanding this across all locations and updating it on a regular basis. Furthermore, the division made preparations in relation to HR development to bring managers specifically from German and Polish locations into the management development programme of the Arbonia Group. In addition, it developed a specialist further training scheme for executives of RWD Schlatter to provide them with professional and personal development measures which better prepare them for the increased requirements in the market.

CORPORATE GOVERNANCE

This report complies with the Corporate Governance Directive (CGD) of the SIX Exchange Regulation dated 20 March 2018. Unless otherwise indicated, the disclosures apply as of 31 December 2018.

1. Group structure and shareholder base

1.1 Group structure

Board of Directors
Alexander von Witzleben Chairman of the Board of Directors
Peter Barandun Vice-Chairman
Peter E. Bodmer
Markus Oppliger
Heinz Haller
Michael Pieper
Thomas Lozser

Group Management
Alexander von Witzleben Delegate of the Board of Directors and interim CEO
Felix Bodmer CFO
Ulrich Bornkessel Head of Heating, Ventilation and Air Conditioning Division
Knut Bartsch Head of Sanitary Equipment Division
Harald Pichler Head of the Windows Division
Peter Spirig Head of the Doors Division

At the General Meeting on 12 April 2019, the Board of Directors of Arbonia AG will propose electing Dr Carsten Voigtländer as a new member of the Board of Directors.

At the General Meeting on 12 April 2019, Felix Bodmer will step down from his role as Chief Financial Officer (CFO) and in doing so cease to be a member of Group Management. On that date, the new CFO and new member of Group Management will be Daniel Wüest.

1.1.1 Operational Group structure
As of 31 December 2018, the operational group structure at Arbonia AG comprises the Heating, Ventilation and Air Conditioning Division, (2) the Sanitary Equipment Division, (3) the Windows Division, and (4) the Doors Division (see divisional structure page 16 – 17). Together with the Finance/Controlling/Reporting area, the four divisions form the Group's operational structure as of 31 December 2018.

As of 31 December 2018, Arbonia Group Management comprises the interim CEO, the CFO and the heads of the four divisions (1) Heating, Ventilation and Air Conditioning, (2) Sanitary Equipment, (3) Windows and (4) Doors. Group Management is supported by Corporate Functions.

The company reports in line with IFRS on the basis of this divisional structure. Descriptions of the divisions as of 31 December 2018 can be found on pages 16 – 49.

1.1.2 Scope of consolidation
The scope of consolidation of Arbonia AG, headquartered in Arbon TG ("Arbonia" or the "company") comprises the Group companies listed in the financial report on page 169 (collectively the "Group"). The name, registered office and share capital of the main Group companies, as well as the interests held by the Group, are also detailed on these pages. Arbonia shares are listed at the SIX Swiss Exchange in Zurich under securities number 11 024 060 (ISIN CH0110240600). Information about market capitalisation can be found in the Supplementary Information for Investors on page 191. Other than Arbonia, none of the other Group companies included in the scope of consolidation are listed at any stock exchange in Switzerland or abroad.

1.2 Major shareholders

	31/12/2018		31/12/2017
	Voting and capital shares	Shareholding notification	Voting and capital shares
	In %		In %
Artemis Beteiligungen I AG	22.07	2016-12-17	21.53
Looser family shareholders	14.53	2017-09-19	14.53
Vontobel Fonds Services AG	<3.0	2018-03-13	3.01

On 17 December 2016, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 20.02%. As of 31 December 2018, the shareholding of Artemis Beteiligungen I AG amounts to 22.07%.

The former family shareholders of the then Looser Holding AG (hereinafter "family shareholders"), which was taken over by Arbonia in 2016 as part of a share purchase agreement and public purchase and exchange offer and which has been under 100% ownership by Arbonia since 2017, reported on 22 September 2016 that they were forming a group with a 22.41% share of voting rights. The circumstances disclosed in the announcement (lock-up agreement and acting in concert) were related to the share purchase agreement signed by the family shareholders on 14 September 2016 (the "share purchase agreement") for the acquisition of the Looser Group by Arbonia. On 20 December 2016, the family shareholders reported a shareholding of 14.88%. On 19 September 2017, the family shareholders reported the cancellation of the lock-up obligation and a 14.53% share of voting rights. All remaining obligations resulting from the share purchase agreement are still in place. The family shareholders are required to involve Arbonia in the sale of packages of over 300 000 Arbonia shares by the 2019 General Meeting, both to a suitable extent and according to certain pre-requisites. Depending on the extent of their total shareholding, the family shareholders are also entitled to put forward a certain number of candidates for election to the Arbonia Board of Directors until the 2019 Annual General Meeting but no later. For as long as the family shareholders are entered into the company's share register and recorded as holding at least 10% of voting rights, they are able to put forward two candidates for election to the Board of Directors. If the family shareholders are recorded in the Arbonia share register as holding between 5% and 10% of voting rights, their allotted number of candidates falls to one person.

On 13 March 2018, Vontobel Fonds Services AG reported that it had fallen below the threshold of 3%.

Arbonia is not aware of any shareholders' agreements among its shareholders.

1.3 Cross-shareholdings

No cross-shareholdings of more than 5% of the votes or the capital exist between Arbonia and other companies.

2. Capital structure

2.1 Capital

As of 31 December 2018, the ordinary capital of Arbonia is CHF 291 787 620.60, the conditional capital is CHF 57 960 000.00 and the authorised capital is also CHF 57 960 000.00.

The ordinary capital is detailed in point 47 of the notes on the consolidated financial statements on page 155.

	Quantity	Nominal value	Share capital
Registered shares 31/12/2017	69 473 243	4.20	291 787 620.60
Registered shares 31/12/2018	69 473 243	4.20	291 787 620.60

2.2 Authorised and conditional capital
Authorised capital

The General Meeting on 20 April 2018 authorised the Board of Directors to increase the share capital by a maximum of CHF 57 960 000 by issuing a maximum of 13 800 000 fully paid-up registered shares of a par value of CHF 4.20 each at any time until 20 April 2020.

No changes related to the authorised capital took place in 2018 (see section 2.3).

In certain circumstances, the Board of Directors can exclude in whole or parts the preferential subscription right of shareholders in favour of third parties. Shares can be issued in one or multiple stages.

The authorised and conditional capital are available on an alternative instead of a cumulative basis. If new shares are issued based on the authorised capital, the conditional capital shall also decrease by the same amount as the authorised capital.

Conditional capital
The share capital may be increased by a maximum of CHF 57 960 000.00 by issuing a maximum of 13 800 000 fully paid-up registered shares of a par value of CHF 4.20 each. These registered shares are to be issued upon exercise of option rights granted in conjunction with convertible bonds, bonds with option rights or similar forms of financing offered by Arbonia or one of its subsidiaries. Shareholders' subscription rights are excluded.

If new shares are issued based on the conditional capital, the authorised capital shall also decrease by the same amount as the conditional capital.

Group of beneficiaries and terms and conditions
The group of beneficiaries and the terms and conditions for issuing shares from the authorised and conditional capital are described in Art. 3a and Art. 3b of the Articles of Association (available at www.arbonia.com/en/company/corporate-governance).

2.3 Changes in capital

In the past three years (2016 – 2018), share capital has increased five times as a result of using authorised capital. Three of these capital increases occurred based on Art. 3a of the Articles of Association (www.arbonia.com/en/company/corporate-governance). Two of these capital increases occurred based on the former Art. 3c of the Articles of Association. This article and the authorised capital it covers were introduced/created in light of the merger with the Looser Group. Upon the complete takeover of the Looser Group in 2017, the remaining authorised capital in Art. 3c of the Articles of Association became obsolete and that article was cancelled at the General Meeting on 20 April 2018 without being replaced.

On 22 April 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 3 841 609.80 by issuing 914 669 registered shares of a nominal value of CHF 4.20 each. On 14 September 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised share capital, by CHF 11 088 000 by issuing 2 640 000 new registered shares of a nominal value of CHF 4.20 each. On 12 December 2016, the ordinary share capital – including authorised capital – that was created with a view to the takeover of the Looser Group was increased by CHF 85 570 783.20 by issuing 20 373 996 new registered shares of a nominal value of CHF 4.20 per share in accordance with the former Article 3c of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

On 28 June 2017, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 2 520 000 by issuing 600 000 fully paid-up registered shares. Also on 28 June 2017, the Board of Directors resolved to increase the ordinary share capital – including authorised capital – that was created with a view to the takeover of the Looser Group by CHF 1 627 302.60 by issuing 387 453 new registered shares of a nominal value of CHF 4.20 per share in accordance with Article 3c of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

As of 31 December 2018, Arbonia's share capital amounts to CHF 291 787 620.60. The share capital is fully paid-up and divided into 69 473 243 registered shares of a nominal value of CHF 4.20 each.

2.4 Shares and participation certificates

The company has issued 69 473 243 registered shares at a nominal value of CHF 4.20. Each registered share grants the same entitlement to receive dividends and represents one vote at the General Meeting. No preferential rights have been granted. The company has not issued any participation certificates.

2.5 Dividend right certificates

The company has not issued any dividend right certificates.

2.6 Limitations on transferability and nominee registrations

2.6.1 Limitations on transferability
On request, purchasers and beneficiaries of registered shares are registered in the share register as shareholders with voting rights if they expressly declare that

they have purchased the shares in their own name and for their own account.

2.6.2 Granting of exceptions
The company's Articles of Association do not permit any exceptions to the rules described above in 2.6.1. Accordingly, the Board of Directors did not grant any exceptions in the reporting year.

2.6.3 Nominee registrations
Nominees are persons who, on applying for registration, do not explicitly declare that they hold the shares for their own account and with whom the Board of Directors has signed an agreement to this effect. As a matter of principle, a nominee is not entered in the share register with voting rights for more than 3% of the registered share capital entered in the Commercial Register. Beyond this limit, a nominee is only entered in the share register with voting rights insofar as he or she discloses the names, addresses and shareholdings of the persons for whose account he or she holds 0.5% or more of the registered share capital entered in the share register. In the event of such a disclosure, the nominee concerned is entered in the share register with voting rights up to a maximum of 8% of the registered share capital entered in the Commercial Register.

2.6.4 Procedure and requirements for limitations on transferability
Under Art. 13 of the Articles of Association (www.arbonia.com/en/company/corporate-governance), limitations on the transferability of registered shares require the approval of at least two thirds of the voting shares represented and the absolute majority of the nominal share value represented.

2.7 Convertible bonds and options
There are no outstanding convertible bonds or options issued by Arbonia.

3. Board of Directors

The Board of Directors of Arbonia consists of experts who cover the key subject areas of Arbonia as a building supplier. The Board of Directors attaches due importance to the diversity of the body, reflecting one of the Group's corporate principles. When positions on the Board of Directors are filled in the future, women will be included in the list of potential nominations.

3.1 Members of the Board of Directors
As of 31 December 2018, the Board of Directors consisted of the following members:

Alexander von Witzleben

1963, German citizen, resident in Erlenbach ZH, degree in business management, from 17 April 2015 to 30 June 2015 Chairman of the Board of Directors and, since 1 July 2015, Chairman and Delegate of the Board of Directors. 1990 – 1993 KPMG Deutsche Treuhand Gesellschaft, Munich (D); 1993 – 1995 Head of Central Finance/Controlling JENOPTIK AG, Jena (D); 1996 – 2003 member of the Board of Directors, CFO, JENOPTIK AG, Jena (D); 2003 – 2007 Chairman of the Board of Directors, CEO, JENOPTIK AG, Jena (D); 2007 – 2008 member of the Board of Directors of Franz Haniel&Cie. GmbH, Duisburg (D); since 2009 Chairman of the Board of Directors at Feintool International Holding AG, Lyss and interim CEO in 2009. Alexander von Witzleben has been a member of the Board of Directors of Artemis Holding AG, Hergiswil, since 20 May 2015. This company has a shareholding of 22.07% in Arbonia and a shareholding of 50.32% in Feintool Holding AG, Lyss. Alexander von Witzleben has been a member of the executive management of Arbonia on an interim basis since 1 July 2015. Aside from this, he has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: Member of the Advisory Board of KAEFER Isoliertechnik GmbH&Co. KG, Bremen (D); Chairman of the Supervisory Board of PVA TePla AG, Wettenberg (D); Chairman of the Supervisory Board of VERBIO Vereinigte BioEnergie AG, Leipzig (D); member of the Supervisory Board of Siegwerk Druckfarben AG&Co. KGaA, Siegburg (D); member of the Board of Directors of Artemis Holding AG, Hergiswil NW; Chairman of the Board of Directors of Feintool International Holding AG, Lyss BE.

Peter Barandun

1964, Swiss citizen, resident in Einsiedeln SZ, Executive MBA HSG, non-executive Vice-Chairman of the Board of Directors since 17 April 2015 (2014 – 2015 non-executive member of the Board of Directors). 1985 – 1990 Deputy Head of Sales at Grossenbacher AG, St. Gallen; 1990 – 1995 Head of Sales Eastern Switzerland at Bauknecht AG, Lenzburg; 1995 – 1996 Head of Sales Switzerland/ member of the management of Bauknecht AG, Lenzburg; 1996 – 2002 Director of the divisions Electrolux and Zanussi Electrolux AG, Zurich; since 2002 CEO of Electrolux Switzerland/Chairman of the Board of Directors of Electrolux AG, Zurich. Peter Barandun has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: Chairman of the Board of Directors of Electrolux Holding AG, Zurich ZH, and of Electrolux AG, Zurich ZH; Vice-Chairman of FEA (Swiss Association of the Domestic and Industrial Electrical Appliances), Zurich ZH; Vice-Chairman of the Board of Swiss Ski, Muri near Bern BE; member of the Board of Directors of Mobimo Holding AG, Lucerne LU.

Peter E. Bodmer

1964, Swiss citizen, resident in Küsnacht ZH, lic. oec. publ., Executive MBA, IMD, non-executive member of the Board of Directors since 19 April 2013. 1993 – 1994 Head of Sales at Kaiser Precision Tooling Ltd., Rümlang; 1995 – 1998 Deputy Director, Head of Integration and CFO Europe at GKN Sinter Metals GmbH; 1998 – 2005 COO and CFO of Maag Holding AG; 2005 – 2012 member of Group Management at the Implenia Group; since 2011 various management and consulting mandates as Chairman and CEO of the BEKA Group. Bodmer has never been part of the executive management of Arbonia or its subsidiaries. In the reporting year, Peter E. Bodmer respectively the BEKA Group acted as broker on behalf of Arbonia in relation to the sale of premises not necessary to business operations and was compensated accordingly (see page 82). Other than this individual, completed assignment, Peter E. Bodmer has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: member of the Board of Directors of Peach Property Group AG, Zurich ZH; member of the Board of Directors of Kuratle Group AG, Leibstadt AG; member of the Board of Directors of Brütsch/Rüegger Holding AG, Urdorf ZH; Vice-President of Helvetica Property Investors AG, Zurich ZH; member of the Board of Directors of INOVETICA Holding AG, Baar ZG; delegate of the Government Council of the Canton of Zurich responsible for the strategic development planning of Zurich university hospital and general coordination of the university district; delegate of the Foundation Board of Zurich innovation park, Zurich ZH; member of the Foundation Board of Profond Pension Fund, Zurich ZH; member of the Foundation Board at Wilhelm Schulthess-Stiftung, Zurich ZH; member of the Board of Directors of Klinik Schloss Mammern AG, Mammern TG; active as an advisor for various companies, whereby his activities as an advisor do not present any conflict of interest with the Arbonia Group.

Markus Oppliger

1959, Swiss citizen, resident in Wangs SG, accounting and controlling expert with a federal diploma, auditor with a federal diploma, non-executive member of the Board of Directors since 19 April 2013. 1978 – 1983 Prefera Treuhandgesellschaft Sargans; 1983 – 1988 Bank in Liechtenstein/Prince of Liechtenstein Foundation; 1989 – 2013 at Ernst&Young, partner from 1996 and Quality&Risk Management Leader of the Advisory Services of Ernst&Young GSA (Germany, Switzerland, Austria) from 2009; various consulting mandates as an independent management consultant and owner of Oppliger Management Consulting since 2013. Markus Oppliger has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

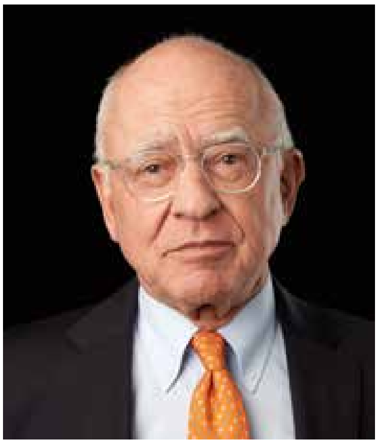
Other activities and vested interests: Chairman of the Board of Directors of Siga Ausstellung AG, Mels SG; Chairman of the Board of Directors of Pizolbahnen AG, Bad Ragaz SG; Member of the Foundation Board of Stiftung Pizol mit Herz, Vilters-Wangs SG; judge at the commercial court in the Canton of St. Gallen, term of office 2017/2023; member of the Board of Directors of SAK Holding AG, St. Gallen SG; member of the Board of Directors of St. Gallisch-Appenzellische Kraftwerke AG, St. Gallen SG; active as an advisor for various companies, whereby his activities as an advisor do not present any conflicts of interest with the Arbonia Group.

Heinz Haller

1955, Swiss citizen, resident in Andermatt UR, MBA IMD, Lausanne, non-executive member of the Board of Directors since 25 April 2014. 1980 – 1994 various leading positions in The Dow Chemical Company, Horgen/Frankfurt (D) / Midland MI (USA); 1994 – 1999 Managing Director of Plüss-Staufer AG, Oftringen; 2000 – 2001 Chief Executive Officer of Red Bull Sauber AG/Sauber Petronas Engineering AG, Hinwil; 2002 – 2006 Managing Director of Allianz Capital Partners GmbH, Munich (D); 2006 – 2010 Executive Vice-President Performance Products and Systems Divisions and DAS (Dow Agricultural Science Division) of The Dow Chemical Company, Midland MI (USA); 2010 – 2012 Executive Vice-President & Chief Commercial Officer of The Dow Chemical Company, Midland MI (USA); Executive Vice-President of The Dow Chemical Company, President Dow Europe, Middle East, Africa & India (EMEAI) since 2012. Heinz Haller has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: Chairman of the Board of DowAksa Advanced Composites Holdings B.V., Amsterdam (NL); member of the Board of Directors of South Pole Holding AG, Zurich ZH; member of the Board of Directors at Limmat Wealth AG, Zurich ZH; member of the Foundation Board of Zurich innovation park, Zurich ZH.

Michael Pieper



1946, Swiss citizen, resident in Hergiswil NW, lic. oec. HSG, non-executive member of the Board of Directors since 17 April 2015. Owner and CEO of the Franke/Artemis Group since 1989; 1989 – 2012 CEO of the Franke Group, CEO of the Artemis Group since 2013. Michael Pieper has never been part of the executive management of Arbonia or its subsidiaries. Michael Pieper controls the largest shareholder in Arbonia (see 1.2) and, through companies under his ownership, has material business relationships with subsidiaries of Arbonia (see pages 167/168).

Other activities and vested interests: Vice-President of the Board of Directors of Franke Holding AG, Aarburg AG; member of the Board of Directors of BERGOS BERENBERG AG, Zurich ZH; Vice-President of the Board of Directors of Forbo Holding AG, Baar ZG; member of the Board of Directors of Rieter Holding AG, Winterthur ZH; member of the Board of Directors of Autoneum Holding AG, Winterthur ZH.

Thomas Lozser

1961, Swiss and US citizen, resident in Novi, Michigan (USA), degree in engineering from ETH, MBA, non-executive member of the Board of Directors since 13 December 2016. 1987 – 1988 Quality Assurance Assistant, Elco, Vilters; 1988 – 1989 Manufacturing Engineer, MPI International, Deerfield, Wisconsin (USA); 1989 – 1992 Assistant to the President and Manager Computer Systems, MPI International, Rochester Hill, Michigan (USA); 1992 – 1998 General Manager and President/Plant Manager, Kautex Textron, Avilla, Indiana (USA); 1998 – 2000 Senior Vice President Operations, Kautex Textron, Troy, Michigan (USA); 2000 – 2002 President and shareholder, Magnetic USA Inc., Olney Illinois (USA); following the takeover by SKF USA Inc. 2002 – 2005 Vice President Sales Lineartechnik, SKF USA Inc. Bethlehem, Pennsylvania (USA); 2005 – 2010 CEO of the Coatings business unit at the former Looser Group, Arbon; independent entrepreneur since 2010. Thomas Lozser has never been part of the executive management of Arbonia. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: member of the Board of Directors of Mopec Inc., Oak Park, Michigan (USA); member of the Board of Directors at Industrielack Holding AG, Wangen SZ and Industrielack AG, Wangen SZ.

At the Annual General Meeting on 12 April 2019, the Board of Directors of Arbonia will propose electing Dr Carsten Voigtländer as a new member of the Board of Directors.

3.2 Number of permissible mandates pursuant to Art. 12 para. 1 section 1 of the Swiss Ordinance Against Excessive Compensation (OaEC)

Members of the Board of Directors may have a maximum of ten mandates outside the Group, of which no more than five may be with listed companies. This rule also applies for members of the Board of Directors who, at the same time, belong to Group Management by assuming the role of a delegate of the Board of Directors and interim CEO. More details on the rules for the number of permitted mandates can be found in Art. 29 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

3.3 Election and term of office

The Chairman of the Board of Directors and the other members of the Board of Directors are individually elected by the Annual General Meeting for a term of office of one year. The members of the Board of Directors may be re-elected.

The terms of office of the current members of the Board of Directors are as follows:

Board of Directors	Year of birth	First election	End of the term of office
Alexander von Witzleben, Chairman	1963	2015	2019
Peter Barandun, Vice-Chairman	1964	2014	2019
Peter E. Bodmer	1964	2013	2019
Markus Oppliger	1959	2013	2019
Heinz Haller	1955	2014	2019
Michael Pieper	1946	2015	2019
Thomas Lozser	1961	13.12.2016*	2019

* The election took place on 1 November 2016 and the appointment began on 13 December 2016.

3.4 Internal organisation

3.4.1 Allocation of tasks within the Board of Directors

The Chairman of the Board of Directors is Alexander von Witzleben and the Vice-Chairman is Peter Barandun. Since Alexander von Witzleben was appointed delegate of the Board of Directors and interim CEO on 1 July 2015, Markus Oppliger has been acting as Lead Director. The Board of Directors is supported by an Audit Committee and a Nomination and Compensation Committee.

3.4.2 Committees of the Board of Directors

The duties, responsibilities and working procedures of the committees are laid down in the by-laws (www.arbonia.com/en/company/organisation). The Board of Directors appoints the members of the committees, with the exception of the Compensation Committee, whose members are elected by the General Meeting. The chairpersons of the committees are appointed by the Board of Directors.

3.4.2.1 Audit Committee

The Audit Committee is convened by the Chairperson as often as business requires, but at least three times a year. It consists of three members. Two members of the Audit Committee are non-executive and are independent, with one of these two members having worked for Arbonia under a one-time brokerage agreement during the reporting year (see Section 3.1 or page 61). Alexander von Witzleben, member of the Audit Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. All members of the Audit Committee have experience in finance and accounting.

The Audit Committee reviews the effectiveness of the external and internal auditors, the internal control system including risk management, the compliance with standards from a financial and legal perspective, the accounting system, the financial reports and the performance, fees and independence of the external auditors. It draws up a recommendation to the Board of Directors regarding the submission of the financial statements to the General Meeting. Within the scope of these duties, the Audit Committee has comprehensive rights of inspection and information. It may order investigations and consult external advisors.

Reporting to the Audit Committee is Internal Audit, which performs an independent, Group-wide auditing and monitoring role (see 3.6 below). The Audit

Committee is authorised to make decisions regarding the tasks entrusted to it provided that the respective matter does not concern a non-delegable duty of the Board of Directors pursuant to Art. 716a of the Swiss Code of Obligations. The committee may submit issues within the scope of its decision-making powers to the Board of Directors.

The committee consists of the following members:

– Markus Oppliger, Chairman
– Alexander von Witzleben
– Peter E. Bodmer

The Audit Committee met three times during the reporting year. The interim CEO, the CFO, the external auditors and Internal Audit were present at all three of the meetings. At the subsequent meeting of the full Board of Directors, the Chairperson reports on the meetings of the Audit Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors. The meetings of the Audit Committee lasted two hours on average. The Chairman of the Audit Committee and the Head of Internal Audit regularly held additional meetings to discuss the findings of Internal Audit and its duties in detail. In the reporting year, the Chairman of the Audit Committee participated in the recruitment procedures of the Nomination and Compensation Committee in the search for the new CFO.

3.4.2.2 Nomination and Compensation Committee
The members of the Compensation Committee were elected by the General Meeting on 20 April 2018. The members of the Compensation Committee also take care of the duties of the Nomination Committee. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015.

The Nomination and Compensation Committee is convened by the Chairperson of the committee as often as business requires, but at normally two to three times a year. The Nomination and Compensation Committee gives the Board of Directors recommendations regarding the Group's salary policy and compensation system. It submits a motion to the Board of Directors for the attention of the General Meeting regarding the total compensation for the members of the Board of Directors and the fixed and variable compensation of the members of Group Management. The Nomination and Compensation Committee determines the salaries of the individual members of Group Management. It approves, in principle, bonus programmes and profit-sharing schemes for employees as well as pension fund solutions and benefit plans. The Nomination and Compensation Committee is also responsible for the preparation of the Compensation Report and the request to the full Board of Directors for approval. Furthermore, the committee determines the principles for the selection of candidates for election to the Board of Directors and Group Management. It identifies suitable candidates for the Board of Directors and Group Management and conducts the requisite selection procedures. In the reporting year, the Nomination and Compensation Committee was highly occupied with recruiting the new CFO and conducted comprehensive selection procedures. The Nomination and Compensation Committee was also occupied with the nomination of the new member of the Board of Directors proposed for election at the General Meeting on 12 April 2019. In the reporting year, the Nomination and Compensation Committee also dealt with the role evaluation which was conducted for management and key Group functions using the HAY assessment system and the subsequent assignment of these functions to the newly defined Arbonia job grades.

The Nomination and Compensation Committee also determines the principles for the management and development of the members of the Board of Directors and Group Management. It assists the Board of Directors in self-assessment and assesses the performance of the members of Group Management.

Essentially, the Nomination and Compensation Committee fulfils a supporting and preparatory function for the benefit of the full Board of Directors. The Nomination and Compensation Committee is only authorised to make decisions regarding the tasks expressly delegated to it under the Group's regulation of powers. The full Board of Directors decides on matters not expressly delegated to the Nomination and Compensation Committee under the regulation of powers. The committee may submit issues within the scope of its decision-making powers to the Board of Directors.

The Nomination and Compensation Committee consists of the following members:

– Peter Barandun, Chairman
– Alexander von Witzleben
– Heinz Haller

The Nomination and Compensation Committee met three times during the reporting year, one of which was a telephone conference. The interim CEO and CFO attended all three meetings. At the subsequent meeting of the full Board of Directors, the Chairman reports on the meetings of the Nomination and Compensation Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors.

The meetings of the Nomination and Compensation Committee lasted one hour on average.

3.4.3 Working procedures of the Board of Directors

The Chairperson convenes the Board of Directors as often as business requires, but at least four times a year. During the reporting year, the Board of Directors met for five ordinary meetings, one of which was a one-hour telephone conference. In the reporting year, the Board of Directors performed its duties directly. Ordinary meetings of the Board of Directors usually last one day, and extraordinary meetings usually last one hour, though none of these took place in the reporting year. The interim CEO and CFO attended all meetings in the reporting year. All members of Group Management also took part in all meetings, with the exception of the aforementioned telephone conference; only the interim CEO and CFO attended this meeting on Group Management's behalf. Managers as well as representatives of Internal Audit are regularly invited to meetings to discuss issues that fall within their field of responsibility or scope of activities.

The Board of Directors reviews its operability and discusses its performance on various occasions in executive sessions that usually take place at the end of every meeting.

3.5 Regulation of powers

The Board of Directors is responsible for guiding, supervising and monitoring management. It represents the company externally and attends to all matters that are not transferred to another body within the company on the basis of legislation, Articles of Association or by-laws. The Board of Directors enacts the necessary rules, instructions and guidelines and establishes the organisational structure and risk policy. The main duties of the Board of Directors are:

– Guidance of the Group and issuing of necessary instructions;
– Establishment of the Group's organisational structure;
– Appointment and dismissal of persons entrusted with management;
– Supervision of persons entrusted with company management, specifically with regard to following legislation, Articles of Association, rules and instructions;
– Structuring of the accounting system, financial control and financial planning;
– Preparation of the Annual Report and the Compensation Report, as well as preparation for the General Meeting and implementation of its resolutions;
– Preparation of compensation requests for the General Meeting;
– Determination of the capital structure of the company;
– Issue of bonds, participation certificates, convertible bonds and options as well as determination of the terms and conditions;
– Determination of the strategy of the company, the divisions and the business units;
– Decisions concerning investments, joint ventures, real estates and participations, where these are of particular importance to the company and exceed a certain level;
– Annual risk assessment for the company;
– Notification of the court in the event of over-indebtedness.

The division of powers between the Board of Directors and Group Management is set out in detail in the by-laws (available at www.arbonia.com/en/company/organisation) and in the regulation of powers. Unless otherwise stated in legislation, the Articles of Association or by-laws, the Board of Directors delegates management entirely to Group Management, led by the Chairperson of Group Management (CEO), pursuant to Art. 2.5 of the by-laws (www.arbonia.com/en/company/organisation).

3.6 Information and control instruments vis-a-vis the management

Through various channels, the Board of Directors is regularly updated on the activities of Group Management and the divisions. The management information system (MIS) provides the members of the Board of Directors with key information about the financial and income situation of the Group on a monthly basis. The interim CEO reports regularly to the Board of Directors during ordinary meetings of the Board of Directors and without delay in the event of extraordinary developments. The members of Group Management regularly attend ordinary meetings of the Board of Directors and report on business in their areas. As a rule, the members of the Board of Directors may request any additional information required to carry out their tasks.

The external auditors provide the Audit Committee with information on the main findings of the audit. Regular contact also takes place between the Chairperson of the Audit Committee, the CFO and the Head of Internal Audit (see 3.4.2.1). Where required, he too informs the other members of the Board of Directors regarding his findings.

The principal role of Internal Audit is to monitor processes and structures throughout the Group. Internal Audit summarises the audits it is to carry out in an annual audit plan. This audit plan also incorporates the risks identified by Corporate Treasury as part of the risk management process it performs every year in each of the divisions and in Corporate Functions. Each audit plan is approved by the Audit Committee. The Audit Committee also assigns special audit mandates to Internal Audit as and when required. The respective audit findings are discussed with the Audit Committee and communicated to the Board of Directors in writing. The Internal Audit provided the members of the Board of Directors with 13 audit reports during the reporting year. If material risks are identified, measures are defined to reduce them. Internal Audit adopts a systematic approach to monitoring risks and measures and carries out its work in accordance with the international standards governing internal auditors' professional duties. It regularly reports to the Audit Committee and Board of Directors on the scale of risks and any changes to the risk situation as well as the status of measures implemented. The Board of Directors received a total of four written reports on the implementation of measures during the reporting year. The external auditors also have access to all audit reports and the reports from the ongoing monitoring of risks and measures. Additionally, Internal Audit issued three Internal Audit status reports informing the Audit Committee and the Board of Directors about the key findings from the audits and the current status of the ICS.

Furthermore, the Audit Committee and Board of Directors receive information concerning the results of the annual risk management process conducted by Corporate Treasury.

4. Group Management

4.1 Members of Group Management

As of 31 December 2018, Group Management consisted of the following members:

Alexander von Witzleben

(see 3.1).
Delegate of the Board of Directors and interim CEO since 1 July 2015.

Other activities and vested interests: (see 3.1)

Felix Bodmer

1955, Swiss citizen, lic. oec. HSG, Chief Financial Officer (CFO) since 2003; 1986 – 1992 various positions at Hilti Group in finance and controlling, most recently Head of Finance at a German subsidiary; 1993 – 2000 ABB/Alstom, Commercial Director/CFO of group companies, most recently CFO/Head of Shared Services at Alstom Power (Schweiz) AG; 2000 – 2003 CFO of Steiner Group.

Other activities and vested interests: Member of the Board of Directors of the Bernet-Wirona Group, St. Gallen, since June 2012.

At the General Meeting on 12 April 2019, Felix Bodmer will step down from his role as Chief Financial Officer. On that date, the new Chief Financial Officer will be Daniel Wüest.

Ulrich Bornkessel

1956, German citizen, dipl. Business Administration, Emerging Leaders (MBA); Head of Heating, Ventilation and Air Conditioning Division since 2018; 2014 – 2017 Head of Air Conditioning & Ventilation Technology Business Unit; 2012 – 2013 Head of International Markets & Sales Arbonia Group (formerly AFG Group); 2011 – 2015 Chairman and CEO Ractec AG, Oberuzwil (SG); 2006 – 2009 CEO Airwell Air Conditioning Elco Holding, Tel Aviv (Israel); 2005 – 2006 European President Electro Consumer Products Elco Holding, Tel Aviv (Israel); 1993 – 2004 various positions at Carrier Corporation (United Technologies), Connecticut (USA); most recently, Director Germany, Nordic Countries & Eastern Europe (Carrier EMEA).

Other activities and vested interests: visiting lecturer at Lucerne University of Applied Sciences and Arts (HSLU) since 2010.

Knut Bartsch

1968, German citizen, Dipl. Wirtsch. Ing., Head of the Sanitary Equipment Division and CFO of the Heating, Ventilation and Air Conditioning Division since 2018; Head of the Building Technology Division 2015 – 2017; 2004 – 2014 Divisional Spokesman of the Building Technology Division; 1996 – 1997 Assistant Corporate Manager at Preussag AG/TUI AG; joined Kermi GmbH in 1997, Director since 1999, Chairman of Kermi Group Management since 2015.

Other activities and vested interests: Member of the CCI plenary meeting and member of the Presidential Council of the Chamber of Commerce and Industry for Lower Bavaria since 2013.

Harald Pichler

1968, Austrian citizen, MBE Mechanical Engineering, Head of the Windows Division since 2016; 1995 – 1996 Henrik af Hellström Consulting, Senior Project Manager; 1997 – 2003 ATOMIC Austria GmbH, various positions, most recently Director Operations; 2004 – 2010 Kronoflooring GmbH/Kronospan GmbH, CEO/Managing Director; 2010 – 2015 WERU GmbH, CEO/Chairman of the Management Board; 2014 – 2015 UNILUX GmbH (following takeover by WERU GmbH), Managing Director.

Other activities and vested interests: Harald Pichler has no other material activities or vested interests.

Peter Spirig

1973, Swiss citizen, Master's in Civil Engineering, ETH Zurich, MBA, INSEAD Fontainebleau, Head of the Doors Division since 2016; 1999 – 2000 Ernst Basler+Partner AG, project manager; 2002 – 2004 Holcim Group, Assistant to Executive Committee Member; 2004 – 2009 Holcim (Lanka) Ltd, Chief Executive Officer; 2009 – 2013 Franke Foodservice Systems Asia, President; 2013 – 2016 Franke Group, member of the Group Management and President of Franke Asia.

Other activities and vested interests: Peter Spirig has no other material activities or vested interests.

4.2 Number of permissible mandates pursuant to Art. 12 para. 1 section 1 of the Swiss Ordinance Against Excessive Compensation (OaEC)

Members of Group Management may have a maximum of five mandates outside the Group, of which no more than one may be with a listed company. More details on the rules for the number of permitted mandates can be found in Art. 29 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

4.3 Management contracts

Arbonia has not signed any management contracts with companies or natural persons outside the Group.

5 Compensation, shareholdings and loans

5.1 Content and determination procedure for compensation and shareholding programmes

The basis and elements of compensation and the shareholding programmes as well as the procedure for their determination are presented in the Compensation Report on pages 75 – 84.

5.2 Principles of performance-related compensation, the allocation of shares and the determination of the additional amount

The variable compensation of members of Group Management depends on the company results. The success criteria comprise business-related targets. The full bonus amount determined in the individual agreement is paid out if the targets are fully achieved. If the targets are exceeded, the variable compensation may exceed the bonus amount determined by individual agreement up to a maximum amount. If achievement of the targets lies below a particular threshold, no variable compensation is paid. The variable compensation amounts to a maximum of 150% of the fixed compensation. More details on performance-related compensation can be found in Art. 24 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

The Board of Directors determines the details of the assignment of shares to the members of the Board of Directors and Group Management in a share-based payment programme. Art. 25 of the Articles of Association contains information on what the share-based payment programme covers (www.arbonia.com/en/company/corporate-governance).

An additional amount is available for the compensation of members of Group Management who are newly appointed or promoted after approval of the maximum total compensation for Group Management if the compensation already approved for the period involved is insufficient. This additional amount may not exceed 40% for the CEO and 20% each for every other member of Group Management of the approved total compensation for Group Management for the period involved. This rule can be found in Art. 27 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

5.3 Loans, credit and pension benefits

According to Art. 26 of the Articles of Association, Arbonia shall not grant the members of the Board of Directors and Group Management any loans, credit or pension benefits outside the occupational pension scheme or securities. Exempt from this are advances of social security and tax charges for persons subject to withholding tax (www.arbonia.com/en/company/corporate-governance).

5.4 Rules concerning voting at the General Meeting on compensation

Pursuant to Art. 23 of the Articles of Association, for each compensation period the Board of Directors brings forward motions for the General Meeting concerning prospective approval of the maximum compensation of the Board of Directors for the period until the next ordinary General Meeting and of the maximum fixed and variable compensation of Group Management for the next financial year. Art. 23 of the Articles of Association grants the Board of Directors the right to waive prospective approval of compensation on motions and to have the General Meeting approve the total amount of the corresponding payment in arrears for the previous official or financial year (retrospective approval). In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. Every year, the Board of Directors submits the Compensation Report for the financial year ended to the General Meeting for consultative (non-binding) approval. More details on compensation agreements can be found in Art. 23 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

6. Shareholders' participation rights

6.1 Voting right restriction and representation

The Articles of Association do not contain any regulations that deviate from the law with regard to participation in the General Meeting and exercise of voting rights. Each share registered in the share register entitles the holder to one vote. Every shareholder may be represented at the General Meeting by a proxy furnishing written power of attorney or by the independent proxy (with written or electronic power of attorney).

According to Art. 12 of the Articles of Association, the Board of Directors determines the requirements for the power of attorney and instructions for the independent proxy. Under this regulation, the Board of Directors is also entitled to determine the requirements for electronic voting (www.arbonia.com/en/company/corporate-governance).

6.2 Statutory quorums

Under Article 13 (9) of the Articles of Association, registered shares may only be converted into bearer shares by a resolution at the General Meeting, approved by at least two thirds of the voting shares represented and the absolute majority of the nominal share value represented. Under Article 12 (6) of the Articles of Association, in the event of votes which do not produce a result in the first round, the relative majority shall decide in the second round. Apart from this, the Articles of Association do not contain any regulations that deviate from the law (www.arbonia.com/en/company/corporate-governance).

6.3 Convocation of the General Meeting

The Articles of Association do not contain any regulations that deviate from the law.

6.4 Inclusion of items on the agenda

Shareholders who individually or together hold CHF 1 000 000 of nominal share capital are entitled to submit a written request for inclusion of an item on the agenda. Such requests must be submitted to the Board of Directors in writing, specifying the motions, at least 40 days before the date of the General Meeting.

6.5 Entries in the share register

When sending invitations for the General Meeting, the Board of Directors will announce the date up to which entries can be made in the share register with regard to participation in the General Meeting.

7. Change of control and defence measures

7.1 Duty to make an offer

A purchaser of company shares must make a public offer as stipulated by Art. 135 (1) of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FinfraG). There is no opting-out clause (Art. 125 (3) and (4) of the FinfraG) or opting-up clause (Art. 135 (1) of the FinfraG).

7.2 Change-of-control clauses

Arbonia has no agreements or plans for the benefit of members of the Board of Directors and/or Group Management or other members of senior management that contain change-of-control clauses. However, the share-based payment programme for members of the Board of Directors and Group Management allows the Board of Directors to cancel the vesting period for the transfer of the granted shares in the event of a change of control.

8. Statutory auditors

8.1 Duration of the mandate and term of office of the lead auditor

8.1.1 Date of assumption of the existing mandate

On 28 April 2017, the General Meeting elected KPMG AG, St. Gallen, as the new statutory auditor. It audits the annual financial statements and the 2018 consolidated financial statements of Arbonia.

8.1.2 Assumption of office of the lead auditor

Kurt Stocker has held the position of lead auditor since 28 April 2017.

8.2 Auditing fees

In 2018, the various auditors billed a total of CHF 1 230 000 (previous year: CHF 817 000) for auditing the financial statements and consolidated financial statements of Arbonia and the financial statements of the Group companies. Of this amount, the statutory auditor KPMG AG accounted for CHF 1 068 000 (previous year: CHF 642 000) in 2018.

8.3 Additional fees

In 2018, the statutory auditor KPMG AG and other auditors of Group companies billed CHF 548 000 (previous year: CHF 445 000) for additional services, CHF 508 000 of which (previous year: CHF 334 000) was attributable to KPMG AG. Of the additional services performed by KPMG AG in 2018, CHF 204 000 was for tax advice, CHF 170 000 for process optimisations, CHF 73 000 for auditing the internal control system and CHF 61 000 was for other services.

8.4 Informational instruments pertaining to the external audit

The external auditors attended a total of three meetings of the Audit Committee in the reporting year. The Audit Committee monitors the qualification, independence and performance of the external auditors on behalf of the Board of Directors and reports to the Board of Directors on its findings. In the reporting year, the Audit Committee oversaw the activities of the external auditors by having the reports on the annual financial statements, consolidated financial statements and comprehensive report explained directly by the auditors (see 3.4.2.1). The external auditors and Internal Audit also regularly discuss the methodology and further development of the internal control system (ICS). The internal and external auditors closely cooperate in the assessment of the substance of the ICS under Art. 728a of the Swiss Code of Obligations and the evaluation of the effectiveness and efficiency of the ICS. The following factors are considered in the choice of external auditors: professional expertise, international network (representation in the relevant countries), value for money, industry experience as well as continuity and rapid availability of the audit team.

At the request of the external auditors, the Audit Committee approves the audit fees and reviews them in light of developments in the previous year and an assessment of performance to ensure that they are appropriate. In accordance with the law, the external auditors' lead auditor is rotated at least once every seven years.

9. Information policy

Arbonia pursues an open information policy towards the public and financial markets, based on the principles set out in the SIX Exchange Regulation listing rules and directives and in the Swiss Code of Best Practice for Corporate Governance. By means of the Annual Report, Arbonia provides information about business performance, organisation and strategy. The Annual Report's integral components are the Management Report from page 3 and the Compensation Report from page 75. Arbonia's First Semester Financial Report contains the consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement and statement of changes in equity. In the reporting year, Arbonia published 10 press releases. In addition to this, Arbonia gives comprehensive reports on its operating activities at its annual financial media and analyst conference and at the General Meeting. Arbonia also fosters dialogue with investors and the media at special events and roadshows.

Arbonia's contact details are as follows:

Arbonia AG
Amriswilerstrasse 50, 9320 Arbon, Switzerland
T +41 71 447 41 41, F +41 71 447 45 88
holding@arbonia.com

All company information is available on the website www.arbonia.com. Interested parties can subscribe to press releases at www.arbonia.com/en/media/subscribe-to-press-releases, and Arbonia publications can be ordered at www.arbonia.com/en/media/order-publications. All published press releases can be found at https://www.arbonia.com/en/media/press-releases.

The calendar of events is provided on page 197 of the Annual Report and at www.arbonia.com/en/investors.

COMPENSATION REPORT

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2018 (chapter B). The compensation report complies with current corporate governance standards and has been compiled in accordance with the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (OaEC) and Appendix 1 to the Swiss Code of Best Practice for Corporate Governance. The quantitative disclosures pursuant to Art. 14 – 16 OaEC are presented in chapter B. These disclosures were audited by the statutory auditor of Arbonia. The audit confirmation is presented on page 85.

A The compensation system of Arbonia

1. Principles of the compensation system

The compensation system and the structure of the occupational pension scheme are based on the conviction that the success of a company depends to a considerable extent on the quality and dedication of its personnel. Arbonia wants to leverage its compensation system and the total compensation paid on this basis to attract and retain people with the necessary skills and qualities and to motivate them to deliver a consistently high level of performance. The compensation system is designed to ensure that the interests of top managers are consistent with the interests of the Group and its shareholders.

Compensation model for the Board of Directors and Group Management during the year under review

	Board of Directors	Group Management
Fixed compensation	Basic fee plus extra pay for committee chairmanship and membership in committees.[1] At least 50% of the fee in shares restricted for four years [2]	Basic salary including fringe benefits in cash [3] on the basis of individual classification (function, experience, skills)
Variable compensation	None	Compensation in % of the basic salary depending on financial targets. A total of 50% of the variable compensation in shares restricted for four years [4]
Pension scheme / fringe benefits	Lump-sum allowances	Lump-sum allowances, company car regulation, retirement planning

1 The Chairman of the Board of Directors waives compensation for his activity on both committees (see 3.1).
2 One member of the Board of Directors is resident in the USA and receives his fee in cash only (see 3.4).
3 In his function as interim CEO, the Chairman and delegate of the Board of Directors receives fixed compensation containing both a cash element and an element in temporarily restricted shares (see 4.1).
4 In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 4.2).

2. Organisation and competencies

The Compensation Committee also performs the Nomination Committee's duties. The Compensation and Nomination Committee is responsible for the Group's compensation policy, particularly at the uppermost level of the company. It also assists the Board of Directors in the identification and selection of candidates for the Board of Directors and Group Management. The duties and competencies of the Nomination and Compensation Committee are set out in the Articles of Association (www.arbonia.com/en/company/corporate-governance) and in the by-laws (www.arbonia.com/en/company/organisation) and regulation of powers. The committee submits motions for decision to the Board of Directors and makes proposals and recommendations.

Among other things, its duties include:

- Periodic review of the salary policy and the compensation system
- Annual review of the fixed compensation of the Board of Directors
- Annual review of the fixed and variable compensation of Group Management
- Assessment of the performance of the members of Group Management
- Identification of candidates for the Board of Directors and Group Management
- Determination of the principles for the management and development of the members of the Board of Directors and Group Management

The committee is made up of three members. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. Every year, the members are individually elected by the General Meeting for one year. The CFO is normally invited to the meetings of the Nomination and Compensation Committee. Members of the Board of Directors not on the committee did not attend the committee meetings in the reporting year. An exception to this is the Chairman of the Audit Committee who participated in the entire recruitment procedure in the search for the new CFO during the reporting year (see page 65, 3.4.2.1). Members of the Board of Directors not on the committee received the meeting minutes and are kept informed by the Chairman of the Nomination and Compensation Committee in the subsequent meeting of the full Board of Directors following each committee meeting about any significant decisions and measures relating to the compensation process and compensation system. The Nomination and Compensation Committee met three times during the reporting year.

3. Compensation of the Board of Directors

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. At the General Meeting on 12 April 2019, a decision shall be made retrospectively on total compensatoin for the members of the Board of Directors for the year of office 2018/2019, which shall also end on the same day. On 12 April 2019, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 994 000 for the year of office 2018/2019.

Compensation for members of the Board of Directors consists of the following components for the year under review:

3.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. This remained unchanged for the year of office 2018/2019. The basic fee for the office of Chairman of the Board of Directors is CHF 240 000. The Vice-Chairman receives a fee of CHF 80 000, with the other members of the Board of Directors receiving a fee of CHF 60 000 each. In addition to this compensation, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20 000 for their activity on the respective committee. Every other committee member is entitled to CHF 10 000 per year of office. The Chairman of the Board of Directors waives compensation for his activity on both committees and considers it to be included in his aforementioned fee of CHF 240 000.

The fees paid to members of the Board of Directors are reviewed periodically and were last adjusted in 2015 (in relation to the Chairman of the Board of Directors).

3.2 Variable compensation

The members of the Board of Directors do not receive any variable compensation.

3.3 Allowances and in-kind benefits

The members of the Board of Directors are paid lump-sum allowances. The Chairman of the Board of Directors receives a lump-sum allowance amounting to CHF 15 000 per annum; members of the Board of Directors resident in Switzerland receive a lump-sum allowance of CHF 6 000 per annum and members of the Board of Directors resident outside of Switzerland receive a lump-sum allowance of CHF 12 000 per annum.

These allowances cover minor expenses and travel costs within Switzerland. Costs of overseas trips and overnight stays are borne by the company. The allowances are included in the presented other compensation of the term of office. The members of the Board of Directors do not receive any in-kind benefits.

3.4 Shares and options

At least 50% of the compensation paid to the members of the Board of Directors, including the compensation paid to committee members, is paid in the form of restricted Arbonia shares. The remaining 50% can either be paid out in cash or up to another 30% in restricted Arbonia shares. Members of the Board of Directors who are resident outside of Switzerland and the European Union receive their full Board of Directors fee in cash.

Making the Board of Directors take their fees in the form of restricted shares is designed to ensure that the incentive system is consistent with the long-term prosperity of the company, encourage a management philosophy which takes due account of risk, and reflect shareholder interests. According to the Board Member Share Plan approved by the Board of Directors, at least 50% of the net fees for the Board of Directors, i.e. the Board of Directors fees minus lump-sum allowances and withholding taxes, takes the form of restricted Arbonia shares. When members of the Board of Directors are domiciled in the European Union, the Swiss withholding tax is treated as compensation paid in cash. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period for calculating the fair market value shall begin on the tenth trading day following the publication of the annual results. Shares allocated in this way are subject to a restriction period of four years, which can, however, be lifted for those leaving the Board of Directors.

Arbonia does not have any option programme for the members of the Board of Directors.

3.5 Attendance fees

The members of the Board of Directors do not receive any attendance fees. No additional compensation is paid for the preparation and attendance of the ordinary and extraordinary meetings of the Board of Directors, the Audit Committee and the Nomination and Compensation Committee.

3.6 Loans and credit

According to Art. 26 of the Articles of Association (www.arbonia.com/en/company/corporate-governance), no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of the Board of Directors. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The Chairman of the Board of Directors exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2018.

3.7 Compensation, loans and credit to related parties

No loans or credit are granted to any parties related to the members of the Board of Directors. Moreover, no compensation is paid to any parties related to the members of the Board of Directors.

3.8 Signing bonus and termination benefits

No signing bonus or termination benefits are paid to the members of the Board of Directors.

4. Compensation of Group Management

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. At the General Meeting on 12 April 2019, a decision shall be made retrospectively on total remuneration for the members of the Group Management for the 2018 financial year. On 12 April 2019, the Board of Directors shall submit an application for the retrospective approval of the Group Management's total compensation of CHF 4 984 000 for the 2018 financial year.

In accordance with the regulation of powers, the compensation paid to Group Management is requested by the Nomination and Compensation Committee and determined by the Board of Directors. It consists of the following components:

4.1 Fixed compensation

The compensation of the members of Group Management depends on the individual function as well as the qualification and experience of the person that assumes the function. In the reporting year, a role evaluation for management and key Group functions was conducted using the HAY assessment system. These functions have subsequently been assigned to one of the newly defined Arbonia job grades. The CEO's function and the functions of the Board of Directors were exempt from this evaluation. The Arbonia Group conducted a role evaluation for the first time in 2014. In this case too, the functions of CEO and the Board of Directors were exempt. Based on the job grades, the included functions were compared on a country-specific basis with comparable functions at international companies in the Hay databases to enable a fair, external wage comparison to be carried out. One of the Arbonia Group's aims for this project was to establish a fair compensation system in line with market requirements in order to retain members of the Management Board over the long term.
The fixed compensation for the members of Group Management is paid out in cash, while the fixed compensation for the delegate of the Board of Directors and interim CEO is paid out in cash and in shares. In the reporting year, the fixed compensation paid out to the delegate of the Board of Directors was made up of a cash element amounting to CHF 280 000 as well as 60 000 in shares. The shares are subject to the provisions of the share-based payment programme (see 4.4) and are restricted for four years.

4.2 Variable compensation

In the reporting year, the variable compensation accounted for up to 55% of the fixed compensation for members of Group Management. In his function as interim CEO, the current Chairman of the Board of Directors and delegate of the Board of Directors waives any variable compensation.

According to the bonus regulations valid for the reporting year, the amount of the variable compensation depends on the achievement of financial targets. If a member of Group Management meets his targets in full, he receives a variable payment (nominal bonus) laid down in his individual agreement. The financial targets are assessed on the extent to which they have been met, with the relevant bonus component rising to 125% at most. If the targets for a bonus component of 125% are met, a pro rated share based on 150% of the nominal bonus is paid out. As a general rule, failure to meet at least 75% of a financial target will mean that none of the respective bonus component is paid. In the reporting year, quantitative targets relating to the organic growth, EBITDA margin, cash flow from operations, return on assets, company result and holding costs were determined for the members of Group Management.

In the reporting year, one member of the Group Management received 63% of the contractually agreed nominal bonus due to extraordinary performance and extraordinary overtime work, even though the divisional financial targets were not achieved to the same percentage.

4.3 Allowances and in-kind benefits

The members of Group Management receive lump-sum allowances amounting to CHF 21 600 p.a. The lump-sum allowances for the delegate of the Board of Directors and interim CEO are CHF 6 600 a year.

Additionally, the members of Group Management are provided with a company car and a mobile phone. The private use of the company car is offset for members of Group Management according to the respective tax regulations applicable in the country.

4.4 Shares and options

During the reporting year, 50% of the variable compensation was paid out in cash and 50% was paid out in the form of an allocation of shares under the share-based payment programme approved by the Board of Directors on 1 May 2014. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period for calculating the fair market value shall begin on the tenth trading day following the publication of the annual results. The restricted shares are subject to a four-year restriction period. The restriction period applies even if the employee leaves the company. The Board of Directors may, however, lift the restriction on the transfer of shares allocated under the share-based payment programme in certain cases, such as in the event of a change of control.

Arbonia does not have any option programme for the members of Group Management.

4.5 Privileges

Like all other employees, the members of Group Management can benefit from various employee privileges, e.g. from REKA cheques up to CHF 600 with a discount of 20% (only members with Swiss employment contracts) or from discounts on Arbonia products.

4.6 Loans and credit

According to Art. 26 of the Articles of Association (www.arbonia.com/en/company/corporate-governance), no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of Group Management. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The delegate of the Board of Directors and interim CEO exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2018.

4.7 Contract term

The contracts of the members of Group Management have, with one exception, been concluded for an unlimited term with a notice period of six months. A member of Group Management has a contract that has been concluded for an unlimited term and also has a notice period of twelve months.

4.8 Compensation, loans and credit to related parties

No loans or credit are granted to any parties related to the members of Group Management. Moreover, no compensation is paid to any parties related to the members of Group Management.

4.9 Signing bonus, termination benefits and change-of-control clauses

No member of Group Management is entitled to a signing bonus, termination benefit or compensation due to a change of control ("golden parachute").

4.10 Pension benefits

Group Management members with Swiss employment contracts are insured under the Arbonia pension scheme and the Arbonia senior management pension scheme. The Arbonia senior management pension scheme covers the fixed salary not covered under the basic scheme and 80% of the contractual nominal bonus against old age, death and incapacity risks. According to the Swiss Occupational Pensions Act (OPA), the maximum salary including bonus to be considered is limited to CHF 846 000 (as of 1 January 2018, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 636 800 (as of 1 January 2018). The employer contribution is the same for all three available plans and amounts to 25% of the insured salary (as of 1 January 2018). The delegate of the Board of Directors and interim CEO is not insured under the Arbonia senior management pension scheme. The only member of Group Management with a German employment contract has a pension commitment according to the regulations of the "Essener Verband".

B Compensation paid to members of the Board of Directors and Group Management in 2018

5. Board of Directors

5.1 Changes in the Board of Directors

At the end of the year of office 2017/2018, Dr Rudolf Huber decided not to stand for re-election to the Board of Directors. This reduced the size of the Board of Directors to seven members. There were no other changes in comparison to the previous year. This means that Alexander von Witzleben is the Chairman of the Board of Directors and Peter Barandun is Vice-Chairman. Alexander von Witzleben has been the delegate of the Board of Directors and interim CEO since 1 July 2015.

Despite the described reduction in the size of the Board of Directors, the total fee of the Board of Directors increased slightly compared to the 2017 financial year. This can be attributed to the fact that in, the reporting year, Peter E. Bodmer respectively the BEKA Group acted as broker on behalf of Arbonia on one occasion in relation to the sale of non-essential property and received CHF 115 000 (incl. allowances) in compensation for this work. The amount of the aforementioned compensation was directly dependent on the price achieved for the sale of the property. The Board of Directors approved this brokerage agreement, whereby Peter E. Bodmer withdraw from the resolution.

5.2 Table

						2018
	Functions exercised in 2018	Fee in cash	Fee in shares	Pension expenses[1]	Other compensation[2]	Total
		in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Alexander von Witzleben[3]	Chairman interim CEO Member of the AC Member of the NCC	120	148	15	15	298
Peter Barandun	Vice-Chairman Chairman of the NCC	29	86	6	6	127
Peter E. Bodmer[4,5]	Member Member of the AC	20	61	0	121	202
Markus Oppliger	Member Chairman of the AC	39	49	5	6	99
Heinz Haller	Member Member of the NCC	20	60	4	6	90
Michael Pieper	Member	18	52	2	6	78
Thomas Lozser	Member	59	0	4	12	75
Rudolf Huber	Member until 20.04.2018	10	12	1	2	25
Total compensation to members of the Board of Directors		**315**	**468**	**37**	**174**	**994**

1 Employer contributions to social insurance policies
2 Lump-sum allowances
3 The compensation paid to Alexander von Witzleben in 2018 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his services as interim CEO totalling CHF 1 369 275 is included in the compensation paid to Group Management in chapter 6.2.
4 The compensation for Peter E. Bodmer for the period of office 2018/2019 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.
5 CHF 115 000 is included under "Other compensation" for the services of Peter E. Bodmer who acted as a broker in relation to the sale of land in Switzerland.

	Functions exercised in 2017	Fee in cash	Fee in shares	Pension expenses[1]	Other compensation[2]	Total
						2017
		in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Alexander von Witzleben[3]	Chairman interim CEO Member of the AC Member of the NCC	120	150	14	15	299
Peter Barandun	Vice-Chairman Chairman of the NCC	40	73	6	6	125
Peter E. Bodmer[4]	Member Member of the AC	31	47	0	6	84
Markus Oppliger	Member Chairman of the AC	39	49	5	6	99
Heinz Haller	Member Member of the NCC	28	51	4	6	89
Michael Pieper	Member	24	44	2	6	76
Thomas Lozser	Member	60	0	4	12	76
Rudolf Huber	Member	40	26	4	6	76
Christian Stambach[5]	Member until 28.04.2017	9	11	1	2	23
Total compensation to members of the Board of Directors		**391**	**451**	**40**	**65**	**947**

1 Employer contributions to social insurance policies
2 Lump-sum allowances
3 The compensation paid to Alexander von Witzleben in 2017 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his services as CEO totalling CHF 1 369 119 is included in the compensation paid to Group Management in chapter 6.2.
4 The compensation for Peter E. Bodmer for the period of office 2017/2018 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.
5 Christian Stambach is a partner of the law firm Bratschi AG (formerly Bratschi Wiederkehr&Buob AG), which until 28.4.17 performed various legal consulting services not related to his Board of Directors mandate for Arbonia at market conditions in the reporting year.

6. Group Management

6.1 Changes in Group Management

Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015.

As of 1 January 2018, the former Building Technology Division was split into the Heating, Ventilation and Air Conditioning Division and the Sanitary Equipment Division. In parallel with this decision to create the two new divisions, Ulrich Bornkessel was appointed Head of the new Heating, Ventilation and Air Conditioning Division and therefore also became a member of Group Management. The size of Group Management has therefore increased from five to six since the previous year.

Despite the fact that Group Management has increased by one member, the total compensation for the members of Group Management has not significantly changed compared with the previous year. Although the annual salary increased, the lower level of variable compensation in the reporting year compared with the previous year meant that the total compensation remained approximately the same.

6.2 Table

	2018		2017	
	Group Management[3]	thereof to Alexander von Witzleben, interim CEO	Group Management[3]	thereof to Alexander von Witzleben, interim CEO
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Annual salary (cash)	2 076	280	1 784	280
Annual salary (shares)	1 000	1 000	999	999
Variable compensation (bonus in cash)	410		530	
Variable compensation (bonus in shares)	512		700	
Fees	111			
Pension expenses [1]	757	83	689	83
Other compensation [2]	118	7	110	7
Total	**4 984**	**1 370**	**4 812**	**1 369**
Number of members	6		5	

1 Employer contributions to social insurances, occupational pension schemes, accident and health insurance
2 Comprises lump-sum allowances, private use of the company car/car allowance and other services and in-kind benefits
3 The compensation of Knut Bartsch is paid in euros. The underlying conversion rate is 1.15 for 2018 and 1.11 for 2017.

KPMG

Report of the Statutory Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 75 to 84) of Arbonia AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in sections 3.6, 4.6, 5.2 and 6.2 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended 31 December 2018 of Arbonia AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2019

KPMG AG, Bogenstrasse 7, PO Box, CH-9001 St. Gallen

FINANCIAL SECTION

Financial report

Consolidated financial statements of the Arbonia Group

Financial Commentary 90
Consolidated Income Statement 94
Consolidated Statement of Comprehensive Income 95
Consolidated Balance Sheet 96
Consolidated Cash Flow Statement 98
Consolidated Statement of Changes in Equity 100
Notes on the Consolidated Financial Statements 101
Report of the Statutory Auditors on the Consolidated Financial Statements 171

Financial statements of Arbonia AG

Income Statement 180
Balance Sheet 180
Notes on the Financial Statements 182
Proposal of the Board of Directors 186
Report of the Statutory Auditors on the Financial Statements 187

FINANCIAL COMMENTARY

In 2018, Arbonia AG recorded net revenue of CHF 1374.0 million, equating to growth of 10.3% in comparison to the previous year (CHF 1245.6 million). When adjusted for acquisition and currency effects, this amounted to growth of 2.5%. The HVAC Division in particular experienced especially encouraging development, with growth of 5.0% when adjusted for acquisition and currency effects. Overall, growth of Arbonia tailed off considerably in the second half of 2018 compared with the first half of the year. This can primarily be attributed to the implementation of IFRS 15 (revenue from customer contracts) for the first time in the 2018 financial year as well as the anticipatory effects in Russia in the first half of 2018 which resulted from new regulations regarding the panel thickness of radiators.

Arbonia's Consolidated Financial Statements include the Belgian Vasco Group from 1 June 2018 and Spanish firm Tecna from 1 September 2018. The Coatings, Industrial Services (Condecta) and Profile Systems Business Units which were sold in 2017 are now only included in the Group result from discontinued operations.

Stable income situation

At CHF 46.0 million, the Group result in the 2018 financial year remained at almost the same level as the previous year (CHF 46.4 million). The Group result from continuing operations saw encouraging growth, rising to CHF 38.7 million (previous year: CHF 37.5 million). However, as expected, the Group result from discontinued operations of CHF 7.4 million fell short of the figure for the previous year (CHF 8.8 million). Excluding discontinued operations and special effects in both financial years, the Group result after tax increased slightly from CHF 22.8 million in the previous year to CHF 23.8 million. The main special effects in the 2018 financial year concerned profits from the sale of properties that were not required for operational purposes as well as restructuring expenses in relation to the intended closure of the Belgian Vasco Group's site in Zedelgem.

In the income statement for 2018, the rise in raw material prices and higher average exchange rates led to a higher material ratio. Excluding special effects, the personnel ratio improved slightly compared with the previous year and other expenses remained stable as a percentage of net revenue. As expected, the relocations had a positive impact on personnel expenses, even though the delay in starting up wood/aluminium window production at Langenwetzendorf (D) and rising wages as a result of full employment at almost all locations have moderated the effect to a large extent. Overall, price increases established over the last two years have for the most part been able to offset increases in material prices and wages.

Due to operational improvement and the generally positive special effects, the EBITDA in the 2018 financial year improved to CHF 130.5 million (previous year: CHF 120.3 million). At 9.5%, the EBITDA margin was more or less retained (previous year: 9.7%). Without one-time effects, the EBITDA increased significantly in the 2018 financial year to CHF 115.1 million compared with the previous year (CHF 101.3 million). The increase in revenue resulting from acquisition activities in particular meant that the increase in the EBITDA margin from 8.1% in the previous year to 8.4% in 2018 was less pronounced. The Windows and Doors Divisions achieved an improvement in their margins, whereas the Sanitary Equipment Division was unable to sustain the level of the previous year due to falling revenue in the German and French markets. Considerably higher depreciations meant that the EBIT of CHF 61.0 million in the 2018 financial year remained at the same level as the previous year (CHF 61.3 million). Without special effects, Arbonia achieved an encouraging increase in EBIT, with a figure of CHF 66.7 million (previous year: CHF 61.7 million), while the EBIT margin of 3.5% remained at virtually the same level as the previous year (3.4%).

At CHF 11.2 million, the net financial expense figure for 2018 was at approximately the same level as the previous year (CHF 10.9 million). Without the book losses on intercompany loans of CHF 5.0 million that were recorded on the effective date of 31 December 2018 due to lower exchange rates, the net financial expense figure would have decreased significantly. This can be attributed not least to the lower than average net indebtedness and the bonded loan that was issued in April. The continuing low interest rates have also curbed financial expenses in the 2018 financial year.

Although the Group result before tax remained at the same level, the tax expenses under IFRS decreased slightly to CHF 11.1 million in the 2018 financial year (previous year: CHF 12.8 million). As a result, the effective tax rate also improved to 22.3% (previous year: 25.5%) and is now back within the target range of 20 – 25% for the first time. At the same time, the effective tax rate and the weighted average tax rate (22.4%) were virtually identical, meaning that an end to the Group restructure is in sight, at least in relation to taxes.

Continuing high equity ratio and low net indebtedness

The total assets of Arbonia as of 31 December 2018 increased to CHF 1 511.9 million due to the acquisition of the Vasco Group and Tecna (previous year: CHF 1 416.6 million). As a result of these transactions and the negative currency translation differences on the balance sheet date, the equity ratio fell to a still very high figure of 58.7% (previous year: 60.9%).

Free cash flow (cash flow from operating activities and investing activities) for the 2018 financial year amounted to CHF –53.8 million (previous year: CHF +190.4 million). Cash flow from operating activities remained virtually unchanged compared with the previous year. However, investments of CHF 134.7 million which were once again higher (previous year: CHF 104.6 million) had a highly detrimental effect on cash flow from investing activities. Free cash flow was also affected greatly by special effects. The sale of properties and profile systems in particular made a positive contribution in this regard. Free cash flow was negatively affected above all by the two acquisitions that were made. Without one-time effects, the free cash flow would have been CHF –65.1 million (previous year: CHF –35.8 million). Investments are also expected to amount to something over CHF 100 million in 2019.

In 2018, the negative free cash flow led to an increase in net indebtedness. As of 31 December 2018, it had increased to CHF –116.8 million (previous year: CHF –43.3 million). The net indebtedness ratio (net indebtedness/EBITDA) therefore increased to –0.87 (previous year: –0.34); however, this is still a very good figure. All key financial figures are maintained. The higher net indebtedness was financed by the long-term bonded loan, which was issued in April 2018.

CONSOLIDATED FINANCIAL STATEMENTS ARBONIA GROUP

Consolidated Income Statement

	Note	2018		2017	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Continuing operations					
Net revenues	31	**1 374 007**	**100.0**	**1 245 565**	**100.0**
Other operating income		42 379	3.1	35 068	2.8
Capitalised own services		5 857	0.4	4 183	0.3
Changes in inventories of semi-finished and finished goods		–1 833	–0.1	399	0.0
Cost of material and goods		–633 737	–46.1	–570 691	–45.8
Personnel expenses		–454 654	–33.1	–411 576	–33.0
Other operating expenses		–201 519	–14.7	–182 642	–14.7
EBITDA		**130 500**	**9.5**	**120 306**	**9.7**
Depreciation, amortisation and impairments	37-39	–50 695	–3.7	–39 880	–3.2
Amortisation of intangible assets from acquisitions	39	–18 827	–1.4	–19 166	–1.6
EBIT	31	**60 978**	**4.4**	**61 260**	**4.9**
Financial income	51	2 889	0.2	2 550	0.2
Financial expenses	51	–14 058	–1.0	–13 443	–1.1
Group result before income tax		**49 809**	**3.6**	**50 367**	**4.0**
Income tax expense	52	–11 122	–0.8	–12 819	–1.0
Group result from continuing operations		**38 687**	**2.8**	**37 548**	**3.0**
Group result from discontinued operations after taxes	36	**7 339**	**0.5**	**8 824**	**0.7**
Group result		**46 025**	**3.3**	**46 371**	**3.7**
Attributable to:					
Shareholders of Arbonia AG		46 025		46 378	
Non-controlling interests				–7	
Earnings per share from continuing operations in CHF	47	0.56		0.55	
Earnings per share from discontinued operations in CHF	47	0.11		0.13	
Earnings per share in CHF	47	0.67		0.68	
Basic and diluted earnings are identical.					

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Group result	**46 025**	**46 371**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	3 780	32 871
Deferred tax effect	−973	−6 239
Total items that will not be reclassified to income statement	**2 807**	**26 632**
Items that may be subsequently reclassified to income statement		
Currency translation differences	−28 642	57 587
Cumulative currency translation differences transferred to the income statement	69	−367
Total items that may be subsequently reclassified to income statement	**−28 573**	**57 220**
Other comprehensive income after taxes	**−25 766**	**83 852**
Total comprehensive income	**20 259**	**130 223**
Attributable to:		
Shareholders of Arbonia AG	20 259	130 085
Non-controlling interests		138
Total comprehensive income from continuing operations	19 158	118 482
Total comprehensive income from discontinued operations	1 101	11 603

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	31/12/2018		31/12/2017	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Assets					
Cash and cash equivalents	32	70 877		82 703	
Accounts receivable	33	135 490		126 387	
Other current assets		34 198		26 261	
Inventories	34	168 424		168 558	
Contract assets	33	27 968			
Deferred expenses		6 679		6 441	
Current income tax receivables		2 714		3 569	
Financial assets	35	10 047			
Assets held for sale	36	237		47 725	
Current assets		**456 634**	**30.2**	**461 644**	**32.6**
Property, plant and equipment	37	577 990		471 053	
Investment property	38	6 815		13 507	
Intangible assets	39	209 559		208 978	
Goodwill	39	204 068		212 118	
Deferred income tax assets	45	5 664		5 570	
Capitalised pension surplus	46	44 631		33 542	
Financial assets	35	6 487		10 207	
Non-current assets		**1 055 214**	**69.8**	**954 975**	**67.4**
Total assets		**1 511 848**	**100.0**	**1 416 619**	**100.0**

	Note	31/12/2018		31/12/2017	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable		127 913		108 053	
Advance payments by customers				20 636	
Contract liabilities	33	6 701			
Other liabilities		34 200		27 539	
Financial debts	41	23 066		107 276	
Finance lease liabilities	37	2 617		2 010	
Accruals and deferred income		80 747		74 221	
Current income tax liabilities		12 888		12 968	
Provisions	44	24 864		20 812	
Liabilities associated with assets held for sale	36	371		12 724	
Current liabilities		**313 367**	**20.7**	**386 239**	**27.3**
Financial debts	41	151 725		12 265	
Finance lease liabilities	37	10 540		10 904	
Other liabilities		15 245		13 124	
Provisions	44	12 543		10 146	
Deferred income tax liabilities	45	70 957		65 124	
Employee benefit obligations	46	49 744		55 698	
Non-current liabilities		**310 754**	**20.6**	**167 261**	**11.8**
Total liabilities		**624 121**	**41.3**	**553 500**	**39.1**
Share capital	47	291 787		291 787	
Share premium		526 319		526 319	
Treasury shares	48	−7 101		−8 265	
Other reserves	49	−58 332		−29 759	
Retained earnings		135 054		83 037	
Shareholders' equity attributable to equity holders of Arbonia AG		**887 727**	**58.7**	**863 119**	**60.9**
Non-controlling interests	50				
Shareholders' equity		**887 727**	**58.7**	**863 119**	**60.9**
Total liabilities and shareholders' equity		**1 511 848**	**100.0**	**1 416 619**	**100.0**

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2018	2017
		in 1 000 CHF	in 1 000 CHF
Group result		**46 025**	**46 371**
Depreciation, amortisation and impairments	37 – 39	69 522	68 216
Profit/loss on disposal of non-current assets and subsidaries	35 – 38	– 35 138	– 26 038
Changes in non-cash transactions	55	11 308	14 497
Changes in working capital (excluding cash and cash equivalents)	55	– 21 984	– 43 053
Changes in current liabilities	55	– 180	8 763
Cash flows from operating activities - net		**69 553**	**68 756**
To investment activities			
Purchases of property, plant and equipment	37	– 131 627	– 101 549
Purchases of investment properties	38	– 8	– 110
Purchases of intangible assets	39	– 3 070	– 2 938
Acquisition of subsidiaries/businesses (net of cash acquired)	40	– 66 147	– 2 081
Issuance of financial assets		– 14 105	– 2 441
From divestment activities			
Proceeds from sale of property, plant and equipment	36/37	22 982	26 615
Proceeds from sale of investment properties	38	23 205	7 283
Proceeds from sale of intangible assets		8	67
Disposal of subsidiaries (net of cash disposed)	36	38 985	196 806
Repayment of financial assets	35	6 446	10
Cash flows from investing activities - net		**– 123 331**	**121 662**

	Note	2018	2017
		in 1 000 CHF	in 1 000 CHF
From financing activities			
Proceeds from financial debts	41/55	233 672	35 636
Net proceeds from issuance of share capital	47		3 032
Proceeds from sale of treasury shares			2 032
To financing activities			
Repayments of financial debts	41/55	–193 087	–267 305
Finance lease liability payments		–2 508	–2 394
Purchase of non-controlling interests	50		–2 160
Purchase of treasury shares	48		–2 054
Cash flows from financing activities - net		**38 077**	**–233 213**
Effects of translation differences on cash and cash equivalents		–2 348	2 638
Change in cash and cash equivalents		**–18 049**	**–40 157**
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	82 703	111 754
Cash and cash equivalents as of 01/01 discontinued operations		6 460	17 566
Cash and cash equivalents as of 31/12 continuing operations	32	70 877	82 703
Cash and cash equivalents as of 31/12 discontinued operations		237	6 460
Change in cash and cash equivalents		**–18 049**	**–40 157**
Supplementary information for operating activities:			
Interest paid		2 522	6 233
Interest received		78	798
Income tax paid		16 450	12 970

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Attributable to equity holders Arbonia	Non-controlling interests	Total shareholders' equity
		in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance at 31/12/2016		**287 640**	**518 043**	**–8 576**	**–86 979**	**8 489**	**718 617**	**10 134**	**728 751**
Group result						46 378	46 378	–7	46 371
Other comprehensive income after taxes	49				57 075	26 632	83 707	145	83 852
Total comprehensive income					**57 075**	**73 010**	**130 085**	**138**	**130 223**
Issuance of share capital (net)	47	4 147	8 276				12 423		12 423
Changes in treasury shares	48			–1 535		1 241	–294		–294
Share based payments	56			1 846		1 456	3 302		3 302
Purchase of non-controlling interests	50				145	–1 159	–1 014	–10 272	–11 286
Total transactions with owners		**4 147**	**8 276**	**311**	**145**	**1 538**	**14 417**	**–10 272**	**4 145**
Balance at 31/12/2017		**291 787**	**526 319**	**–8 265**	**–29 759**	**83 037**	**863 119**		**863 119**
Restatement IFRS 15 [1]						1 233	1 233		1 233
Balance at 01/01/2018		**291 787**	**526 319**	**–8 265**	**–29 759**	**84 270**	**864 352**		**864 352**
Group result						46 025	46 025		46 025
Other comprehensive income after taxes	49				–28 573	2 807	–25 766		–25 766
Total comprehensive income					**–28 573**	**48 832**	**20 259**		**20 259**
Changes in treasury shares						1 220	1 220		1 220
Share based payments	48			1 164		732	1 896		1 896
Total transactions with owners				**1 164**		**1 952**	**3 116**		**3 116**
Balance at 31/12/2018		**291 787**	**526 319**	**–7 101**	**–58 332**	**135 054**	**887 727**		**887 727**

[1] see note 2 "First time adoption of IFRS 15"

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A Accounting principles

1 General information

Arbonia Group (Arbonia) is a focused building supplier, whose innovative solutions and services provide for the efficient use of energy as well as for safety, security and well-being. Arbonia is divided into four main divisions, namely HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. Manufacturing plants are located in Switzerland, Germany, Italy, the Czech Republic, Poland, Slovakia, Belgium and the Netherlands. Arbonia owns major brands such as Kermi, Arbonia, Prolux, Koralle, Sabiana, Vasco, Brugman, Superia, EgoKiefer, Slovaktual, Dobroplast, Wertbau, RWD Schlatter, Prüm, Garant and Invado and possesses a strong position in its home markets in Switzerland and Germany. The Group focuses mainly on the development of existing markets in Central and Eastern Europe. Arbonia is represented in over 70 countries worldwide.

The ultimate parent company, Arbonia AG is a corporation organised under Swiss law incorporated and domiciled at Amriswilerstrasse 50, CH-9320 Arbon (Canton Thurgau). Arbonia AG is listed on the SIX Swiss Exchange in Zurich under the valor number 11024060 / ISIN CH0110240600.

These consolidated financial statements have been approved for issue by the Board of Directors of Arbonia AG on 19 February 2019 and require approval from the Annual General Meeting on 12 April 2019. The publication of the consolidated financial statements occurred on 26 February 2019 at the media and analyst conference.

2 General principles and basis of preparation

The consolidated financial statements of Arbonia have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 30.

When compared to the consolidated financial statements 2017, new accounting estimates and assumptions arose in the context of the introduction of IFRS 15 "Revenue from contracts with customers" which affect revenue recognition in the project business starting from the financial year 2018.

Amendments to significant published standards effective in 2018
The accounting policies adopted in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the following new and amended standards, which Arbonia has implemented in 2018:

- IFRS 9 "Financial instruments: classification and measurement"
- Amendments to IFRS 9 "Financial instruments" – mandatory effective date of IFRS 9 and transition disclosures
- Amendments to IFRS 9 "Financial instruments" – hedge accounting
- IFRS 15 "Revenue from contracts with customers"

First time adoption of IFRS 9
IFRS 9 "Financial instruments" replaces IAS 39 "Financial instruments: Recognition and Measurement", bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. The effect of adopting IFRS 9 can be summarised as follows:
- classification and measurement: IFRS 9 contains a new classification and measurement approach for financial assets that reflects Group's business model for managing the assets and the instrument's contractual cash flows. This results in the following three measurement categories for financial assets: measured at amortised cost (FA AC), at fair value through equity (FA FVTOCI) and at fair value through profit or loss (FA FVTPL). There were no material changes in the classification and measurement of financial liabilities.
  The application of this new valuation rules did not have any significant effects on Arbonia. The items previously assigned to the IAS 39 category "loans and receivables" (L&AR) continue to meet the criteria for measurement at amortised cost and are now assigned to the IFRS 9 category "amortised cost" (FA AC). Otherwise, there were no changes in the allocation to the measurement categories.

- Impairment: IFRS 9 replaces IAS 39's "incurred loss" approach with a forward-looking model of "expected credit losses".
  Arbonia's impact assessment has shown that the introduction of the new impairment model does not have a material impact on the consolidated financial statements.
- Hedge accounting: Arbonia does not apply hedge accounting and consequently there are no effects.

Arbonia makes use of the exception not to restate comparative information in respect of changes in classification. There were no valuation adjustments and therefore no effect from the first-time application of IFRS 9 in equity.

First time adoption of IFRS 15

Arbonia has adopted IFRS 15 including all the related interpretations, as of 1 January 2018. For the initial application of this standard, the modified retrospective method was used. Accordingly, the information presented for 2017 has not been restated. Instead of restating the previous year figures, the cumulative first-time effect of IFRS 15 has been recognised in equity. As of 1 January 2018, retained earnings have been increased by CHF 1.2 million net of deferred taxes (CHF 0.3 million). IFRS 15 replaced IAS 11 "Construction contracts" and IAS 18 "Revenue" as well as all related interpretations. The standard changes the basis to assess whether revenue has to be recognised over time or at a point in time. The core principle of IFRS 15 prescribes when and at what amount to recognise revenue from contracts with customers. This follows a five-step model, which is applied to all customer contracts: (1) identification of contracts with customers (2) identification of separate performance obligations in the contract (3) determination of the transaction price (4) allocation of the transaction price to the separate performance obligations (5) revenue recognition when a performance obligation is satisfied.

Arbonia has analysed the impact of this standard for all companies. There have been only changes for companies that are operating in the project business. Previously, revenue was recognised only with the existence of a signed acceptance protocol. With the new standard, as of 2018, revenue recognition for these transactions occurs in the amount of the expected consideration over the period of the provided services (planning, production, assembly, acceptance). Revenue is recognised over the period of the provided services, as the custom-made doors and windows offer no alternative use and the Group has an enforceable right to payment for performance completed to date.

The Windows and Doors Divisions are resellers/commercial dealers on the one hand and operate in the project business on the other hand. The project business is characterised by long-term contracts which partially have a duration of over one year. The businesses of resale/commercial deals and the project business represent one single performance obligation. The performance obligation in the project business is progressively satisfied over the period of the provided services using the cost-to-cost method. Therefore, from financial year 2018 onwards, revenue is recognised over the term of a contract. If revenue is recognised as mentioned before, but the expected amount of consideration has not yet been invoiced, then a contract asset is recognised due to the conditional right to consideration. Contract assets are presented on a net contract-by-contract basis, e.g. less the received partial payments. Accounts receivable from project business are recognised when the right to the consideration becomes unconditional. This right becomes unconditional when an acceptance protocol is signed and accordingly the invoice is issued to the customer. The contract liability relates to contracts whose partial payments exceed the stage of completion or the revenue already recognised respectively, on a net contract-by-contract basis. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied.

For the project business, Arbonia determines the stage of completion by using the cost-to-cost method. In Arbonia's opinion, this method best depicts the transfer of control of the products to the customer. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Changes due to post calculations and actively managed project controlling are taken into account when determining the stage of completion. Such changes in estimates are recognised prospectively. Revenue is recognised proportionally as costs are incurred. If the expected margin cannot be measured reliably, then revenue is recognised only in the amount of costs incurred. The treatment of loss-making contracts occurs regardless of the stage of completion by recognising a provision amounting to the total contract loss resulting from the total budgeted costs not covered by the total amount of the transaction price. Variable considerations such as discounts or construction rebates which can be measured reliably, are deducted from the transaction price at the beginning of the contract term. The allocation of the transaction price to the separate performance obligations is not required because of the existence of only one performance obligation regarding the project business.

The major part of Arbonia's revenue is recognised at a point in time. The transfer of control and thus revenue recognition of these products occurs when the performance obligation is satisfied. In general, the performance obligation is satisfied when delivery of shipment has been accepted. As a result of that, an invoice is issued subsequently and hence recognition of a contract asset is not required. Variable considerations are recognised as sales deductions.

The following tables show the impact on the balance sheet and income statements as of 31 December 2018, had IAS 18 instead of IFRS 15 been applied. Items that are not affected by the changes are combined under "Others".

Consolidated Balance Sheet (Excerpt)

	31/12/2018		31/12/2018
	published	IFRS 15 adjustments	without application of IFRS 15
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Assets			
Accounts receivable	135 490	4 950	140 440
Inventories	168 424	36 678	205 102
Contract assets	27 968	-27 968	
Others	1 179 966		1 179 966
Total assets	**1 511 848**	**13 660**	**1 525 508**
Liabilities and shareholders' equity			
Contract liabilities	6 701	17 522	24 223
Accruals and deferred income	80 747	500	81 247
Provisions	24 864	-10	24 854
Deferred income tax liabilities	70 957	-802	70 155
Others	440 852		440 852
Total liabilities	**624 121**	**17 210**	**641 331**
Retained earnings	135 054	-3 550	131 504
Others	752 673		752 673
Shareholders' equity	**887 727**	**-3 550**	**884 177**
Total liabilities and shareholders' equity	**1 511 848**	**13 660**	**1 525 508**

Consolidated Income Statement (Excerpt)

	2018		2018
	published	IFRS 15 adjustments	without application of IFRS 15
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	**1 374 007**	**-5 970**	**1 368 037**
Changes in inventories of semi-finished and finished goods	-1 833	3 304	1 471
Cost of material and goods	-633 737	-170	-633 907
Others	-688 628		-688 628
Group result before income tax	**49 809**	**-2 836**	**46 973**
Income tax expense	-11 122	519	-10 603
Group result from continuing operations	**38 687**	**-2 317**	**36 370**

The adoption of the remaining new or amended standards had no material impact on the Group's financial statements.

Published standards that are not yet effective nor adopted early

The following published but as of the balance sheet date not yet effective significant new or amended standards have not yet been adopted by Arbonia:

Standard	effective date
IFRS 16 "Leases"	01 January 2019

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for mainly all lease contracts. An optional exemption for certain short-term leases and leases of low-value assets has been provided for. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the new right-of-use assets and interest expense on the new lease liabilities.

Arbonia has completed the impact assessment on its consolidated financial statements. The effect of the new leases to be accounted for as at 1 January 2019 amounts to CHF 55.4 million (on a discounted basis). This assessment is subject to possible changes until publication of the 2019 consolidated financial statements. The most significant impact is that the Group will have to recognise real estate and vehicle contracts which have been classified as operating leases under IAS 17.

Arbonia will apply the exemptions regarding short-term leases and leases of low-value assets. Additionally, Arbonia will apply IFRS 16 using the modified retrospective method on transition. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 January 2019, with no restatement of comparative information. When applying the modified retrospective approach, the lessee can elect to apply a number of optional exemptions, which Arbonia plans to make use of.

The adoption of the remaining new or amended standards will not have a material impact on the Group's financial statements.

3 Reporting entity

The consolidated financial statements are based on the financial statements of the individual Group companies prepared as of 31 December. Subsidiaries are fully consolidated from the date on which control is transferred to Arbonia (generally where the interest in votes and share capital is more than 50%). They are deconsolidated from the date that control ceases.

Investments in associated companies, over which Arbonia exercises significant influence but does not control, are initially recognised at cost. The cost comprises the share in net assets and a possible goodwill. After the date of acquisition, the investment is accounted for using the equity method. A significant influence is generally assumed by a shareholding of between 20% to 50% of the voting rights.

The following material changes occurred in the Group:

In the financial year 2018
- As of 22 January 2018, Arbonia sold the business unit Profile Systems (see note 36).
- As of 16 May 2018, Arbonia acquired 100% of the shares of Belgian Vasco Group, BE-Dilsen (see note 40).
- As of 24 September 2018, Arbonia acquired 100% of Tecnologia de Aislamientos y climatizacion S.L., ES-Algete (see note 40).

In the financial year 2017
- As of 31 January 2017, Arbonia acquired 100% of TPO Holz-Systeme GmbH, DE-Leutershausen (see note 40).
- Between 27 February 2017 and 26 June 2017, Arbonia sold via asset and share deals all operating entities of the discontinuing Coatings operation (see note 36).
- As of 12 December 2017, Arbonia sold the Industrial Services business unit (see note 36).

An overview of the material Group companies is included in note 60.

4 Full consolidation

In line with the full consolidation method, 100% of all balance sheet and income statement items are included in the consolidated financial statements. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

For each acquisition the non-controlling interest in the acquiree is either measured at fair value or the proportionate acquired net assets. Non-controlling interests are disclosed in the balance sheet as part of shareholders' equity, provided that no purchase commitment exists. The result attributable to non-controlling interests in the income statement and the statement of comprehensive income forms part of the Group result for the period.

5 Capital consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to Arbonia. The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Contingent considerations are measured at fair value as a cost of the acquisition. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement. Directly attributable acquisition-related costs are expensed.

If the acquisition is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest is remeasured to fair value at the acquisition date. Gains or losses arising from such remeasurement are recognised in the income statement.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Companies which are sold are deconsolidated from the date that control ceases. The difference between the consideration received and the net assets is recognised in the income statement as other operating income/expenses.

B Summary of significant accounting policies

6 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below, from notes 7 to 29.

These consolidated financial statements are based on the annual financial statements of the Group companies prepared in accordance with the Group's uniform accounting policies. Balance sheet items are generally stated at cost as modified by the revaluation of financial instruments at fair value through profit or loss. Assets held for sale and disposal groups are measured at the lower of its carrying amount and fair value less costs to sell.

7 Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the company operates (the functional currency). The consolidated financial statements are presented in Swiss francs (CHF).

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rate 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 are recognised in the income statement, except when deferred in comprehensive income as qualifying net investment hedges.

Group companies
The results and financial position of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. Income and expenses for each income statement as well as the cash flow statements are translated at average exchange rates. All resulting exchange differences are recognised as a separate component of comprehensive income under other reserves.

Exchange differences arising on intercompany loans of an equity nature that essentially form part of the company's net investment in the foreign entity are classified in comprehensive income under other reserves.

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

When a foreign operation is sold or liquidated, exchange differences that were recorded in comprehensive income are recognised in the income statement.

The following foreign currency rates have been applied:

Currency	Unit	2018		2017	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.1270	1.1547	1.1709	1.1115
GBP	1	1.2542	1.3055	1.3196	1.2682
USD	1	0.9849	0.9780	0.9763	0.9847
CZK	100	4.3810	4.5050	4.5846	4.2262
PLN	100	26.1858	27.1184	28.0731	26.1310
CNY	100	14.3616	14.8067	14.9985	14.5783
RUB	100	1.4183	1.5622	1.7002	1.6888

8 Maturities

Assets realised or consumed within 12 months in the ordinary course of business or held for trading purposes are classified as current assets. All other assets are classified as non-current assets.

Liabilities to be redeemed in the ordinary course of business, held primarily for the purpose of trading, falling due within 12 months from the balance sheet date or do not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date are classified as current liabilities. All other liabilities are classified as non-current liabilities. If a binding commitment to extend an expiring financial liability has been received as of the balance sheet date, the new maturity is also taken into account in the classification.

9 Financial instruments

A financial instrument is a transaction that results in the creation of a financial asset for one party and simultaneously in the creation of a financial liability or equity instrument for the other party.

Policy applicable from 1 January 2018

Financial assets are divided into the following three categories: (1) Financial assets measured at amortised cost (FA AC), (2) Financial assets measured at fair value through profit or loss (FA FVTPL), (3) Financial assets measured at fair value through other comprehensive income (FA FVTOCI). The classification depends on the company's business model for managing financial assets and on the contractual cash flows. Management determines the classification upon initial recognition and reviews it at each balance sheet date. Arbonia's financial assets include cash and cash equivalents (category 1), trade accounts receivable (1), other assets (1), deferred expenses (1), loans (1) and investments < 20% (2).

Purchases and sales constituting a financial asset are reported in the balance sheet as of the execution date and are eliminated when the right to receive payments has lapsed or been transferred and Arbonia has surrendered control of the same, i.e. when the related opportunities and risks have been transferred or expired.

Transaction costs directly attributable to the acquisition are also reported with respect to all financial assets not carried at fair value through profit or loss in subsequent periods. Fair values in the balance sheet, as a rule, correspond to the market prices of the financial assets.

The subsequent measurement of debt instruments depends on the classification: (1) Assets held to collect contractual cash flows, for which these cash flows represent exclusively interest and principal payments, are measured at amortised cost. (2) Assets that do not meet the criteria of category 1 or 3 are classified as at fair value through profit or loss. (3) Assets held to collect contractual cash flows and to sell financial assets, where the cash flows are exclusively interest and principal payments, are measured at fair value through equity. Subsequent measurement of the equity instruments held is at fair value.

There are no financial assets designated as at fair value through profit or loss (fair value option).

At each balance sheet date, financial assets that are not measured at fair value through profit or loss are assessed for expected credit losses. Indications that the creditworthiness of assets is impaired include financial difficulties, breaches of contract and possible bankruptcy of the contracting party. A default with respect to a financial asset exists if it appears unlikely that the contracting party will meet its contractual payments to the Group in full. If loans or receivables have been impaired, the company continues to enforce the receivable to recover it. Financial assets are written-off as soon as there is no reasonable expectation of recovery. Among the indicators that there is no reasonable expectation of recovery is the bankruptcy of the counterparty. Further information on the impairment of financial assets is provided in the accounting policies for the individual assets (in particular on accounts receivable and contract assets in note 13).

Financial liabilities are divided into the following two categories: (1) Financial liabilities measured at fair value through profit or loss (FL FVTPL), this category being further subdivided into financial liabilities classified as held for trading from the inception and those designated at fair value through profit or loss from the inception and (2) financial liabilities measured at amortised cost (FL AC). Arbonia's financial liabilities comprise trade accounts payable (2), other liabilities (2), finance lease liabilities (2), accruals and deferred income (2), financial debts (2) and derivative financial liabilities (1).

Financial assets and financial liabilities are normally reported on a gross basis. They are only reported on a net basis if there is at presence a right of offset and an intent to settle on a net basis.

Policy applicable before 1 January 2018

Arbonia makes use of the exception not to restate comparative information in respect of changes in classification. As a result, comparative information continues to be accounted for using the same accounting policies.

Until 31 December 2017 financial assets were divided into the following four categories: (1) financial assets at fair value through profit or loss (FA FVTPL), with this being subdivided into financial assets classified from the beginning as held for trading purposes (trading) and financial assets classified from the beginning as at fair value through profit or loss (designated), (2) loans and receivables (L&AR), (3) financial assets held to maturity (HTM), and (4) financial assets available-for-sale (AFS). The classification in the balance sheet depended on the purpose for which the financial assets have been acquired. In concrete terms, the financial assets of Arbonia comprised cash and cash equivalents (category 2), securities (1), trade accounts receivable (2), other assets (2) and loans (2).

As of each balance sheet date, the book values of financial assets not to be carried at fair value through profit or loss were reviewed as to whether there is any objective evidence indicating an impairment in relation to an asset or group of assets. Any impairment charges were reported through the income statement if the book value exceeded the fair value.

The remaining provisions do not differ significantly from the accounting policies applied as of 1 January 2018.

10 Derivative financial instruments

The Group uses derivative financial instruments to minimise interest rate risks resulting from operational business and financial transactions. They are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Arbonia does not apply hedge accounting in accordance with IFRS 9. Derivatives are measured at fair value through profit or loss and disclosed in the balance sheet as other current assets or other current liabilities.

11 Fair value estimation of financial instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price, for financial liabilities the current asking price.

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques, e.g. comparison with similar at arm's length transactions, valuation using the discounted cash flow method or other established valuation methods.

Financial instruments measured at fair value are disclosed under the following hierarchy:
Level 1 – quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).
Level 3 – unobservable market data.

Due to its current nature, the nominal value less estimated allowance of accounts receivable is assumed to approximate their fair value. The nominal value of accounts payable is assumed to approximate their fair value. The fair value of financial liabilities disclosed in the notes 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.

The fair value of financial debts is assigned to level 2 of the above mentioned hierarchy.

12 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with post and banks, other short-term highly liquid investments with original maturities not exceeding three months. Cash and cash equivalents are subject to the impairment provisions of IFRS 9, but as the expected losses are completely insignificant, no impairment losses have been recognised.

13 Receivables and contract assets

Accounts receivable and other current assets are measured at amortised cost using the effective interest method, less provision for impairment. Accounts receivable and contract assets are regularly monitored and expected credit defaults assessed. The expected losses are estimated as part of the determination of specific allowances. The assessment is based both on historical experience and on current circumstances, as well as on forward-looking information. This includes an assessment of the expected business and economic conditions as well as the future financial performance of the contracting party. On the basis of the overdue period in days, lump-sum value adjustments are made to the receivables remaining after specific allowances. Collateral received is taken into account when calculating the provision for impairment. Impairment losses on receivables are recognised using an allowance account.

In connection with a factoring agreement certain accounts receivable are sold. Since Arbonia hasn't transferred all the risks and rewards of ownership and still retains control, the receivables have to be recorded in the balance sheet to the extent of the so-called continuing involvement. In particular the late payment risk is completely retained by Arbonia up until a certain point in time.

Other current assets include WIR credits, which are measured at amortised cost less an appropriate provision.

14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method based on normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Claimed cash discounts are treated as a reduction of cost. Items with a low turnover rate are depreciated and obsolete items are fully written off.

15 Assets held for sale and associated liabilities

Non-current assets or a disposal group held for sale and liabilities associated with assets held for sale are classified as such if their carrying amount will be recovered principally through a sale transaction, not through continuing use. For this to be the case, the successful sale must be highly probable and the asset must be available for immediate sale in its present condition. For the sale to be highly probable, management must be committed to a plan to sell the asset, the offer price of the asset is reasonable in relation to its current fair value and the sale is expected to be completed within one year. The assets are stated at the lower of carrying amount and fair value less costs to sell. Potential impairments are directly recorded within the income statement. Starting from the date of reclassification to this category, depreciation is ceased.

16 Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale and represents a separate major line of business or geographical area of operations. Such a component comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. The classification as discontinued operations occurs on the disposal of the operation or at an earlier point in time, provided the operation meets the criteria for the classification as held for sale. Discontinued operations are disclosed separately in the income statement and previous comparative periods are restated accordingly. However previous year's balance sheet is not restated.

17 Property, plant and equipment

Land is stated at cost. Buildings, plant, machinery and other equipment are stated at cost less depreciation. Depreciation is calculated using the straight-line method based on estimated useful lives as stipulated under note 21.

The business unit Industrial Services, which was sold in 2017, operated the rental and trading of assets (space systems, cranes, construction equipment and mobile sanitary units), which generated sustained investment and divestment activities.

Impairments (see also note 20) are separately disclosed under accumulated depreciation. Repair and maintenance costs are expensed.

18 Investment property

Investment property, principally comprising land and buildings, is held for long-term rental yields or appreciation and is predominantly rented to third parties. Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method.

The fair value of investment property, which is required for disclosure purposes, is determined using the discounted cash flow method. Based on attainable net rental income (gross rental income minus operating costs and future refurbishment costs), the discounted cash flows are calculated for the next 10 years with a residual value for the time thereafter. The fair value of undeveloped land is determined by considering current local market conditions. The fair value of land with buildings and undeveloped land of acquired subsidiaries is determined by external valuers. The fair value of certain other undeveloped land has been estimated internally.

19 Intangible assets

Intangible assets include goodwill, which represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary including contingent liabilities at the date of acquisition. If in case of an acquisition Arbonia grants a put option to the non-controlling interests and at the same time Arbonia receives a purchase option, this obligation is recognised at the present value of the exercise price. Goodwill is seen as an intangible asset with an indefinite useful life. Impairment on goodwill (see note 20) is separately disclosed under accumulated impairment losses.

Intangible assets comprise purchased computer software and licenses at costs incurred. They are measured at cost less accumulated amortisation, calculated using the straight-line method based on estimated useful lives as stipulated under note 21.

Intangible assets acquired in a business combination (brands, patents, technologies, client relationships, distribution channels, etc.) are carried at fair value less accumulated amortisation, calculated using the straight-line method based on estimated useful lives as stipulated under note 21.

Expenses relating to research activities are directly charged to the income statement in the period in which they are incurred. Development costs are capitalised at acquisition cost or production cost and reported under intangible assets if all criteria under IAS 38 have been met on a cumulative basis, including evidence of technical and economic feasibility, evidence of expected future economic benefit and attributability of costs and their reliable valuation. They are amortised over the expected useful life on the basis specified in note 21. Development costs not meeting the criteria under IAS 38 are directly charged to the income statement in the period in which they are incurred.

20 Impairment of assets

Assets subject to amortisation and depreciation, such as property, plant and equipment and intangible assets with a definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that have an indefinite useful life, such as goodwill, are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is based on discounted future cash flows. The applied discount rate is a pre-tax rate using the weighted average cost of capital (WACC) method. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – CGU).

21 Estimated useful lives

Asset categories	Useful lives (in years)
Office buildings	35–60
Factory buildings	25–40
Investment properties – buildings	25–50
Production machinery	8–20
Transport and storage equipment	8–15
Vehicles	5–10
Tools and moulds	5
Office furniture and equipment	up to 5
IT-hardware	up to 5
Capitalised research and development costs	up to 5
Intangible assets (mainly IT-software)	up to 5
Intangible assets from business combinations	
Client relationship	7–20
Brands, distribution channels, technologies	10–20
Order backlog	up to 2

Land is not systematically depreciated.

22 Provisions

Provisions are recognised only when Arbonia has a present legal or constructive obligation as a result of past events, the amount has been reliably estimated and it is more likely than not that an outflow of resources will be required to settle the obligation.

Provisions for restructuring are only recognised when costs for such a programme can be reliably estimated by virtue of a detailed formal plan and Arbonia has a legal or constructive obligation or has raised a valid expectation in those affected.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in provision due to passage of time is recognised as interest expense.

23 Employee benefit obligations

Arbonia manages various pension plans within Switzerland and abroad. The plans are funded through payments to trustee-administered funds or insurance companies or are unfunded arrangements.

Based on their characteristics the pension plans qualify under IAS 19 as defined benefit plans. A defined benefit plan is a pension plan that defines an 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.

The liability recognised in the balance sheet to pay future retirement benefits is determined using the projected unit credit method, which is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. If the fair value of plan assets exceeds the present value of the defined benefit obligation, a pension surplus will only be recognised taking the asset ceiling into account. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality bonds. Actuarial valuations are carried out on a regular basis by independent actuaries. Components of defined benefit costs are service cost, net interest result and remeasurement of pension obligations. Service cost includes the increase in current service cost, past service cost (plan amendments or curtailments) and settlements and is reported under personnel expenses. The net interest result is calculated on the net amount of the defined benefit obligation and plan assets using the discount rate and is reported in the financial result. The remeasurement of pension benefit obligations include actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and is recognised immediately in the statement of comprehensive income in other comprehensive income. Likewise, this position includes the return on plan assets and asset ceiling effects.

24 Financial debts

Current and non-current financial debts consist of promissory note loans, syndicated loans, bank loans and mortgages. Financial debts are initially recognised at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial debt, using the effective interest method.

25 Leases

Leases of property, plant and equipment where Arbonia has substantially all the risk and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in finance lease liabilities. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the assets' useful lives and the lease term unless there is reasonable certainty that ownership will be obtained by the end of the lease term.

Payments made under operating leases are charged on a straight-line basis over the term of the lease to the income statement as other operating expenses.

26 Deferred income tax

Deferred income tax is 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, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by Arbonia and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets including unused tax loss carryforwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The book value of capitalised deferred income tax assets is assessed for impairment at each balance sheet date and a loss is recognised in case of insufficient future taxable profit.

27 Share based payment

Members of the Board of Directors and Group Management as well as certain employees participate in a share based payment plan. The fair value of the equity compensation instruments granted to employees is estimated at the grant date and recorded over the service period to the income statement as personnel expenses with a corresponding offsetting entry to equity.

28 Shareholders' equity

The share premium relates to the Company going public back in 1988 and the capital increases in 2007, 2009, 2015, 2016 and 2017. Retained earnings include also remeasurements of employee benefit obligations.

Treasury shares are deducted from shareholders' equity. The cost of these treasury shares and the consideration received from the sale of these instruments (net of transaction cost and taxes) are recorded directly in shareholders' equity.

29 Income statement

Net revenue

The Heating, Ventilation and Air Conditioning Division (HVAC) generates its sales in the heating technology sector by selling individual product components as well as complete system solutions for residential, commercial and public construction. In the ventilation and air conditioning sector, the product portfolio includes fan coils, ceiling systems, air heaters and ventilation units, as well as systems for residential, commercial and industrial buildings. In addition, radiators, underfloor heating systems, heating walls and underfloor convectors are sold.

The Sanitary Equipment Division generates its sales through the sale of shower areas, shower enclosures and shower stalls for individual bathroom situations.

Contracts within these divisions may include several different products which qualify as separate performance obligations. The performance obligation is generally fulfilled when the customer has received delivery. The individual products of a contract are delivered at the same time. It is therefore not necessary to allocate the transaction price to the individual performance obligations. At the time of delivery the invoice is issued and hence a recognition of a contract asset is not required. Revenue is therefore recognized at a point in time. Production in the HVAC and Sanitary Equipment divisions is based on short-term series production. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component. The timing of revenue recognition for the HVAC and Sanitary Equipment divisions has not changed compared to prior year.

The Windows Division generates its sales through the sale of windows and window systems, including exterior doors, in a wide variety of designs and configurations.

The Doors Division generates its sales by selling interior and functional doors in a wide variety of designs and configurations.

The above-mentioned divisions are resellers/commercial dealers on the one hand and operate in the project business on the other hand. The project business is characterised by long-term contracts which partially have a duration of over one year. The businesses of resale/commercial deals and the project business always consist of one single performance obligation.

The performance obligation in the resale/commercial business is fulfilled when the customer has received the delivery. As a result of that, an invoice is issued and hence recognition of a contract asset is not required. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component. The timing of revenue recognition for the resale/commercial business has not changed compared to prior year.

The performance obligation in the project business is progressively satisfied over the period of the provided services (planning, production, assembly, acceptance) using the cost-to-cost method. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Revenue is recognised in proportion to the contract costs incurred. Therefore, revenue is recognised over the term of a contract.

If revenue is recognised as mentioned before, but the expected amount of consideration has not yet been invoiced, then a contract asset is recognised due to the conditional right to consideration. Accounts receivable from project business are recognised when the right to the consideration becomes unconditional. The right becomes unconditional when an acceptance protocol is signed and accordingly the invoice is issued to the customer. Payment periods customary in the industry are granted unless special payment periods have been agreed. The contract liability relates to contracts whose partial payments exceed the stage of completion or the revenue already recognised respectively, on a net contract-by-contract basis. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied. Based on the analysed order durations, there are no significant financing components.
The treatment of loss-making contracts occurs regardless of the stage of completion by recognising a provision amounting to the total contract loss resulting from the total budgeted costs not covered by the total amount of the transaction price. Variable considerations such as discounts or construction rebates which can be measured reliably, are deducted from the transaction price at the beginning of the contract term. The allocation of the transaction price to the separate performance obligations is not required because of the existence of only one performance obligation in the project business.

Revenue recognition has changed significantly for the project business, as revenue was recognised at a certain point in time prior to the introduction of IFRS 15.

Net revenues are reported net of sales or value-added taxes and are shown net of sales deductions.

Cost incurred in the course of initiating or fulfilling a contract with a customer is not capitalised.

Revenues from contracts with customers are broken down by category in the segment reporting. Segment reporting also shows a breakdown of revenues recognised at a point in time and satisfied over time.

Other operating income
Other operating income is recognised when the service has been rendered and comprises amongst others proceeds from the sale of scrap metal, service income, license income, rental income and gains on the sale of investment property and property, plant and equipment.

EBITDA
EBITDA shows earnings before financial results, tax, depreciation and amortisation on non-current assets.

EBITA
EBITA shows earnings before amortisation of intangible assets from acquisitions, financial results and tax.

EBIT
EBIT shows earnings before financial results and tax.

Financial income
Financial income comprises amongst others interest income, dividend and security income and foreign exchange gains. Furthermore, cumulative gains of exchange differences resulting from the disposal or the liquidation of subsidiaries, transferred from equity, are also included. Interest income is recognised on a time-proportion basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Financial expenses
Financial expenses primarily include interest expenses, minority share from associated companies, impairment of loans, bank charges and foreign exchange losses. Furthermore, cumulative losses of exchange differences resulting from the disposal or the liquidation of subsidiaries, transferred from equity, are also included. Interest expenses are recognised using the effective interest method. Foreign exchange gains and losses are shown on a net basis.

30 Significant accounting judgments, estimates and assumptions

All estimates and judgements 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. Arbonia makes judgments, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The judgments, 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.

Revenue recognition

Determination of the transaction price: With regards to sales recognised at a point in time, the variable considerations are taken into account as sales deductions. These can be reliably measured at the time the performance obligation is fulfilled.
With regards to sales recognised over time, variable considerations such as discounts or construction rebates which can be measured reliably are deducted from the transaction price at the beginning of the contract term. In this way, these revenue reductions can be realised proportionally to the revenue recognition over the contract term. For reasons of materiality, it is not necessary to adjust the consideration for the time value of money or to measure non-cash consideration.
The assessment of right of return, refund and similar obligations is not necessary as they do not constitute an integral part of Arbonia's business.

Allocation of the transaction price: It is not necessary to allocate the transaction price to the individual performance obligations because there is only one performance obligation or, if there are several performance obligations, the time of fulfilment of the obligations is the same.

Revenue recognition: With regards to performance obligations that are fulfilled at a point in time, there are no significant estimates when assessing the point in time. Revenue is recognised when the goods are delivered to the customer.
In project business, sales are realised over a period of time. Arbonia determines the stage of completion by using the cost-to-cost method. In Arbonia's opinion, this method best depicts the transfer of control of the products to the customer. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Changes due to post calculations and actively managed project controlling are taken into account when determining the stage of completion. Such changes in estimates are recognised prospectively. Costs for future activities, such as costs for materials not yet installed or inefficiencies due to revisions (error costs), are charged directly to the income statement and are not included in the calculation of the stage of completion. Revenue is recognised proportionally as costs are incurred. If the expected margin cannot be measured reliably, then revenue is recognised only in the amount of costs incurred.

Inventory provisionn

In order to determine the adequacy of the inventory provision, factors such as expected sales prices, inventory turnover and coverage days of inventory are considered. As of 31 December 2018, the carrying amount of inventory was at CHF 168.4 million. Therein a provision for inventories of CHF 20.2 million is included. A falling market demand or falling sales prices could lead to additional provisions needed. For further information on the inventory provision, see note 34.

Useful lives for property, plant and equipment

Arbonia has a significant amount of its assets invested in property, plant and equipment. As of 31 December 2018, the carrying amount of property, plant and equipment totalled CHF 578.0 million. At the time of the purchase useful lives for such assets are based on estimates, as technical obsolescence or competition could lead to shorter useful lives than initially anticipated. Therefore the determination of useful lives is based on stringent standards and thereafter continuously reviewed and if necessary adjusted. A change in estimate could impact the level of future depreciation charges. For further information on property, plant and equipment, see note 37.

Estimated impairment of goodwill

As of 31 December 2018, the carrying amount of goodwill was at CHF 204.1 million. Arbonia tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as expected future cash flows, margins, discount rates and growth rates. These estimates could change or differ from the actual outcome and therefore lead to additional impairments. For further information on goodwill, see note 39.

Intangible assets acquired in a business combination

Brands, technologies, client relationships and distribution channels are amortised over their estimated useful lives. This involves the use of estimates and assumptions on expected future cash flows such as sales prices, margins, discount rates, attrition rates of clients and technological development which of course are exposed to some uncertainties. As of 31 December 2018, the carrying amount of intangible assets acquired in a business combination amounted to CHF 200.2 million. For further information on such acquired intangible assets, see note 39.

Provisions

Provisions are recognised based on the criteria as set out under note 22. As of 31 December 2018, the carrying amount of the provisions totalled CHF 37.4 million. In estimating the amount of provision, assumptions are used and depending on the outcome of the various business transactions, the actual cash outflow and its timing could significantly differ from the booked provision. For further information on provisions, see note 44.

Employee benefit obligations

Employee benefit obligations for defined benefit plans are based on actuarial valuations, which use statistical calculations and actuarial assumptions (see note 23). Such assumptions include amongst others discount rates, future salary and pension increases, probable turnover rates as well as life expectancy of plan participants. The assumptions underlying these calculations are dependent on a number of prospective factors, therefore actual results could significantly differ from the original valuations and as a consequence impact the carrying amount of capitalised pension surplus and employee benefit obligation. As of 31 December 2018, the underfunding amounted to CHF 5.1 million, thereof CHF 44.6 million recorded in the balance sheet as capitalised pension surplus and CHF 49.7 million as employee benefit obligation. For further information on employee benefit obligation, see note 46.

Income taxes

Arbonia is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Arbonia recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax assets, including those on tax loss carryforwards and expected tax credits, are only recognised if it is probable that they can be used by future taxable profits. The assessment of the recoverability of those deferred tax assets is therefore based on estimates, which could differ from actual results and consequently lead to valuation allowances. As of 31 December 2018, the carrying amount of deferred tax assets before offsetting totalled CHF 26.7 million. For further information on income taxes, see notes 45 and 52.

C Explanation to certain positions of the consolidated financial statements

31 Segment information

With effect from 1 January 2018, Arbonia is organised into the divisions or segments HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. As a result of the splitting of the former Building Technology Division into the two new segments HVAC and Sanitary Equipment, prior year figures of the segment information have been restated. Corporate Services consist of service, finance, real estate and investment companies and provide their services almost entirely to Group companies. They have not been allocated to an operating segment and are therefore shown separately.

For the monitoring and assessment of the financial performance, EBITDA, EBITA and EBIT are pivotal key measures. However, Group Management and the Board of Directors also are provided with financial data down to the line item "result after income tax" by operating segment. The segments apply the same accounting policies as the Group. Purchases, sales and services between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. Income and expenses between segments are eliminated on consolidation and disclosed in "Eliminations".

Segment assets and liabilities include all assets, liabilities and intercompany transactions. Goodwill has been allocated to the respective segments.

HVAC Division
The Heating, Ventilation and Air Conditioning Division is a leading and highly integrated provider to the industry. Under the main brands – Kermi, Arbonia, Prolux, Sabiana, Vasco, Superia and Brugman – it sells its wide product range across Europe. Production takes place in Germany, the Czech Republic, Italy, Belgium, the Netherlands, Poland and Russia. On an international scale, the division has its own distribution companies in Switzerland, France, Spain, Great Britain, Denmark and China.

Sanitary Equipment Division
The Sanitary Equipment Division is one of the leading providers of shower solutions in Europe and markets the Kermi, Koralle, Bekon-Koralle and Baduscho brands in its target markets through its own distribution networks and dealer structures. Production takes place in Germany and Switzerland.

Windows Division
The Windows Division with the brands EgoKiefer, Slovaktual, Dobroplast and Wertbau is one of the largest international European window and door manufacturers. The division develops, produces, assembles and sells a full range of windows and exterior doors. The products are made of materials such as wood, synthetics and aluminium and are manufactured in own plants in Slovakia, Poland, Germany and Switzerland.

Doors Division
The Doors Division owns the brands RWD Schlatter, Prüm, Garant, Invado and TPO. RWD Schlatter is specialized in the production of special wooden doors for interiors. Prüm and Garant are among the leading manufacturers of interior doors and door frames in Europe and Invado to the leading suppliers of interior doors and door frames in Poland. The products are developed and produced in Switzerland, Germany and Poland.

Corporate Services
Corporate Services consists of service, finance, real estate and investment companies and provide their services almost entirely to Group companies.

	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group
								2018
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Sales with third parties at point in time	505 496	144 797	245 131	291 540	1 186 964	3		1 186 967
Sales with third parties over time			121 106	65 934	187 040			187 040
Sales with other segments	2		27	15	44		-44	
Net revenues	**505 498**	**144 797**	**366 264**	**357 489**	**1 374 048**	**3**	**-44**	**1 374 007**
Segment results I (EBITDA)	**46 933**	**11 705**	**19 740**	**39 637**	**118 015**	**12 438**	**47**	**130 500**
in % of net revenues	*9.3*	*8.1*	*5.4*	*11.1*	*8.6*			*9.5*
Depreciation and amortisation	-18 408	-2 490	-15 155	-10 671	-46 724	-1 717		-48 441
Reversal of impairment on property, plant and equipment			1 928		1 928			1 928
Impairment property, plant and equipment	-2 587	-244	-1 351		-4 182			-4 182
Segment results II (EBITA)	**25 938**	**8 971**	**5 162**	**28 966**	**69 037**	**10 721**	**47**	**79 805**
in % of net revenues	*5.1*	*6.2*	*1.4*	*8.1*	*5.0*			*5.8*
Amortisation of intangible assets from acquisitions	-3 122	-1 799	-3 615	-10 290	-18 827			-18 827
Segment results III (EBIT)	**22 816**	**7 172**	**1 547**	**18 676**	**50 210**	**10 721**	**47**	**60 978**
in % of net revenues	*4.5*	*5.0*	*0.4*	*5.2*	*3.7*			*4.4*
Interest income	162	46	1 025	70	1 303	7 186	-7 930	559
Interest expenses	-4 208	-437	-2 700	-2 566	-9 911	-2 987	7 999	-4 899
Minority share from associated companies			-715		-715			-715
Other financial result	-1 615	-1 125	-498	-1 186	-4 423	11 961	-13 652	-6 114
Result before income tax	**17 154**	**5 656**	**-1 340**	**14 994**	**36 464**	**26 881**	**-13 536**	**49 809**
Income tax expense	-4 273	-1 093	1 806	-2 221	-5 781	-5 341		-11 122
Result after income tax	**12 881**	**4 563**	**466**	**12 773**	**30 683**	**21 540**	**-13 536**	**38 687**
Average number of employees	**2 609**	**798**	**2 859**	**1 869**	**8 134**	**64**		**8 198**
Total assets	**558 675**	**110 831**	**280 178**	**495 171**	**1 444 855**	**1 095 826**	**-1 029 070**	**1 511 611**
thereof associated companies			2 672		2 672			2 672
Total liabilities	**308 953**	**59 495**	**185 983**	**196 951**	**751 382**	**255 908**	**-383 540**	**623 750**
Purchases of property, plant and equipment, investment properties and intangible assets [1]	**61 776**	**9 594**	**28 835**	**34 193**	**134 398**	**1 555**		**135 953**

[1] without acquisition of subsidiaries

In the HVAC Division, impairment property, plant and equipment mainly includes an impairment of machinery in connection with the relocation and closure of a production site in Belgium. In the Windows Division, the impairment and reversal of impairment of property, plant and equipment mainly relates to two similar production machines from the relocation of production from Switzerland to Slovakia. The originally planned machine had to be taken out of service and replaced by a machine which had been impaired in 2015.

restated								2017
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Sales with third parties	408 290	146 675	350 965	339 953	1 245 883	-318		1 245 565
Sales with other segments	24		7		31		-31	
Net revenues	**408 314**	**146 675**	**350 972**	**339 953**	**1 245 914**	**-318**	**-31**	**1 245 565**
Segment results I (EBITDA)	**50 119**	**14 028**	**29 735**	**36 688**	**130 570**	**-11 032**	**768**	**120 306**
in % of net revenues	*12.3*	*9.6*	*8.5*	*10.8*	*10.5*			*9.7*
Depreciation and amortisation	-13 981	-2 301	-11 168	-10 100	-37 550	-1 976		-39 526
Reversal of impairment on property, plant and equipment	591		64		655			655
Impairment property, plant and equipment/investment properties						-1 009		-1 009
Segment results II (EBITA)	**36 729**	**11 727**	**18 631**	**26 588**	**93 675**	**-14 017**	**768**	**80 426**
in % of net revenues	*9.0*	*8.0*	*5.3*	*7.8*	*7.5*			*6.5*
Amortisation of intangible assets from acquisitions	-2 140	-1 796	-3 586	-11 643	-19 165			-19 166
Segment results III (EBIT)	**34 589**	**9 931**	**15 045**	**14 945**	**74 510**	**-14 017**	**768**	**61 260**
in % of net revenues	*8.5*	*6.8*	*4.3*	*4.4*	*6.0*			*4.9*
Interest income	112	45	62	58	277	9 100	-8 576	801
Interest expenses	-2 434	-307	-4 445	-2 647	-9 833	-6 381	7 955	-8 259
Minority share from associated companies			-1 244		-1 244			-1 244
Other financial result	-3 047	216	-3 197	-1 886	-7 915	69 130	-63 406	-2 191
Result before income tax	**29 220**	**9 884**	**6 221**	**10 469**	**55 794**	**57 832**	**-63 259**	**50 367**
Income tax expense	-7 694	-1 255	-1 155	-3 378	-13 482	670	-7	-12 819
Result after income tax	**21 526**	**8 629**	**5 066**	**7 091**	**42 312**	**58 502**	**-63 266**	**37 548**
Average number of employees	**2 200**	**819**	**2 859**	**1 811**	**7 689**	**65**		**7 754**
Total assets	**411 614**	**111 191**	**289 714**	**536 801**	**1 349 320**	**1 073 904**	**-1 054 278**	**1 368 946**
thereof associated companies			5 786		5 786			5 786
Total liabilities	**215 254**	**54 663**	**253 605**	**182 788**	**706 310**	**231 777**	**-397 311**	**540 776**
Purchases of property, plant and equipment, investment properties and intangible assets [1]	**38 073**	**7 074**	**26 756**	**23 165**	**95 068**	**1 400**		**96 468**

[1] without acquisition of subsidiaries

The reconciliation of the continuing and discontinued operations to the segment information disclosed in the 2017 consolidated financial statements is as follows:

					2017
	Continuing operations	Discontinued operations Industrial Services	Discontinued operations Profile Systems	Others and eliminations	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	**1 245 565**	**56 326**	**76 566**	**–1**	**1 378 456**
Segment results I (EBITDA)	**120 306**	**11 018**	**8 473**	**768**	**140 565**
in % of net revenues	*9.7*	*19.6*	*11.1*		*10.2*
Segment results II (EBIT)	**61 260**	**3 036**	**7 286**	**766**	**72 348**
in % of net revenues	*4.9*	*5.4*	*9.5*		*5.2*
Interest result	–7 458	–162	24	98	–7 498
Other financial result	–3 435	–148	–652	2 274	–1 961
Result before income tax	**50 367**	**2 726**	**6 658**	**3 138**	**62 889**
Income tax expense	–12 819	–1 079	–1 236		–15 134
Result after income tax	**37 548**	**1 647**	**5 422**	**3 138**	**47 755**
Total assets	**1 368 946**		**44 845**		**1 413 792**
Total liabilities	**540 776**		**10 579**		**551 355**

The segment results of continuing operations included intra-group expenses concerning allocation of costs on the discontinued operations, that had been incurred by the group despite the abandonment of the discontinued operations. This led to a discharge for the discontinued operations. Discontinued operations already included sales costs in 2017.

Information about geographical areas

				2018
	Switzer-land	Germany	Other countries	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	355 549	552 949	465 509	1 374 007
Property, plant and equipment, investment properties, intangible assets and goodwill	100 532	475 450	422 450	998 432

				2017 (restated)
	Switzer-land	Germany	Other countries	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	346 553	512 160	386 852	1 245 565
Property, plant and equipment, investment properties, intangible assets and goodwill	118 990	442 376	344 290	905 656

Major customers

Arbonia has no customer who generates more than 10% of the Group's net revenues (see also paragraph credit default risk in note 53).

32 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
CHF	26 105	46 960
EUR	27 123	15 833
PLN	7 365	2 627
USD	196	124
GBP	62	454
CZK	2 114	1 759
RUB	5 341	12 122
others	2 571	2 824
Total	**70 877**	**82 703**

The effective interest on bank deposits is 0.0% (2017: 0.0%).

33 Accounts receivable/ contract balances

Accounts receivable

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Accounts receivable	150 933	138 745
Allowance for accounts receivable	– 15 443	– 12 358
Total	**135 490**	**126 387**
thereof accounts receivable project business	30 338	

The allowance for accounts receivable includes expected credit losses and cash discounts.

The ageing analysis is as follows:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Not yet due	108 314	109 134
Overdue up to 30 days	16 119	9 447
Overdue more than 30, less than 60 days	4 795	2 856
Overdue more than 60, less than 90 days	1 994	1 377
Overdue more than 90, less than 180 days	2 034	2 098
Overdue more than 180, less than 360 days	1 840	764
Overdue more than 360 days	394	711
Total accounts receivable, net	**135 490**	**126 387**

Outstanding accounts receivable amounting to CHF 15.6 million (2017: CHF 16.4 million) were secured and mainly consist of credit insurances. No allowances are made on the secured receivables.

The expected credit losses on accounts receivable developed as follows:

	2018
	in 1 000 CHF
Balance at 01/01	–7 077
Foreign exchange differences	322
Changes in scope of consolidation	–1 279
Additional allowances	–3 211
Used during year	377
Unused amounts reversed	637
Balance at 31/12	–10 230

	2017
	in 1 000 CHF
Balance at 01/01	–10 456
Foreign exchange differences	–785
Changes in scope of consolidation	376
Additional allowances	–6 845
Used during year	5 001
Unused amounts reversed	73
Reclassification to assets held for sale	278
Balance at 31/12	–12 358
thereof cash discounts	–5 281
thereof expected credit losses	–7 077

Since February 2010 Arbonia sells receivables under a factoring agreement. Because Arbonia neither transfers nor retains substantially all the risks and rewards of ownership and still retains control, the receivables have to be recorded in the balance sheet to the extent of the so-called continuing involvement. In particular the late payment risk is completely retained by Arbonia up until a certain point in time. As of 31 December 2018 the book value of the transferred receivables amounted to CHF 14.6 million (2017: CHF 14.0 million). Thereof Arbonia already received from the factor CHF 12.7 million (2017: CHF 11.7 million) of cash and the difference of CHF 1.9 million (2017: CHF 2.3 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2017: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2017: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2018 to CHF 0.002 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.02 million.

Contract balances

	31/12/2018
	in 1 000 CHF
Contract assets project business	27 968
Total contract assets	**27 968**
Contract liabilities project business	1 451
Other advance payments by customers	5 250
Total contract liabilities	**6 701**

The contract balances project business result from Arbonia's longer-term contracts. Revenues recognised over the term of a contract are shown as contract assets. Contract assets are presented on a net contract-by-contract basis, e.g. less the received partial payments. As soon as the acceptance protocol is signed, the final invoice is issued and the items are transferred to accounts receivable. The movement in the contract assets is as follows:

	2018
	in 1 000 CHF
Balance at 01/01	
Restatement IFRS 15 [1]	15 894
Reclassification of contract assets existing at the beginning of the period to accounts receivable	-14 514
Revenue recognition on projects in progress as of the balance sheet date based on percentage of completion	48 786
Offset against contract liabilities due to partial payments received	-22 197
Balance at 31/12	**27 968**

[1] see note 2 "First time adoption of IFRS 15"

The contract liabilities project business relate to contracts whose partial payments exceed the stage of completion. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied. The movement in the contract liabilities project business is as follows:

	2018
	in 1 000 CHF
Balance at 01/01	
Restatement IFRS 15 [1]	1 827
Revenue recognised from amounts included in the contract liabilities at the beginning of the period	-1 568
Partial payments received for projects in progress at the balance sheet date	23 390
Offset against contract assets	-22 197
Balance at 31/12	**1 451**

[1] see note 2 "First time adoption of IFRS 15"

In 2018, there were no known default risks and therefore no need for specific allowances on contract assets. The expected credit losses are estimated to be insignificant and therefore no allowance was made.

There have been no general changes in the timeframe until an enforceable right for consideration or a performance obligation is fulfilled.

The expected revenues to be recognised on the current order backlog are as follows:

	within 1 year	in 1-2 years	after 2 years
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2018	110 859	5 797	2 254

These amounts only include contracts of project business with an expected original duration of more than one year.

34 Inventories

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Raw material and supplies	94 163	73 432
Semi-finished and finished goods	67 250	87 656
Goods purchased for resale	6 927	7 085
Prepayments	84	385
Total	**168 424**	**168 558**

A provision of CHF 20.2 million (2017: CHF 15.3 million) has been provided for obsolete and slow-moving items and is deducted from inventories. 2018 and 2017, there are no inventories written down to the net realisable value and no write-downs to net realisable value were recorded.

35 Financial assets

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Investments < 20 %	3 721	
Investments in associated companies > 20 % < 50 %	2 672	5 786
Other financial assets	91	417
Loans	10 050	4 004
Total	**16 534**	**10 207**
thereof disclosed as current assets	10 047	

As of 12 September 2018, Arbonia acquired a minority share of the German KIWI-KI GmbH, DE-Berlin. The purchase price amounted to CHF 3.7 million. The company develops keyless entry systems for house and apartment doors.

Associated companies

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**5 786**	**4 173**
Foreign exchange differences	-351	503
Acquisition of associated companies		2 354
Sale of associated companies	-2 048	
Minority share from associated companies	-715	-1 244
Balance at 31/12	**2 672**	**5 786**

As of 14 August 2018, Arbonia sold its minority share of 31% in the Austrian window manufacturer Gaulhofer back to the former owner for CHF 2.6 million.

As of 30 March 2017, Arbonia acquired a 35% minority share of a German online windows dealer through payment of CHF 2.4 million. Arbonia can exercise a call option to acquire the remaining shares in 2021 or 2022. The current shareholders can exercise in 2022 or 2023 their put option to sell the remaining shares.

Subsequently, the financial information of these associated companies is disclosed in condensed form, whereby Gaulhofer is only included up to the date of its disposal.

Associated companies – Balance sheet

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Current assets	2 666	23 822
Non-current assets	1 162	10 036
Total assets	**3 828**	**33 858**
Current liabilities	1 857	18 674
Non-current liabilities	264	9 781
Shareholders' equity	1 707	5 404
thereof other comprehensive income		-48
Total liabilities and shareholders' equity	**3 828**	**33 858**

Associated companies – Income statement

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Net revenues	45 218	72 992
Group results after taxes	-2 506	-4 007

Business transactions with associated companies

Sale of goods and services	3 436	4 276
Purchase of services		110
Receivables at balance sheet date	88	87
Liabilities at balance sheet date	21	

Loans

Loans resulting from the sale of a company by the Looser Group were sold under an agreement dated 20 December 2018. Accordingly, the loan was reclassified to other current assets as of 31 December 2018 and payment was received on 14 January 2019.

In July 2018, Arbonia AG granted Arbonia Vorsorge an interest-bearing, repayable loan of CHF 10 million. In January 2019, a large portion of the loan was repaid.

In the first half of 2018, the loan of CHF 3.9 million from the sale of the property of AFG Warendorfer Immobilien GmbH in 2013 and partially impaired in 2016 was repaid. The transaction resulted in a gain of CHF 1.5 million, which is included in the financial result under other financial income. In the statement of cash flow the cash inflow is shown in the position repayment of financial assets.

A fully impaired loan originates from the sale of the kitchen business in 2014. As a result of the published insolvency of the debtor, the remaining loan of CHF 1.2 million was written-off in 2017.

The ageing analysis for loans is as follows:

	31/12/2018	
	Gross amount loans	thereof not impaired
	in 1 000 CHF	in 1 000 CHF
Not yet due	10 047	10 047
Overdue up to 30 days	3	3
Overdue more than 360 days	3 000	
Total	**13 050**	**10 050**

	31/12/2017	
Not yet due	5 758	4 004
Overdue more than 30, less than 60 days	600	
Overdue more than 60, less than 90 days	1 200	
Overdue more than 90, less than 180 days	1 200	
Total	**8 758**	**4 004**

As of the balance sheet date, Arbonia has no secured loans (2017: CHF 4.1 million).

Activity in the impairment of loans account, which is disclosed in the income statement under financial results, is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**-4 754**	**-3 410**
Foreign exchange differences	22	-144
Additional allowances		-1 200
Used during year	231	
Unused amounts reversed	1 982	
Reclassification to other current assets	-481	
Balance at 31/12	**-3 000**	**-4 754**

In the impairment of loans, specific impairments of CHF 3.0 million (2017: CHF 4.8 million) are included.

36 Non-current assets held for sale and discontinued operations

On 14 December 2017, a contract for the sale of the business unit Profile Systems was signed between Arbonia and Belgian Reynaers Group. The closing of the transaction occurred as of 22 January 2018. In accordance with IFRS 5, Arbonia reported the business unit Profile Systems as of 31 December 2017 as discontinued operations.

Likewise Arbonia reported the business unit Industrial Services, which was sold as of 12 December 2017, as discontinued operations. In the consolidated balance sheet as of 31 December 2017, assets and liabilities of the discontinued operations Profile Systems and remaining parts of the segment Coatings, were disclosed in the respective held for sale asset and liability positions.

Assets held for sale and discontinued operations

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents	237	6 196
Accounts receivable		8 591
Other current assets		1 001
Inventories		13 429
Accrued income		876
Current income tax receivables		58
Property, plant and equipment		5 567
Intangible assets		2 919
Deferred income tax assets		23
Capitalised pension surplus		6 238
Assets of the segment Coatings		2 827
Total	**237**	**47 725**

One property in Switzerland was sold in the first half of 2018, resulting in a gain of CHF 4.4 million. The property was reclassified from property, plant and equipment to assets held for sale prior to disposal.

Liabilities associated with assets held for sale and discontinued operations

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Accounts payable		2 959
Advance payments by customers		87
Other liabilities		742
Financial debts		1
Accruals and deferred income	54	2 054
Current income tax liabilities	17	774
Provisions	300	378
Deferred income tax liabilities		3 232
Employee benefit obligations		353
Liabilities of the segment Coatings		2 144
Total	**371**	**12 724**

Sold operations 2018

Disposal of Profile Systems

	2018
	in 1 000 CHF
Assets	
Cash and cash equivalents	6 196
Accounts receivable	9 681
Other current assets	1 623
Inventories	13 326
Deferred expenses	895
Current income tax receivables	60
Property, plant and equipment	5 515
Intangible assets	2 919
Deferred income tax assets	23
Capitalised pension surplus	4 543
Financial assets	21
Total assets	**44 802**
Liabilities	
Accounts payable	3 048
Advance payments by customers	87
Other liabilities	743
Accruals and deferred income	2 063
Current income tax liabilities	774
Provisions	378
Deferred income tax liabilities	1 869
Employee benefit obligations	353
Total liabilities	**9 315**
Net assets	**35 487**
Cash and cash equivalents disposed	-6 196
Net assets excluding cash and cash equivalents	**29 291**
Gain on disposal	7 208
Net cash inflow from disposal	**36 499**

The sale of the business unit Profile Systems on 22 January 2018 resulted in a disposal gain of CHF 7.2 million. From the sale of this business unit, accumulated currency translation differences in the amount of CHF 0.3 million resulted, which have been transferred from equity to the income statement and debited to the financial result from discontinued operations.

Disposal of Coatings

In 2018, the second instalment from the deferred purchase price of CHF 2.5 million from the sale of the Coatings segment was paid on time. This cash inflow is contained in the cash flow statement under disposal of subsidiaries.

Discontinued and sold operations 2017

Disposal of Industrial Services

	2017
	in 1 000 CHF
Assets	
Cash and cash equivalents	4 467
Accounts receivable	6 555
Other current assets	395
Inventories	11 226
Deferred expenses	166
Property, plant and equipment	72 005
Intangible assets	41 479
Total assets	**136 293**
Liabilities	
Accounts payable	3 487
Other liabilities	2 314
Financial debt	9 975
Accruals and deferred income	4 317
Current income tax liabilities	470
Provisions	39
Deferred income tax liabilities	16 979
Employee benefit obligations	4 169
Total liabilities	**41 750**
Net assets	**94 543**
Cash and cash equivalents disposed	-4 467
Net assets excluding cash and cash equivalents	**90 076**
Gain on disposal	3 326
Net cash inflow from disposal	**93 402**

On 03 July 2017, Arbonia announced its intention to consider new owners for the business unit Industrial Services. On 13 November 2017, Arbonia and German Paragon Partners signed a contract for the sale of this business. The closing of the transaction occurred on 12 December 2017. From the sale of this operation, accumulated currency translation differences in the amount of CHF 0.3 million resulted, which have been transferred from equity to the income statement and credited to the financial result of discontinued operations.

Disposal of Coatings

	2017
	in 1 000 CHF
Assets	
Cash and cash equivalents	14 534
Other current assets	55 280
Non-current assets	82 495
Total assets	**152 309**
Liabilities	
Current liabilities	27 427
Non-current liabilities	5 753
Total liabilities	**33 180**
Net assets	**119 129**
Cash and cash equivalents disposed	-14 534
Net assets excluding cash and cash equivalents	**104 595**
Deferred purchase price payment	-2 486
Gain on disposal	1 295
Net cash inflow from disposal	**103 404**

On 9 August 2016, the Looser Group announced its intention to begin the sales process of the segment Coatings. Arbonia therefore disclosed the segment Coatings in accordance with IFRS 5 as discontinued operations. On 26 June 2017, the last business of the Coatings segment was sold. The first of two instalments from the deferred purchase price of CHF 2.5 million was paid on time in November 2017. From the sale of this operation, accumulated currency translation differences in the amount of CHF 0.1 million resulted, which have been transferred from equity to the income statement and credited to the financial result of discontinued operations.

Result from discontinued operations

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Net revenues		**181 627**
Other operating income		1 094
Capitalised own services		273
Changes in inventories of semi-finished and finished goods		-2 653
Cost of material and goods		-78 446
Personnel expenses		-50 787
Other operating expenses	-303	-35 412
EBITDA	**-303**	**15 696**
Depreciation, amortisation and impairments		-9 170
EBIT	**-303**	**6 526**
Financial result	23	260
Result from discontinued operations before income tax	**-280**	**6 786**
Income tax expense	411	-2 583
Result from discontinued operations	**131**	**4 203**
Gain on disposal of discontinued operations	7 208	4 621
Net result from discontinued operations	**7 339**	**8 824**

In 2018, costs abroad still were incurred for the sale of the Coatings segment and a tax provision was not utilised to the expected extent.

Discontinued operations include the results of the business unit Profile Systems for the entire 2017 financial year. The results of the business unit Industrial Services and Coatings are included in 2017 for the period up to the respective sale.

The results 2017 comprised sales costs for the disposal of the Coatings segment of CHF 6.0 million, of which CHF 1.0 million were included in personnel expenses and CHF 5.0 million in other operating expenses. The results 2017 comprised sales costs for the disposal of the business unit Industrial Services of CHF 2.5 million, of which CHF 0.6 million were included in personnel expenses and CHF 1.9 million in other operating expenses. From the sale of these two segments, accumulated currency translation differences in the amount of CHF 0.4 million resulted, which have been transferred from equity to the income statement and credited to the financial result.

In the consolidated cash flow statement, the cash flows from the discontinued operations are included, however, subsequently condensed and shown separately below.

Cash flow from discontinued operations

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Cash flows from operating activities	**-1 598**	**11 471**
Cash flows from investing activities	**28**	**-8 761**
Cash flows from financing activities		**-1 778**

Neither the cash inflows nor the sales costs from the three segments sold in 2017 and 2018 are included in the above table.

37 Property, plant and equipment

	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net book value at 01/01/2017	**226 650**	**124 263**	**61 308**	**47 713**	**459 934**
Cost					
Balance at 01/01/2017	**348 885**	**391 045**	**98 553**	**61 682**	**900 165**
Foreign exchange differences	25 126	32 498	4 608	5 931	68 163
Change in scope of consolidation	-17 860	404	-51 899	-5 333	-74 688
Additions	10 068	18 123	24 030	67 646	119 867
Disposals	-40 126	-30 441	-16 771	-1 058	-88 396
Reclassification to assets held for sale	-111	-38 161	-1 494	-1 310	-41 076
Reclassifications	20 317	35 273	1 957	-62 883	-5 336
Balance at 31/12/2017	**346 299**	**408 741**	**58 984**	**64 675**	**878 699**
Foreign exchange differences	-14 688	-16 509	-2 181	-6 353	-39 731
Change in scope of consolidation	38 513	17 636	553	1 660	58 362
Additions	19 558	23 155	6 252	83 910	132 875
Disposals	-4 284	-7 811	-4 958	-3 151	-20 204
Reclassification to assets held for sale	-11 003				-11 003
Reclassifications	8 754	23 632	1 895	-32 242	2 039
Balance at 31/12/2018	**383 149**	**448 844**	**60 545**	**108 499**	**1 001 037**

	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Accumulated depreciation					
Balance at 01/01/2017	**122 235**	**266 782**	**37 245**	**13 969**	**440 231**
Foreign exchange differences	8 225	19 963	2 937	1 119	32 244
Change in scope of consolidation	-294		-3 099		-3 393
Depreciation	8 500	24 015	11 648		44 163
Impairment	75				75
Reversal of impairment		-655			-655
Disposals	-29 774	-30 020	-6 909		-66 703
Reclassification to assets held for sale	-6	-34 739	-765		-35 510
Reclassifications	38	3 000	115	-5 959	-2 806
Balance at 31/12/2017	**108 999**	**248 346**	**41 172**	**9 129**	**407 646**
Foreign exchange differences	-3 762	-9 010	-1 377	-924	-15 073
Depreciation	9 592	29 441	5 803		44 836
Impairment	518	3 487	104	73	4 182
Reversal of impairment		-1 916	-12		-1 928
Disposals	-172	-7 356	-4 655	-73	-12 256
Reclassification to assets held for sale	-7 664				-7 664
Reclassifications		-2 892	-115	6 311	3 304
Balance at 31/12/2018	**107 511**	**260 100**	**40 920**	**14 516**	**423 047**
Net book value at 31/12/2017	**237 300**	**160 395**	**17 812**	**55 546**	**471 053**
Net book value at 31/12/2018	**275 638**	**188 744**	**19 625**	**93 983**	**577 990**
thereof under financial lease or with a purchase obligation	23 471	6 264	3 230		32 965
				Previous year	30 253

In addition to other smaller disposals, a property in Switzerland was sold in 2018, resulting in a sales gain of CHF 7.1 million.

In 2018, plant and machinery in the amount of CHF 0.4 million and other equipment in the amount of CHF 0.9 million (2017: CHF 0.7 million of other equipment) was acquired via finance lease. Assets under construction include CHF 0.8 million of capitalised borrowing costs (2017: CHF 0.1 million).

Future aggregate minimum lease payments

Arbonia has the following future minimum lease payments under non-cancellable leases:

			31/12/2018
	Operating leases	Finance leases	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
within 1 year	15 950	3 164	19 114
between 1 and 5 years	30 750	7 556	38 306
after 5 years	12 286	4 804	17 090
Total	**58 986**	**15 524**	**74 510**
Interest charge		-2 367	
Present value of finance leases		**13 157**	

			31/12/2017
	Operating leases	Finance leases	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
within 1 year	13 165	2 672	15 837
between 1 and 5 years	21 800	7 002	28 802
after 5 years	12 511	6 114	18 625
Total	**47 476**	**15 788**	**63 264**
Interest charge		-2 874	
Present value of finance leases		**12 914**	

The income statement contains expenses for operating leases of CHF 20.0 million (2017: CHF 17.2 million).

The largest lease contract in 2018 with a commitment of CHF 18.0 million relates to the rental of a production and office building in Germany and has a duration until 1 June 2027.

The maturities of the net present value from finance leases are as follows:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
within 1 year	2 617	2 010
between 1 and 5 years	6 155	5 546
after 5 years	4 385	5 358
Total	**13 157**	**12 914**

As of the balance sheet date, Arbonia had entered into the following capital commitments for the purchase of property, plant and equipment and intangible assets:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Property, plant and equipment	27 162	37 190
Intangible assets	238	763
Total	**27 400**	**37 953**

Land and buildings amounting to CHF 53.0 million (2017: CHF 55.0 million) are pledged to secure mortgages.

38 Investment property

	Investment property – land	Investment property – buildings	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net book value at 01/01/2017	**8 293**	**3 015**	**11 308**
Cost			
Balance at 01/01/2017	**8 973**	**49 563**	**58 536**
Foreign exchange differences	6	161	167
Additions		110	110
Disposals	–482	–8 593	–9 075
Reclassifications	2 786	998	3 784
Balance at 31/12/2017	**11 283**	**42 239**	**53 522**
Foreign exchange differences	–28	–138	–166
Change in scope of consolidation	479	2 393	2 872
Additions		8	8
Disposals	–6 894	–16 537	–23 431
Balance at 31/12/2018	**4 840**	**27 965**	**32 805**
Accumulated depreciation			
Balance at 01/01/2017	**680**	**46 548**	**47 228**
Foreign exchange differences	6	163	169
Depreciation		467	467
Impairment		933	933
Disposals	–187	–8 595	–8 782
Balance at 31/12/2017	**499**	**39 516**	**40 015**
Foreign exchange differences		–2	–2
Depreciation		434	434
Disposals		–14 457	–14 457
Balance at 31/12/2018	**499**	**25 491**	**25 990**
Net book value at 31/12/2017	**10 784**	**2 723**	**13 507**
Net book value at 31/12/2018	**4 341**	**2 474**	**6 815**
Fair values of investment properties at 31/12/2017			**25 466**
Fair values of investment properties at 31/12/2018			**14 006**

In 2018, an investment property in Switzerland was sold, resulting in a sales gain of CHF 14.2 million.

Rental income from investment properties amounted to CHF 2.8 million (2017: CHF 2.8 million) and is included in other operating income. Related direct operating expenses were CHF 0.7 million (2017: CHF 2.0 million) and are included in other operating expenses.

The fair values of investment properties are, in the hierarchy according to IFRS 13, assigned to level 3 for non-observable market data, since they are calculated on the basis of estimates that have been determined by independent external valuers and internal assessments.

39 Intangible assets

	Intangible assets from business combinations	Other intangible assets	Total	Goodwill
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net book value at 01/01/2017	**221 765**	**5 635**	**227 400**	**218 490**
Cost				
Balance at 01/01/2017	**282 988**	**34 572**	**317 560**	**299 206**
Foreign exchange differences	21 642	1 142	22 784	17 583
Change in scope of consolidation	–16 207	–910	–17 117	–23 955
Additions		2 798	2 798	
Disposals		–278	–278	
Reclassification to assets held for sale	–3 281	–2 276	–5 557	
Reclassifications		2 535	2 535	
Balance at 31/12/2017	**285 142**	**37 583**	**322 725**	**292 834**
Foreign exchange differences	–11 113	–658	–11 771	–8 050
Change in scope of consolidation	26 065	756	26 821	
Additions		3 070	3 070	
Disposals		–354	–354	
Reclassifications		1 484	1 484	
Balance at 31/12/2018	**300 094**	**41 881**	**341 975**	**284 784**
Accumulated amortisation				
Balance at 01/01/2017	**61 223**	**28 937**	**90 160**	**80 716**
Foreign exchange differences	3 782	765	4 547	
Change in scope of consolidation	–1 098	–255	–1 353	
Amortisation	20 575	2 657	23 232	
Disposals	18	–273	–255	
Reclassification to assets held for sale	–873	–1 765	–2 638	
Reclassifications		54	54	
Balance at 31/12/2017	**83 627**	**30 120**	**113 747**	**80 716**
Foreign exchange differences	–2 564	–418	–2 982	
Amortisation	18 827	3 170	21 997	
Disposals		–354	–354	
Reclassifications		8	8	
Balance at 31/12/2018	**99 890**	**32 526**	**132 416**	**80 716**
Net book value at 31/12/2017	**201 515**	**7 463**	**208 978**	**212 118**
Net book value at 31/12/2018	**200 204**	**9 355**	**209 559**	**204 068**

Of the intangible assets from business combinations, CHF 102.9 million (2017: CHF 104.8 million) relates to customer relationships, CHF 77.4 million (2017: CHF 74.6 million) to brands and CHF 15.8 million (2017: CHF 18.2 million) to technologies.

Expenses for research and development in the amount of CHF 15.2 million (2017: CHF 14.4 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. In the assets under construction of property, plant and equipment, there are capitalised development costs of CHF 0.9 million (2017: CHF 0.9 million under assets under construction) included. The additions under other intangible assets consist of CHF 0.8 million (2017: CHF 0.6 million) of own development costs and CHF 2.3 million (2017: CHF 2.2 million) of purchased or acquired items.

Goodwill

As of 31 December 2018 goodwill from business combinations is allocated to the Group's five cash-generating units (CGUs) Doors, Sanitary, Wertbau, Sabiana and Slovaktual.

The movements of the carrying amounts of goodwill during the reporting period were as follows:

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance at 31/12/2017	**152 960**	**14 647**	**3 376**	**25 560**	**15 575**	**212 118**
Foreign exchange differences	–6 381		–127	–959	–583	–8 050
Balance at 31/12/2018	**146 579**	**14 647**	**3 249**	**24 601**	**14 992**	**204 068**

Goodwill impairment tests 2018

The recoverability of goodwill is assessed annually towards year-end or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its value in use and its fair value less costs to sell.

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations used cash flow projections covering a five-year period. Cash flows beyond the five-year period were extrapolated using estimated growth rates. The underlying financial data consisting of one budget year and four plan years form part of the Group's medium term plan approved by the Board of Directors in autumn 2018 and were used for the impairment tests.

The value in use calculation for the annual 2018 impairment tests assumed the following key assumptions:

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
	in %	in %	in %	in %	in %
Budgeted gross margin	55.3	64.7	45.8	42.6	36.0
Growth rate	1.6	1.0	1.5	1.8	1.5
Discount rate	9.1	8.8	9.0	10.1	8.2

Budgeted gross margins are based on expectations for the market development and initiated optimisation measures. The growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2018 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 55.3% to 53.3% would result in an impairment of the CGU Doors amounting to CHF 59.1 million. At a budgeted gross margin of 54.3%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.6% to 1.1% would lead to an impairment of CHF 45.8 million. At a reduction of 5% in EBITDA and a simultaneous reduction of eternal growth to 1.3%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2017

The value in use calculation for the annual 2017 impairment tests assumed the following key assumptions:

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
	in %	in %	in %	in %	in %
Budgeted gross margin	54.0	64.0	47.2	44.1	38.1
Growth rate	0.9	1.0	1.0	1.5	1.0
Discount rate	9.2	8.9	9.4	10.2	8.5

Budgeted gross margins were determined based on expectations for the market development and initiated optimisation measures. The growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant CGUs.

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2017 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 54.0% to 52.0% would have resulted in an impairment of the CGU Doors amounting to CHF 53.9 million. At a budgeted gross margin of 53.0%, the recoverable amount would have been equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 0.9% to 0.4% would have led to an impairment of CHF 31.1 million. At a reduction of 6.5% in EBITDA and a simultaneous reduction of eternal growth to 0.7%, the recoverable amount would have been equal to their carrying amount.

40 Acquisitions

The following fair value of assets and liabilities has arisen from acquisitions as mentioned under note 3:

Acquisitions 2018

Vasco Gruppe

	Fair Value
	in 1 000 CHF
Assets	
Cash and cash equivalents	3 214
Accounts receivables	15 962
Other current assets	1 754
Inventories	19 680
Deferred expenses	724
Current income tax receivables	1 009
Property, plant and equipment	57 620
Investment property	2 871
Intangible assets	18 583
Deferred income tax assets	1 577
Financial assets	28
Total assets	**123 022**
Liabilities	
Accounts payable	12 857
Other liabilities	2 511
Financial debts	20 002
Finance lease liabilities	1 498
Accruals and deferred income	8 694
Current income tax liabilities	1 044
Provisions	3 264
Deferred income tax liabilities	10 241
Employee benefit obligations	704
Total liabilities	**60 815**
Net assets acquired	**62 208**
Cost of acquisition	
Purchase price	62 208
Total cost of acquisition	**62 208**
Net cash outflow was as follows:	
Purchase price	62 208
Cash and cash equivalents acquired	–3 214
Net cash outflow on acquisition	**58 993**

As of 16 May 2018, Arbonia acquired 100% of the shares of Belgian Vasco Group, BE-Dilsen. The group produces and sells steel panel and design radiators, underfloor heating and residential ventilation and is allocated to the HVAC Division. The purchase price amounted to CHF 62.2 million. From the date of acquisition, Vasco Group contributed CHF 58.8 million in net revenues and CHF 4.1 million in loss to the Group. This result includes the amortisation of intangible assets from the acquisition and costs, including necessary impairments on property, plant and equipment, for the restructuring of the Belgian site in Zedelgem announced at the end of November 2018, amounting to CHF 9.6 million. Had the acquisition taken place on 1 January 2018, net revenues for 2018 would have been CHF 101.3 million and the loss would have been CHF 4.2 million. The gross carrying amount of accounts receivable amounted to CHF 17.6 million, of which CHF 1.6 million were considered uncollectable. The acquisition-related costs amounted to CHF 1.1 million and are included in operating expenses in 2017 and 2018.

Tecnologia De Aislamiento Y Climatizacion S.L.

	Fair Value
	in 1 000 CHF
Assets	
Cash and cash equivalents	1 528
Accounts receivables	4 793
Other current assets	217
Inventories	1 858
Property, plant and equipment	743
Intangible assets	8 238
Financial assets	44
Total assets	**17 421**
Liabilities	
Accounts payable	2 132
Other liabilities	444
Financial debts	1 597
Current income tax liabilities	320
Provisions	58
Deferred income tax liabilities	1 874
Total liabilities	**6 424**
Net assets acquired	**10 997**

	Fair Value
	in 1 000 CHF
Cost of acquisition	
Purchase price	8 682
Deferred purchase price	2 315
Total cost of acquisition	**10 997**
Net cash outflow was as follows:	
Purchase price	8 682
Cash and cash equivalents acquired	-1 528
Net cash outflow on acquisition	**7 154**

As of 24 September 2018, Arbonia acquired 100% of the shares of Tecnologia de Aislamientos y climatizacion S.L., ES-Algete. Tecna already purchased goods from Sabiana and sold them in the Spanish market. The newly acquired company is allocated to the HVAC Division. The purchase price amounted to CHF 11.0 million which includes a deferred purchase price payment of CHF 2.3 million. A first tranche of CHF 1.1 million will mature on 30 September 2019, a second tranche of CHF 0.5 million on 31 March 2021 and the last tranche of CHF 0.7 million on 30 September 2022. The deferred purchase price payment serves as security for any claims Arbonia may have against the former owners. From the date of acquisition, Tecna contributed CHF 5.0 million in net revenues and CHF 0.6 million in profit to the Group. Had the acquisition taken place on 1 January 2018, net revenues would have been CHF 16.0 million and profit, including amortisation charges on intangible assets from acquisitions, would have been CHF 1.5 million. The gross carrying amount of accounts receivable amounted to CHF 4.85 million, of which CHF 0.05 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.2 million and are included in operating expenses in 2018.

Acquisitions 2017

TPO Holz-Systeme GmbH

	Fair Value
	in 1 000 CHF
Assets	
Cash and cash equivalents	208
Receivables	178
Inventories	997
Property, plant and equipment	575
Intangible assets	1 756
Total assets	**3 713**
Liabilities	
Liabilities	477
Financial debts	350
Provisions	97
Deferred income tax liabilities	500
Total liabilities	**1 424**
Net assets acquired	**2 290**
Cost of acquisition	
Purchase price	2 290
Total cost of acquisition	**2 290**
Net cash outflow was as follows:	
Purchase price	2 290
Cash and cash equivalents acquired	-208
Net cash outflow on acquisition	**2 081**

As of 31 January 2017, Arbonia acquired 100% of the shares of German TPO Holz-Systeme GmbH, DE-Leutershausen. The company is a specialised doors manufacturer and was allocated to the Doors Division. The purchase price amounted to CHF 2.3 million. From the date of acquisition, the company contributed CHF 3.1 million in net revenues and CHF 0.1 million in loss to the Group in 2017. The acquisition-related costs amounted to CHF 0.02 million and were included in operating expenses in 2017.

41 Financial debts

On 20 April 2018, Arbonia has taken up a promissory note loan in the amount of EUR 125 million with maturities of five, seven and ten years.

On 14 September 2016, Arbonia AG entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks, had a line of credit of CHF 100 million with a due date no later than 31 December 2017 and was used to finance the cash settlement of the Looser acquisition. The other line of credit of 400 million matured on 14 September 2021. However due to the sale of the business unit Industrial Services in 2017, the credit line was reduced to CHF 350 million. Due to the sale of the Coatings segment, the credit line of CHF 87 million used to finance the cash settlement of the Looser acquisition was completely repaid by 10 July 2017.

The financial debts are comprised of the following:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Promissory note loan	140 875	
Syndicated loan	20 000	103 675
Mortgages	11 553	13 097
Bank loans	2 362	2 769
Total	**174 790**	**119 541**

The syndicated loan includes covenants covering key ratios such as minimum net worth, interest coverage ratio and leverage ratio. In the event of non-compliance, the banks may at any time at their option, declare the amounts then outstanding to be immediately due and payable. Arbonia was in compliance with the covenants in 2018 and 2017.

The maturities of the financial debts are as follows:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
within 1 year	23 066	107 276
between 1 and 5 years	72 181	4 638
after 5 years	79 543	7 627
Total	**174 790**	**119 541**

The effective interest rates for the financial debts at the balance sheet date were as follows:

		31/12/2018	
	CHF	EUR	PLN
Financial debt	1.0%	1.8%	

		31/12/2017	
	CHF	EUR	PLN
Financial debt	1.5%	1.8%	1.8%

The syndicated loan and bank loans have variable interest rates, whereas the promissory note loan and mortgages have fixed interest rates.

The breakdown for the financial debts by currency was as follows:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
CHF	20 000	10 002
EUR	154 791	107 820
PLN		1 719
Total	**174 790**	**119 541**

42 Financial instruments

The impact of the first-time adoption of IFRS 9 on the consolidated financial statements is described in note 2 “First time adoption of IFRS 9”.

The contractually agreed undiscounted interest payments and repayments of the non-derivative financial liabilities and the derivatives with a cash outflow are as follows:

							31/12/2018
	Book value	Contractual cash flows	up to 6 months	7 to 12 months	between 1 and 2 years	between 2 and 5 years	after 5 years
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Non-derivative financial instruments							
Accounts payable	127 913	127 913	127 913				
Other liabilities (without derivatives)	28 524	35 987	13 013	1 364	1 554	56	20 000
Finance lease liabilities	13 157	15 523	1 749	1 415	2 738	4 818	4 803
Accruals and deferred income	45 360	45 360	45 360				
Financial debts	174 790	191 345	25 338	1 147	3 521	78 014	83 325
Derivative financial instruments							
Interest rate swaps	1 575						
Cash outflow		1 575	132	128	236	557	522
Forward foreign exchange contracts	211						
Cash outflow		35 324	35 324				
Cash inflow		–35 113	–35 113				
Total	**391 530**	**417 914**	**213 716**	**4 054**	**8 049**	**83 445**	**108 650**

							31/12/2017
	Book value	Contractual cash flows	up to 6 months	7 to 12 months	between 1 and 2 years	between 2 and 5 years	after 5 years
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Non-derivative financial instruments							
Accounts payable	108 053	108 053	107 990	63			
Other liabilities (without derivatives)	38 867	47 076	25 799	24	1 208	45	20 000
Finance lease liabilities	12 914	15 786	1 367	1 317	2 472	4 517	6 113
Financial debts	119 541	121 586	106 973	1 541	1 489	4 781	6 802
Derivative financial instruments							
Interest rate swaps	1 797						
Cash outflow		1 797	139	135	252	611	661
Total	**281 172**	**294 298**	**242 268**	**3 080**	**5 421**	**9 954**	**33 576**

Amounts in foreign currency were each translated at the respective year-end rate. Variable interest payments arising from financial instruments were calculated using the conditions prevailing at the balance sheet date. Financial liabilities which can be repaid at any time are always assigned to the earliest possible time period.

43 Additional disclosures on financial instruments

The impact of the first-time adoption of IFRS 9 on the consolidated financial statements is described in note 2 "First time adoption of IFRS 9". Arbonia makes use of the exception not to restate comparative information for prior periods in respect of changes in measurement category classification.

The relation between the relevant balance sheet items and the measurement categories in accordance with IFRS 9 and the disclosure of fair values of financial instruments is as follows:

						31/12/2018
	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value at 31/12/2018	Fair value at 31/12/2018
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents		70 877			70 877	70 877
Accounts receivable		135 490			135 490	135 490
Other current assets		6 563			6 563	6 563
Deferred expenses		3 428			3 428	3 428
Investments < 20%	3 721				3 721	3 721
Other financial assets		91			91	91
Loans		10 050			10 050	10 050
Assets	**3 721**	**226 499**			**230 220**	**230 220**
Accounts payable				127 913	127 913	127 913
Other liabilities			1 787	28 524	30 310	30 310
Finance lease liabilities				13 157	13 157	13 999
Accruals and deferred income				45 360	45 360	45 360
Promissory note loan				140 875	140 875	143 121
Syndicated loan				20 000	20 000	20 000
Loans				2 362	2 362	2 362
Mortgages				11 553	11 553	13 261
Liabilities			**1 787**	**389 744**	**391 530**	**396 326**

Abbreviations in the header of this table are explained in note 9 "financial instruments" on page 107.

						31/12/2017
	FA FVTPL designated	L&AR	FL FVTPL trading	FL AC/NPV	Book value at 31/12/2017	Fair value at 31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents		82 703			82 703	82 703
Accounts receivable		126 387			126 387	126 387
Other current assets		25 383			25 383	25 383
Other financial assets		417			417	417
Loans		4 004			4 004	4 004
Assets		**238 894**			**238 894**	**238 894**
Accounts payable				108 053	108 053	108 053
Other liabilities			1 797	38 866	40 663	40 663
Finance lease liabilities				12 914	12 914	13 952
Syndicated loan				103 675	103 675	103 675
Loans				2 769	2 769	2 769
Mortgages				13 097	13 097	14 140
Liabilities			**1 797**	**279 374**	**281 171**	**283 252**

IFRS 13 "Fair value measurements" requires for financial instruments measured at fair value the disclosure and allocation to the pre-defined following three hierarchy levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).
Level 3 – Unobservable market data.

Financial instruments measured at fair value are allocated to the respective hierarchy levels as follows:

	Level 2	Level 3	Fair value at 31/12/2018	Level 2	Fair value at 31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Assets					
Financial assets at fair value through profit or loss (FA FVTPL)					
Investments < 20%		3 721	3 721		
Total assets		**3 721**	**3 721**		
Liabilities					
Financial liabilities at fair value through profit or loss (FL FVTPL)					
Interest rate swaps/ forward foreign exchange contracts without hedges	1 787		1 787	1 797	1 797
Total liabilities	**1 787**		**1 787**	**1 797**	**1 797**

The fair value of interest rate and currency swap transactions of level 2 is the present value of expected payments, which are discounted at market rates. The determination of the fair value of these transactions is made by the banks with which these transactions were entered into. The investments < 20% at fair value through profit or loss relate to the minority interest in the German KIWI-KI GmbH, DE-Berlin acquired in 2018. The fair value as at 31 December 2018 corresponds to the purchase price of CHF 3.7 million. In 2018 and 2017, no gains/losses resulted from level 3 financial instruments. Furthermore, no reclassifications occurred between the levels 1 and 2.

44 Provisions

	Warranty	Personnel	Restructuring	Onerous contracts project business	Other provisions	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance at 01/01/2017	**12 284**	**8 219**	**11 188**		**3 212**	**34 903**
Foreign exchange differences	822	741	137		59	1 759
Change in scope of consolidation	–22	42			43	63
Additional provisions	7 871	2 007	1 005		3 298	14 181
Used during the year	–7 131	–1 985	–6 322		–1 419	–16 857
Unused amounts reversed	–317	–150	–1 628		–620	–2 715
Reclassification to liabilities associated with assets held for sale	–169		–207			–376
Balance at 31/12/2017	**13 338**	**8 874**	**4 173**		**4 573**	**30 958**
Restatement IFRS 15 [1]				239	–361	–122
Foreign exchange differences	–429	–402	–151		–81	–1 063
Change in scope of consolidation	953	1 179			1 190	3 322
Additional provisions	8 310	2 620	6 414	24	1 505	18 873
Used during the year	–8 016	–2 049	–916		–948	–11 929
Unused amounts reversed	–93	–156	–1 626	–170	–587	–2 632
Balance at 31/12/2018	**14 063**	**10 066**	**7 894**	**93**	**5 291**	**37 407**
thereof current at 31/12/2017	8 892	3 456	4 173		4 291	20 812
thereof current at 31/12/2018	8 973	3 802	7 894	93	4 102	24 864

[1] see note 2 "First time adoption of IFRS 15"

The current provision is expected to be fully utilised during 2019. The non-current provision is expected to be utilised as follows:

	Warranty	Personnel	Other provisions	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
between 1 and 5 years	5 081	4 741	201	**10 023**
after 5 years	8	1 524	988	**2 520**

Warranty

Warranty provisions are assessed for each order individually. In case of a high volume of orders, such an individual assessment might be impractical and standard rates are applied based on past experience.

Personnel

Personnel provisions comprise mainly a provision for partial retirement.

Restructuring

As of 31 December 2017, the restructuring provision still comprised costs amounting to CHF 4.1 million in connection with the restructuring programme announced on 3 March 2015 and 13 August 2015 for the windows business in Switzerland and the relocation of logistics and production activities within Germany from Vlotho to Plattling in the Sanitary Equipment Division. In the reporting period, costs of CHF 0.9 million incurred for these restructuring measures were booked against the provision and CHF 1.6 million were released to income as a result of voluntary staff departures and risk reduction measures. The relocation in the Sanitary Equipment Division was completed in 2018. At the end of November 2018, the HVAC Division announced the relocation of production and closure of a site in Belgium. The restructuring provision recognised amounts to CHF 5.9 million. It is assumed that the restructuring of the windows and HVAC businesses will be completed by the end of 2019.

Other provisions

Other provisions include costs for environmental risks, legal claims and various risks that could arise in the normal course of business.

45 Deferred income taxes

Deferred tax assets and liabilities arise due to differences between the group valuation and tax valuation in the following balance sheet items:

	31/12/2018		31/12/2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Assets				
Cash and cash equivalents and securities		1	3	
Accounts receivable	905	188	681	216
Other current assets	348	824		46
Inventories	2 634		1 291	176
Contract assets project business	181			
Non-current assets held for sale				7
Property, plant and equipment	44	25 333		17 554
Investment property	64	201	981	
Intangible assets	47	51 656	6	52 031
Capitalised pension surplus and financial assets	18	9 279	263	7 131
Liabilities				
Current liabilities	6 877	3 154	3 657	1 902
Non-current liabilities	10	854		84
Current and non-current provisions	1 154	470	683	304
Employee benefit obligations	7 064	5	7 903	7
Deferred taxes from timing differences	**19 346**	**91 965**	**15 468**	**79 458**
Deferred tax assets derived from tax loss carryforwards	18 789		19 631	
Valuation allowance	−11 463		−15 195	
Net deferred taxes from timing differences	**26 672**	**91 965**	**19 904**	**79 458**
Offset of deferred tax assets and liabilities	−21 008	−21 008	−14 334	−14 334
Total deferred taxes	**5 664**	**70 957**	**5 570**	**65 124**

From the capitalised pension surplus and employee benefit obligations, CHF 1.0 million (2017: CHF 5.8 million) of deferred taxes were recorded in comprehensive income of the continuing operations. All other changes of assets and liabilities were recorded through the income statement.

Deferred income tax assets are recognised as tax loss carryforwards and temporary differences, to the extent that the realisation of the related tax benefit through future taxable profits is probable.

There are temporary differences totalling CHF 80.4 million (2017: CHF 66.2 million) in conjunction with investments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12. There are also deductible temporary differences of CHF 1.2 million (2017: CHF 2.8 million) on which no deferred tax assets have been recognised.

Activity in the deferred income tax account on a net basis is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**59 554**	**69 313**
Restatement IFRS 15 [1]	284	
Change in scope of consolidation	10 538	−16 471
Changes to other comprehensive income for continuing operations	982	5 736
Changes to other comprehensive income for discontinued operations		503
Changes to the income statement for continuing operations	−3 632	−1 467
Changes to the income statement for discontinued operations		325
Reclassification to assets held for sale		23
Reclassification to liabilities associated with assets held for sale		−3 232
Foreign exchange differences	−2 433	4 824
Balance at 31/12	**65 293**	**59 554**

[1] see note 2 “First time adoption of IFRS 15”

Unrecognised tax loss carryforwards in 1'000 CHF	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Tax loss carryforwards	173 905	208 556
thereof recognised as deferred taxes	−48 925	−40 239
Unrecognised tax loss carryforwards	**124 980**	**168 317**
Portion expiring:		
within 1 year	599	16 116
between 1 and 5 years	112 084	130 790
after 5 years	12 297	21 411
Total	**124 980**	**168 317**
Tax effect on unrecognised tax loss carryforwards	**11 462**	**15 194**
thereof pertaining to tax rates below 15 %	8 788	11 899
thereof pertaining to tax rates between 15 % and 20 %	1 629	2 363
thereof pertaining to tax rates between 21 % and 25 %	65	
thereof pertaining to tax rates between 26 % and 30 %	980	932

46 Employee benefit obligations

Pension plans in Switzerland

The Swiss pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), aiming to safeguard the employees against the risks of old age, death and disability. There are semi-autonomous pension plans, that is, the foundations fully bear the risk of age itself. The risks of disability and death are reinsured entirely (congruent reinsurance) or partially (stop-loss insurance) with Swiss insurance companies. A business acquired in 2017 participates in a multi-employer plan. The plans give plan participants a choice regarding the annual amount of contribution payments. The employees' contributions are determined as a percentage of the insured salary and are deducted monthly. The retirement pension is calculated by multiplying the retirement capital at the retirement age with the then applicable regulatory conversion rate. Plan participants can also draw all or part of the retirement pension as a lump sum. Death and disability benefits are set as a percentage of the insured salary.

The Board of Trustees are by law the supreme governing body of the foundation. The duties of the trustees are set out in the BVG and the regulations of the foundations. The Board of Trustees exercises the overall direction and has overall responsibility. It is composed in accordance with the legal provisions of an equal number of employer and employee representatives, provided the foundation offers BVG-related pension plans.

The actuarial risks of old age, death and disability as well as the investment risks are primarily borne by the foundations. If certain duties are transferred to third parties, they assume the associated risks (insurance companies, external administrator etc.).

An unfavourable development of the semi-autonomous and autonomous foundations can lead to an underfunding of the affected foundation as stipulated by the BVG. The BVG allows a temporary underfunding but the Board of Trustees has to take the necessary remedial measures to remedy the underfunding within a maximum of ten years. Additional employer and employee contributions could be incurred in case the Swiss pension plan has a significant underfunding as per BVG. In such cases, the risk is borne by employers and employees alike and the employer is legally not obliged to accept more than 50% of the additional contributions. In multi-employer plans however, no underfunding as per BVG can occur.

The investment strategy of the Swiss pension plans follows BVG, including the rules and regulations for the diversification of plan assets. The security assessment of the investments takes place in the semi-autonomous foundations in evaluating total assets and liabilities as well as the structure and the expected development of the insured population.

In 2018, the obligation to provide pension benefits was partially transferred to other foundations (settlement) as a result of the sale of the business unit Profile Systems, which is why a partial liquidation must be carried out. The staff reductions in the Swiss windows business will lead to a further partial liquidation.

Pension plans in Germany

The occupational pension provision in Germany is subject to the pension law. The method of the direct commitment was elected for the German pension plans. To fund these pension plans for future benefit payments, pension provisions are recorded in accordance with the relevant regulations. The employer has made commitments to the employees under certain benefit arrangements. The pension plans are defined benefit plans and provide current and former employees benefits in the event of reaching the retirement age, in case of disability, or death. The respective benefits become due at maturity and are paid directly by the company to the beneficiaries.

The following amounts are included in the consolidated financial statements:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Present value of funded obligations	294 327	300 841
Fair value of plan assets	338 579	329 885
Overfunding	**-44 251**	**-29 044**
Present value of unfunded obligations	49 364	51 200
Liability (net) recognised in the balance sheet	**5 113**	**22 156**
thereof recorded as employee benefit obligations	49 744	55 698
thereof recorded as capitalised pension surplus	-44 631	-33 542

The movement in the defined benefit obligation over the year is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**352 041**	**431 617**
Changes in scope of consolidation	6 621	-23 775
Interest cost	3 280	3 367
Current service cost	8 676	11 262
Past service cost	-8 109	-3 412
Contributions by plan participants	4 498	5 895
Benefits paid	-24 134	-16 420
Actuarial losses arising from changes in demographic assumptions	396	
Actuarial gains arising from changes in financial assumptions	-373	-1 408
Actuarial losses arising from experience adjustements	2 050	15 146
Settlements/partial liquidation	-6 493	-41 694
Administration cost	166	189
Reclassification from/to liabilities associated with assets held for sale	7 368	-33 060
Foreign exchange differences	-2 294	4 336
Balance at 31/12	**343 692**	**352 041**
thereof for active members	206 576	222 412
thereof for pensioners	134 136	126 354
thereof for deferred members	2 981	3 275

The movement in the fair value of plan assets over the year is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**329 885**	**377 048**
Changes in scope of consolidation	5 918	–19 607
Interest income	2 561	2 444
Return on plan assets excl. interest income	–385	44 479
Contributions by the employer	10 531	8 437
Contributions by plan participants	4 498	5 895
Benefits paid	–24 129	–16 347
Settlements/partial liquidation	–5 253	–33 499
Reclassification from/to assets held for sale	15 301	–38 965
Foreign exchange differences	–349	
Balance at 31/12	**338 579**	**329 885**

The movement of the effect of the asset ceiling is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01		**2 116**
Interest cost		15
Change in effect of asset ceiling excl. interest cost		–2 131
Balance at 31/12		

The remeasurements of employee benefit obligations in other comprehensive income is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Actuarial gains	2 073	10 813
Actuarial losses/gains from discontinued operations	–6 239	2 926
Return on plan assets excl. interest income	385	–44 479
Change in effect of asset ceiling excl. interest cost		–2 131
Remeasurements of employee benefit obligations	**–3 780**	**–32 871**

The amounts recognised in the income statement are as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Current service cost	8 676	11 262
Past service cost	-8 109	-3 412
Net interest result	718	923
Interest cost on effect of asset ceiling		15
Administration cost	166	189
Settlements/partial liquidation	-1 240	-8 195
Net charges for defined benefit plans	**211**	**781**
thereof recorded under personnel expenses from continuing operations	-507	189
thereof recorded under financial expenses from continuing operations	718	938
thereof recorded under Group result from discontinued operations after taxes		-345

The principal actuarial assumptions used were as follows:

Weighted average		2018	2017
Discount rate at 31/12		1.0%	0.9%
Future salary increases		1.1%	1.1%
Future pension increases		0.2%	0.2%
Mortality tables	Switzerland	BVG 2015 GT	BVG 2015 GT
	Germany	HB 2005 GT	HB 2005 GT

The sensitivity of employee benefit obligations due to changes of principal assumptions for all operations are as follows:

Impact on employee benefit obligations	Change in assumption	2018	2017
Discount rate	– 0.25%	12 985	15 546
	+ 0.25%	-12 127	-14 493
Salary increases	– 0.25%	-1 167	-1 285
	+ 0.25%	1 180	1 291
Life expectancy	+ 1 Year	9 013	10 173
	– 1 Year	-9 146	-10 325
Service cost 2019 with discount rate	+ 0.25%	-547	-600

The weighted average duration of employee benefit obligations is 14.9 years.

The sensitivity analysis above is based on a change in an assumption while all other assumptions remain unchanged. In reality, this is unlikely to happen, because certain assumptions correlate. In the calculation of sensitivities of pension benefit obligations with the principal actuarial assumptions, the same method was applied (present value of the defined benefit obligation is calculated using the projected unit credit method at year-end) as for the calculation of the pension liability in these consolidated financial statements.

Plan assets at fair value consist of:

	quoted	unquoted	31/12/2018 Total	quoted	unquoted	31/12/2017 Total
Cash and cash equivalents	13 689		13 689	6 340	2 030	8 370
Equity instruments	81 711		81 711	45 343		45 343
Debt instruments	63 398		63 398	51 191		51 191
Real estate	5 763	128 760	134 523	8 128	128 029	136 157
Investment funds				51 118	3 403	54 521
Others	30 070	15 188	45 258	10 536	23 767	34 303
Total plan assets	**194 631**	**143 948**	**338 579**	**172 656**	**157 229**	**329 885**

Plan assets invested in Swiss multi-employer plans are allocated to the category “Others”. Furthermore, this category includes assets from discontinued full insurance contracts terminated some years ago.

The expected maturity profile of benefit payments for unfunded plans is as follows:

	up to 1 year	between 1 and 2 years	between 2 and 5 years	next 5 years
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Benefit payments	1 722	1 476	5 144	10 688

Expected contributions to pension plans for the year 2019 amount to CHF 11.6 million (2018: CHF 11.5 million), of which CHF 7.1 million (2018: CHF 6.9 million) are attributable to the employer.

47 Share capital

The capital structure is as follows:

			31/12/2018			31/12/2017
Category	Outstanding shares	Par value in CHF	Share capital in CHF	Outstanding shares	Par value in CHF	Share capital in CHF
Registered shares	69 473 243	4.20	291 787 621	69 473 243	4.20	291 787 621

The proposed distribution per share for the 2018 financial year amounts to CHF 0.20 (2017: CHF 0.0).

On 20 April 2018, the Annual General Meeting of Arbonia AG approved amongst others the following: To authorise the Board of Directors to create additional share capital by a maximum amount of CHF 57’960’000 through the issue of a maximum 13’800’000 fully paid registered shares with a par value of CHF 4.20 each until 20 April 2020 (authorised capital increase). To increase the share capital by a maximum amount of CHF 57’960’000 by issuing a maximum of 13’800’000 fully paid up registered shares with a par value of CHF 4.20 (conditional capital increase). The authorised and conditional capital increase together were limited to an additional share capital of CHF 57’960’000.

On 28 April 2017, the Board of Directors of Arbonia AG approved two authorised capital increases. Both capital increases were completed on 28 June 2017. For the first transaction, the share capital was increased through the issue of 600'000 new registered shares with a par value of CHF 4.20 by CHF 2'520'000 to CHF 290'160'318. These new registered shares are designated for the participation of employees and the Board of Directors of Arbonia. For the second transaction, the share capital was increased through the issue of 387'453 new registered shares with a par value of CHF 4.20 by CHF 1'627'302.60 to CHF 291'787'620.60 (see note 50). These new shares with a current value of CHF 6.9 million were used for the remaining and by the cancellation affected shareholders of Looser Holding AG. The capital surplus resulting from this capital increase in the amount of CHF 5.2 million was allocated to share premium.

Earnings per share	2018	2017
	in 1 000 CHF	in 1 000 CHF
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	38 686	37 489
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)	7 339	8 889
Group earnings for the year (in 1 000 CHF)	46 025	46 378
	2018	2017
Outstanding shares (average)	69 473 243	69 061 804
Less treasury shares (average)	−881 053	−780 967
Average number of shares outstanding for the calculation	**68 592 190**	**68 280 838**

There were no dilutive effects impacting the calculation.

48 Treasury shares

	2018			2017		
	Ø market value in CHF	Number of shares	Amount in 1 000 CHF	Ø market value in CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	**8.31**	**994 148**	**8 265**	**12.91**	**664 351**	**8 576**
Transfer for share based payments	8.31	– 140 094	– 1 164	12.82	– 143 953	– 1 846
Purchase				17.35	118 391	2 054
Sale				11.88	– 115 468	– 1 372
Purchase of non-controlling interests Looser Holding AG				12.91	– 129 173	– 1 668
Share capital increase				4.20	600 000	2 520
Balance at 31/12	**8.31**	**854 054**	**7 101**	**8.31**	**994 148**	**8 265**

49 Other comprehensive income and other reserves

The movements in other comprehensive income after taxes were as follows:

	Other reserves	Retained earnings	Total other comprehensive income 31/12/2018	Other reserves	Retained earnings	Total other comprehensive income 31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Remeasurements of employee benefit obligations		3 780	3 780		32 871	32 871
Deferred tax effect		-973	-973		-6 239	-6 239
Total items that will not be reclassified to income statement		**2 807**	**2 807**		**26 632**	**26 632**
Currency translation differences	-28 642		-28 642	57 587		57 587
Cumulative currency translation differences transferred to the income statement	69		69	-367		-367
Total items that may be subsequently reclassified to income statement	**-28 573**		**-28 573**	**57 220**		**57 220**
Other comprehensive income after taxes	**-28 573**	**2 807**	**-25 766**	**57 220**	**26 632**	**83 852**

Other reserves

	Currency translation	Total
	in 1 000 CHF	in 1 000 CHF
Balance at 31/12/2016	**-86 979**	**-86 979**
Currency translation differences	57 220	57 220
Balance at 31/12/2017	**-29 759**	**-29 759**
Currency translation differences	-28 573	-28 573
Balance at 31/12/2018	**-58 332**	**-58 332**

50 Non-controlling interests

On 27 January 2017 and 28 June 2017, Arbonia increased its share in Looser Holding AG from 97.53% to 98.15% and 100%, respectively. The offer price for one registered share of Looser Holding AG amounted to 5.5 shares of Arbonia AG plus CHF 23 in cash. On 27 January 2017, 129'173 treasury shares plus CHF 0.54 million in cash were used for the purchase of 23'486 registered shares of Looser Holding AG. On 28 June 2017, 387'453 newly created shares of Arbonia AG plus CHF 1.62 million in cash were used for the remaining 70'446 shares of Looser Holding AG to compensate those shareholders affected by the cancellation. In order to increase Arbonia's share of Looser Holding AG from 97.53% to 100%, a cash consideration totalling CHF 2.16 million was spent in 2017. Altogether the outstanding non-controlling interests with a book value of CHF 10.1 million were purchased at a price of CHF 11.3 million. The proportion of the price exceeding the carrying value of the non-controlling interests has been recognised directly in equity.

51 Financial results

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Financial income		
Bank and other interest	242	749
Interest on net pension surplus	317	52
Total interest income	**559**	**801**
Income from securities	1	181
Gains derivative financial instruments	150	313
Foreign currency exchange gain from sale of associates	185	
Other financial income	1 994	1 255
Total other financial income	**2 330**	**1 749**
Total financial income	**2 889**	**2 550**
Financial expenses		
Bank and other interest	428	492
Interest on finance leases	600	602
Interest on non-current financial debts and syndicated loan	1 939	5 275
Interest on net employee benefit obligations	1 035	990
Compounding of liabilities	897	900
Total interest expenses	**4 899**	**8 259**
Impact of exchange rate fluctuations	4 955	687
Expenses from securities		7
Losses derivative financial instruments	224	25
Minority share from associated companies	715	1 244
Impairment on loans/ financial assets	290	1 200
Bank charges and other financial expenses	2 975	2 021
Total other financial expenses	**9 159**	**5 184**
Total financial expenses	**14 058**	**13 443**
Total net financial results	**–11 169**	**–10 893**

The classification of the financial result of financial instruments into the categories according to IFRS 9 is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Total interest income from financial assets measured at amortised cost (FA AC)	242	749
Total interest expenses from financial liabilities measured at amortised cost (FL AC)	3 864	7 269
Net gain from financial assets/ liabilities measured at fair value through profit or loss (FA/ FL FVTPL)	-73	462
Impairment expenses recognised in financial expenses from financial assets measured at amortised cost (FA AC)		1 200
Finance costs recognised in financial expenses from financial assets/ liabilities measured at amortised cost (FA/ FL AC)	2 837	1 997

52 Income taxes

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Current income taxes	14 754	14 286
Changes in deferred income taxes	-3 632	-1 467
Total	**11 122**	**12 819**

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Earnings before income tax	**49 809**	**50 367**
Weighted average tax rate in %	22.4	24.5
Expected tax expense	**11 141**	**12 328**
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	-691	-2 579
Effect of not capitalised losses for the year	83	1 931
Effect of non-tax-deductible expenses and non-taxable income	258	551
Effect of income and expenses taxed at special rates	1 293	513
Effect of tax charges related to prior years	496	72
Effect of tax rate changes	-207	637
Change in unrecognised deferred tax assets	-1 156	-842
Other items	-95	209
Effective tax expense	**11 122**	**12 819**
Effective tax rate in %	22.3	25.5

The Group's applicable tax rate represents the weighted average of the statutory corporate tax rates, prevailing in the tax jurisdictions in which the Group companies operate.

The expected weighted average tax rate decreased slightly compared to previous year. There were no significant changes in local tax rates compared to 2017.

53 Financial risk management

Risk management principles

Arbonia has a centralised risk management system. The risk management process is carried out as stated in the internal guidelines. Any potential and material risks have been identified and quantified according to the likelihood and impact. Overall, no potential risks have been identified in the business year, which could lead to material adjustments of net assets, the financial position and results of operations of the consolidated financial statements of Arbonia.

Due to its international business activities, the Group is subject to various financial risks, such as credit, liquidity and other market risks. The principal goal of risk management activities is to minimise financial risks to the continued existence (liquidity and default risks) and profitability (currency, interest rate fluctuation, price risks) while ensuring adequate solvency at any time. Risk minimisation does not mean to completely eliminate but rather to control financial risks in an economically useful manner within an identified framework. Depending on their assessment, the Group uses derivative and non-derivative financial instruments to hedge certain risks. To minimise financial default risks, derivative financial instruments are only entered into with banks which are specifically defined in the treasury policy.

There are financial management guidelines and principles within the Group that regulate the handling of currency, interest rate fluctuation and credit risks, the use of derivative and non-derivative financial instruments as well as the management of liquid funds not required for operations. The risk management guidelines adopted by the Board of Directors are implemented centrally by group treasury but in close cooperation with Group companies.

The Group’s financial resources are not used for speculation purposes.

Credit default risk

Credit risks arise from the possibility that the counterparty of a transaction might not be able or willing to meet its obligations.

The credit risk, on the one hand, relates to trade accounts receivable and contract assets but also to cash and cash equivalents, fixed-term deposits and derivative financial instruments having a positive fair value.

The credit or default risk in relation to receivables and contract assets is controlled by the individual subsidiaries on a decentralised basis and limited through the assignment of credit limits on the basis of systematic and regular credit ratings. Corresponding guidelines are in place within the Group aiming at an ongoing control and value adjustment of open positions. Due to the broad diversification of the customer portfolio into various business segments and geographic regions but also the possibility to create construction tradesman’s liens or the use of credit insurance, the credit risk is limited. The 10 largest debtors of Arbonia’s continuing operations as of the balance sheet date accounted for a share of 26.7% (2017: 20.4%) of existing trade receivables. The 10 largest customers of the continuing operations generated 18.8% (2017: 20.4%) of the Group’s net revenues in the year under review.

To minimise financial default risks, cash and cash equivalents, fixed-term deposits and derivative financial instruments are only deposited or entered into with banks which are specifically defined in the treasury policy. The three largest banks accounted for 36%/21%/15% of total liquid funds as of the balance sheet date (2017: 52%/18%/9%).

The maximum credit risk corresponds to the book values or fair values reported in note 43 for the financial asset categories “at fair value through profit and loss” (FA FVTPL) (2017: “Financial instruments held for trading purposes”) and “at amortised cost” (FA AC) (2017: “Loans and receivables”). These include derivative financial instruments having a positive fair value.

Liquidity risk

The liquidity risk arises from the fact that the Group might not be in a position to obtain the funds required to meet the obligations assumed in connection with financial instruments on the relevant due dates.

The cash, investments, financing and redemptions are managed and controlled on an ongoing basis by group treasury. The standard policy involves financial structures with matching maturities and currencies for each individual subsidiary. Scheduled cash requirements for the planning horizon must be secured under facility agreements or internal funding within the Group and/or via banks. By means of rolling monthly cash flow forecasts over a planning horizon of 12 months, the future cash development is forecasted in order to take measures in due time in the event of an excess coverage or shortfall. Arbonia monitors its liquidity risk with the aid of a consolidated liquidity plan, taking into account additional funding sources, e.g. undrawn credit limits. As individual divisions of Arbonia are subject to seasonal fluctuations, cash decreases early in the year but normally rises again in the second half of the year.

The available liquidity as of the balance sheet date is shown below:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents and securities	71 114	82 703
+ undrawn credit facilities	342 108	306 772
Total available liquidity	**413 222**	**389 475**

The syndicated loan includes covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2018 and 2017, Arbonia complied with all covenants. Due to restrictions on the leverage ratio, undrawn credit facilities are not fully utilisable.

The contractually agreed maturities of financial liabilities within the meaning of IFRS 7 are set forth in note 42.

Market risk

(a) Currency risk

Due to the Group's international focus, there are currency risks based on exchange rate fluctuations of various currencies. In the case of Arbonia, these mainly relate to the EUR, PLN and CZK.

A currency risk arises from transactions settled in foreign currencies (transaction risks) and paid in the Group company's functional currency. The standard policy is that subsidiaries must hedge 100% of the relevant net risk position for the risk horizon period through hedging transactions via group treasury. Arbonia's risk position equals the sum of the subsidiaries' net risk positions and is hedged by the group treasury with external counterparties using currency forward contracts of the relevant foreign currency. The hedging ratio depends on the maturity and currency risk exposure and is determined on a case by case basis.

Translation differences (translation risks) also arise from the consolidation in CHF of the financial statements of foreign subsidiaries prepared in foreign currencies. Translation affects the amount of earnings and comprehensive income. The major risk to the Group in connection with translation differences relates to the EUR. The effects of such exchange rate fluctuations on significant net investments are as much as possible hedged by means of natural hedges with liabilities in this currency.

For the description of market risks, IFRS 7 requires sensitivity analyses showing the effects of realistic currency fluctuations on Group earnings and shareholders' equity. These effects are calculated on the basis of financial instruments existing as of the balance sheet date. In this context, it is assumed that all other variables remain unchanged. Translation risks arising from the translation of foreign subsidiaries are not included in the following table.

A 5% increase (decrease) of the EUR against the CHF (2017: 5%), a 5% increase (decrease) of the CZK against the CHF (2017: 5%) or a 5% increase (decrease) of the PLN against the CHF (2017: 5%) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

			31/12/2018
	EUR/CHF	CZK/CHF	PLN/CHF
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Reasonably possible change	5.0 %	5.0 %	5.0 %
Impact of an increase on group earnings	7 818	709	309
Impact of a decrease on group earnings	–7 818	–709	–309

			31/12/2017
	EUR/CHF	CZK/CHF	PLN/CHF
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Reasonably possible change	5.0 %	5.0 %	5.0 %
Impact of an increase on group earnings	5 444	701	531
Impact of a decrease on group earnings	–5 444	–701	–531

(b) Interest rate risk

Interest rate risks arise from interest rate fluctuations which may have a negative effect on the Group's asset and earnings position. Interest rate fluctuations result in changes in interest income and expenses relating to interest-bearing assets and liabilities. In addition, they may also affect the fair value of certain financial assets, liabilities and financial instruments, as set forth below under "Market risks".

Group companies are exclusively funded via group treasury on terms in line with the market and on a decentralised basis only in exceptional cases and upon prior approval. Excess cash is also invested via group treasury. The standard policy for the Group as well as for subsidiaries is that interest-bearing financial transactions in terms of capital commitment and fixed interest rates must always meet the underlying requirements. Derivative financial instruments, such as interest rate swaps or interest rate options, are used on a case-by-case basis and only upon consultation with or according to the instruction of group treasury.

For the description of interest fluctuation risks, IFRS 7 requires sensitivity analyses showing the effects of realistic fluctuations in market interest rates on Group earnings and shareholders' equity. These effects are calculated on the basis of financial instruments existing as of the balance sheet date. In this context, it is assumed that all other variables remain unchanged and that the balance of financial instruments as of the balance sheet date is representative of the entire year. Fixed-rate financial instruments valued at amortised cost are not subject to interest rate fluctuation risks within the meaning of IFRS 7.

An increase (decrease) in the market interest level as of the balance sheet date by 50 basis points for CHF interest rates (2017: 50 basis points) or by 50 basis points for EUR interest rates (2017: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

	31/12/2018	
	CHF interest rate	EUR interest rate
	in 1 000 CHF	in 1 000 CHF
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	28	116
Impact of a decrease on group earnings	–28	–116
Interest rate swaps		
Impact of an increase on group earnings		250
Impact of a decrease on group earnings		–250

	31/12/2017	
	CHF interest rate	EUR interest rate
	in 1 000 CHF	in 1 000 CHF
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	170	–363
Impact of a decrease on group earnings	–170	363
Interest rate swaps		
Impact of an increase on group earnings		314
Impact of a decrease on group earnings		–328

(c) Other market risks

Fair value risk

Changes in fair values of financial assets, liabilities or financial instruments may affect the Group's asset and earnings position.

For the description of market risks, IFRS 7 requires sensitivity analyses showing the effects of a reasonable potential change in risk variables, such as market prices, indices, etc., on prices of financial instruments, on the Group's earnings and shareholders' equity.

As of the balance sheet date, Arbonia sees no significant risks from equity instruments measured at fair value.

Equity management

The objective of Arbonia is a strong equity base to secure the Group's future development. A sustainable equity ratio of between 45% and 55% is the goal. The shareholders' equity attributable to equity holders of Arbonia AG as reported in the consolidated balance sheet is deemed Arbonia's relevant equity and corresponds to an equity ratio of 58.7% as of the balance sheet date (2017: 60.9%). The slight decrease in the equity ratio compared to the previous year is due to higher total assets as a result of the acquisition of Vasco Group. Furthermore, currency translation differences had a reducing effect on equity due to the stronger CHF.

With regard to the authorised capital increases carried out in 2017, as well as the possible creation of new share capital, see note 47.

The syndicated loan includes covenants. One of these covenants prescribes a minimum equity ratio (see also note 41). In the event of non-compliance, the banks may at any time at their option, declare the amounts then outstanding to be immediately due and payable.

Arbonia is not governed by any regulatory authorities with respect to minimum capital requirements.

54 Derivative financial instruments

The following table shows the fair values of the various derivative financial instruments recognised in the balance sheet as of the balance sheet date:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Liabilities		
Interest rate swaps without hedges	1 575	1 797
Forward foreign exchange contracts without hedges	211	

Interest rate swaps are entered into to hedge the interest rate risk, i.e. to secure variable interest rates on borrowings in fixed interest rates.

Currency transactions are carried out on the basis of exchange rate fluctuation risk considerations and serve to hedge future cash flows. As a rule, only part of the planned cash flow is hedged. As of the balance sheet date, EUR was hedged against CHF and CZK against EUR.

55 Additional information on the cash flow statements

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Changes in non-cash transactions		
Changes in deferred taxes	–4 716	–1 169
Additional/reversed provisions	16 240	11 887
Changes in capitalised pension surplus/employee benefit obligations	–12 006	–7 797
Share based payments	3 115	3 301
Impairment on loans and compounding of liabilities	597	1 977
Minority share from associated companies	715	1 232
Other non-cash effects	7 363	5 066
Total changes in non-cash transactions	**11 308**	**14 497**
Changes in working capital		
Changes in accounts receivable	6 782	–20 583
Changes in inventories	–13 041	–8 868
Changes in contract assets project business	–12 306	
Investments/divestments rental park		–8 259
Changes in other working capital items	–3 419	–5 343
Total changes in working capital	**–21 984**	**–43 053**
Changes in liabilities		
Changes in accounts payable	10 638	15 548
Changes in contract liabilities	–2 361	–6 109
Used provisions	–11 928	–16 857
Changes in other current liabilities	3 471	16 181
Total changes in liabilities	**–180**	**8 763**

	Current and non-current financial debts
	in 1 000 CHF
Balance at 31/12/2016	**342 430**
Foreign exchange differences	1 503
Change in scope of consolidation	–9 625
Proceeds from financial debts	35 636
Repayments of financial debts	–267 305
Non-cash foreign exchange effects	16 902
Balance at 31/12/2017	**119 541**
Foreign exchange differences	–1 310
Change in scope of consolidation	21 599
Proceeds from financial debts	233 672
Repayments of financial debts	–193 087
Non-cash foreign exchange effects	–5 625
Balance at 31/12/2018	**174 790**

	Finance lease liabilities
	in 1 000 CHF
Balance at 31/12/2016	**14 336**
Foreign exchange differences	315
Finance lease additions	657
Finance lease liability payments	–2 394
Balance at 31/12/2017	**12 914**
Foreign exchange differences	–208
Change in scope of consolidation	1 498
Finance lease additions	1 461
Finance lease liability payments	–2 508
Balance at 31/12/2018	**13 157**

56 Share based payments

For Group Management and certain other employees a share based payment plan exists. As part of this plan, Group Management members receive 50% (2017: between 40% and 50%) and the other employees between 20% and 35% (2017: 30%) of their bonus in shares. This equity-settled variable remuneration is measured at fair value and recognised as an increase in equity. The determination of the number of shares is based on the volume weighted average share price of 20 trading days, less a 20% discount for the restriction period. These shares granted have a restriction period of four years. A share based payment plan also exists for members of the Board of Directors. Under this plan, members receive a minimum of 50% of their compensation in shares. This plan has the same features as the one for Group Management.

In 2018, Group Management and certain other employees received for their work in the year 2017 a total of 55‘537 (2017: 41’954 shares) allotted shares at a fair value of CHF 1.0 million (2017: CHF 0.7 million) and CHF 17.22 per share respectively (2017: CHF 17.08). The CEO received a larger portion of his base compensation for his employment 2018 in shares. He was allocated 60'000 shares (2017: 60’000) at a fair value of CHF 1.0 million (2017: CHF 1.0 million) and CHF 16.66 per share respectively (2017: CHF 16.66). A Group Management member received in 2017 for his work 11’292 allotted shares at a fair value of CHF 0.2 million and CHF 16.61 per share respectively. The members of the Board of Directors received for their work from 29 April 2017 up to the Annual General Meeting on 20 April 2018 a total of 24‘557 shares (2017: 30’707 shares) at a fair value of CHF 0.4 million (2017: CHF 0.5 million) and CHF 17.22 per share respectively (2017: CHF 17.08).

Arbonia agreed in 2016 to a salary adjustment which took effect from 1 July 2016 with three executive staff of Sabiana. These people received in a first tranche a total of 112'999 shares at a fair value of CHF 1.3 million or CHF 9.34 per share. A second tranche of an additional 112'999 shares will be payable by 30 June 2019, provided that at that time they are still in an employment relationship with Sabiana.

Personnel expenses in 2018 for share based payments totalled CHF 3.0 million (2017: CHF 2.9 million).

57 Related party transactions

Members of the Board of Directors and Group Management were compensated as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Salaries and other short-term employee benefits	3 204	2 882
Share based payments	1 980	2 149
Pension and social security contributions	793	729
Total	**5 977**	**5 760**

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 82 to 84.

The following transactions were carried out with related parties and the following balances were outstanding as of the balance sheet date respectively:

	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2018		31/12/2018
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel	115	22			
Other related parties	35	4 115	1 323	413	23
Total	**150**	**4 137**	**1 323**	**413**	**23**

	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2017		31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel		41		30	
Other related parties	41	1 482	44	108	
Total	**41**	**1 523**	**44**	**138**	

In 2018, Peter E. Bodmer (non-executive member of the Board of Directors) received a broker's commission of TCHF 115 for his services as broker in the sale of a property in Switzerland. The sale of goods in 2018 relates to Arbonia products acquired at market prices by companies in which two non-executive members of the Board of Directors are members of the Board of Directors and companies owned by Michael Pieper (non-executive member of the Board of Directors). The sale of goods in 2017 related almost exclusively to Arbonia products purchased at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors). The purchase of goods in 2018 relates to purchases of goods at market prices from companies in which a non-executive member of the Board of Directors is a member of the Executive Board. There were no guarantees granted as of the balance sheet date. Furthermore no provisions were required for receivables. Transactions and outstanding balances with associated companies are disclosed in note 36.

Major shareholders as of 31 December 2018 are disclosed in the notes to the 2018 financial statements of Arbonia AG on page 185.

58 Contingencies

There were no contingencies.

59 Events after the balance sheet date

No events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2018 consolidated financial statements.

60 Subsidiaries

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Doors	Services
HVAC Division								
Arbonia Solutions AG	Arbon, CH	4.000 CHF	100%	■	■			
Prolux Solutions AG	Arbon, CH	1.000 CHF	100%	■				
Arbonia HVAC AG	Arbon, CH	0.250 CHF	100%					●
Superia Radiatoren BVBA	Zedelgem, BE	4.498 EUR	100%	▲				
Vasco Group NV	Dilsen-Stokkem, BE	32.500 EUR	100%	■				
Vasco BVBA	Dilsen-Stokkem, BE	20.029 EUR	100%	▲				
LTV Transport NV	Dilsen-Stokkem, BE	0.062 EUR	100%	■				
Kermi s.r.o.	Stribro, CZ	195.000 CZK	100%	▲	▲			
PZP Heating a.s.	Dobre, CZ	7.200 CZK	100%	▲				
Arbonia Riesa GmbH	Riesa, DE	0.614 EUR	100%	■				
Kermi GmbH	Plattling, DE	15.339 EUR	100%	▲	▲			
Vasco Group GmbH	Dortmund, DE	0.077 EUR	100%	■				
Tecnologia de Aislamientos y climatizacion, S.L.	Algete, ES	0.481 EUR	100%	■				
Arbonia France Sàrl	Hagenbach, FR	0.600 EUR	100%	■				
Sabiatherm SAS	Tassin-la-Demi-Lune, FR	0.200 EUR	100%	■				
Vasco Group Sarl	Nogent-sur-Marne, FR	2.000 EUR	100%	■				
Kermi (UK) Ltd.	Corby, GB	0.150 GBP	100%					
Vasco Group Ltd	Horsham, GB	0.025 GBP	100%	■				
Sabiana S.p.A.	Corbetta, IT	4.060 EUR	100%	▲				
Vasco Group Srl	Oderzo, IT	0.485 EUR	100%	■				
Brugman Radiatorenfabriek	Tubbergen, NL	4.000 EUR	100%	▲				
Vasco Group BV	Tubbergen, NL	35.618 EUR	100%	■				
Vasco Group ApS	Kolding, DK	0.500 DKK	100%	■				
Brugman Fabryka	Legnica, PL	20.000 PLN	100%	▲				
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100%	■	■			
Vasco Group SpZoo	Legnica, PL	0.500 PLN	100%	■				
AFG RUS	Moskau, RU	454.500 RUB	100%	▲				
Sanitary Equipment Division								
Bekon-Koralle AG	Dagmersellen, CH	1.000 CHF	100%		▲			
Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H	Margarethen am Moos, AT	0.036 EUR	100%		▲			
Koralle Sanitärprodukte GmbH	Vlotho, DE	2.070 EUR	100%		▲			
Servico-Gesellschaft für Sanitärtechnik mbH	Weissenburg, DE	0.052 EUR	100%		■			

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Doors	Services
Windows Division								
EgoKiefer AG	Altstätten, CH	8.000 CHF	100%			▲		
Arbonia Windows AG	Diepoldsau, CH	0.250 CHF	100%					●
Wertbau GmbH	Langenwetzendorf, DE	0.025 EUR	100%			▲		
Wertbau-Elemente GmbH	Langenwetzendorf, DE	0.100 EUR	100%			▲		
Dobroplast Fabryka Okien sp. z o.o.	Zambrow, PL	53.355 PLN	100%			▲		
Slovaktual s.r.o.	Pravenec, SK	0.500 EUR	100%			▲		
Doors Division								
Arbonia Doors AG	Arbon, CH	0.250 CHF	100%					●
RWD Schlatter AG	Roggwil, CH	2.000 CHF	100%				▲	
Prüm-Türenwerk GmbH	Weinsheim, DE	3.500 EUR	100%				▲	
Garant Türen- und Zargen GmbH	Amt Wachsenburg, DE	0.100 EUR	100%				▲	
TPO Holz-Systeme GmbH	Leutershausen, DE	0.025 EUR	100%				▲	
Invado Sp. z o.o.	Dzielna, PL	20.000 PLN	100%				▲	
Coatings								
FLH Holding AG	Arbon, CH	0.650 CHF	100%					●
Schekolin US LLC	Charlotte, US	0.020 USD	100%					
Corporate Services								
Arbonia AG	Arbon, CH	291.800 CHF						●
AFG International AG	Arbon, CH	1.000 CHF	100%					●
AFG Schweiz AG	Arbon, CH	1.000 CHF	100%					●
AFG Immobilien AG	Arbon, CH	12.000 CHF	100%					●
Arbonia Management AG	Arbon, CH	0.250 CHF	100%					●
Arbonia Services AG	Arbon, CH	0.250 CHF	100%					●
AFG (Shanghai) Building Materials Co. Ltd.	Shanghai, CN	2.000 USD	100%					●
AFG Arbonia-Forster-Deutschland GmbH	Plattling, DE	0.511 EUR	100%					●
AFG Middle East Fze.	Dubai, AE	1.000 AED	100%					●

▲ Production / Sales ■ Trade ● Services / Finances

KPMG

Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arbonia AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 93 to 170) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Valuation of goodwill and intangible assets

Purchase price allocation (PPA) Vasco Group

Implementation of revenue recognition according to IFRS 15

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

KPMG

Valuation of goodwill and intangible assets

Key Audit Matter

As at 31 December 2018, the carrying amounts of the balance sheet line items "Goodwill" and "Intangible assets" amount to:

- Goodwill CHF 204.1 million
- Intangible assets CHF 209.6 million

Management assesses the valuation of goodwill and – in case that impairment triggers exist – of intangible assets based on projected results for the relevant cash generating units.

The impairment tests for these items require significant management judgment with regards to cash flow forecasts, margins, growth rates as well as discount rates, and are therefore a key area of audit focus.

Our response

Our procedures included, amongst others, evaluating the methodical and mathematical accuracy of the model used for the impairment tests, the appropriateness of the assumptions used, and the methodology used by management to prepare cash flow forecasts. We used our own valuation specialists to support our procedures.

Amongst others, we performed the following audit procedures:

— assessing the forecasting accuracy by back-testing historical forecasts to actual results;

— comparing projected cash flows with the latest forecasts by management and with business plans approved by the board of directors;

— challenging the robustness of the key assumptions used to determine the recoverable amount, including forecast cash flows, margins, growth rates and discount rates by comparing them with publicly available data and our understanding of the commercial prospects of the relevant assets;

— conducting sensitivity analyses, taking into account the historical forecasting accuracy.

We also considered the appropriateness of disclosures in the consolidated financial statements in relation to sensitivities regarding the impairment testing of goodwill.

For further information on goodwill and intangible assets refer to the following:

— Note 19 „Intangible assets", page 110

— Note 20 „Impairment of assets", page 111

— Note 21 „Estimated useful lives", page 111

— Note 30 „Significant accounting judgments, estimates and assumptions", paragraphs „Estimated impairment of goodwill" and „Intangible assets acquired in a business combination", pages 115 and 116

— Note 39 „Intangible assets", page 134

KPMG

Purchase price allocation (PPA) Vasco Group

Key Audit Matter

On 16 May 2018, Arbonia Group acquired control of the Belgian Vasco Group NV ("Vasco Group"). The purchase price amounted to CHF 62 million, and no goodwill has been recognized.

Significant management judgment is involved in the identification and valuation of intangible assets and real estate. Therefore, the accounting for the acquisition of Vasco Group was determined to be a key audit matter.

Our response

We assessed whether the material opening balance sheet items were accounted for in accordance with IFRS 3 "Business Combinations". We used our own valuation specialists to support our procedures.

Amongst others, we performed the following procedures:

— critical reviewing of the purchase agreement;

— assessing the competence and independence of external experts engaged by the Arbonia Group for the purchase price allocation and the valuation of real estate;

— comparing the values of acquired properties with reports of external valuation experts and challenging the key assumptions;

— assessing the appropriateness of the model used in the valuation of the intangible assets, and challenging the robustness of the key valuation parameters, including discount rates, residual useful lives, churn rates and royalty rates by comparing these with publicly available data;

— evaluating the existence, respectively the valuation of other acquired net assets with the support of local audit teams;

Furthermore, we considered the appropriateness of the disclosures in the notes in relation to the acquisition of the Vasco Group.

For further information on the purchase price allocation for the Vasco Group refer to the following:

— Note 19 „Intangible assets", page 110

— Note 21 „Estimated useful lives", page 111

— Note 30 „Significant accounting judgments, estimates and assumptions", paragraphs „Estimated impairment of goodwill" and „Intangible assets acquired in a business combination", pages 115 and 116

— Note 40 „Acquisitions",section „Acquisitions 2018", page 137

KPMG

Implementation of revenue recognition according to IFRS 15

Key Audit Matter

In the financial year 2018, total revenue amounted to CHF 1'374 million, whereof CHF 1'187 million recognized at a point in time and CHF187 million recognized over time.

Arbonia AG applied the International Financial Reporting Standard (IFRS) 15 as from 1 January 2018 using the modified retrospective method. The core principle of IFRS 15 is that revenue is recognized when a performance obligation is satisfied by transferring control over a promised good or service, in an amount that reflects the expected consideration for those goods or services.

Arbonia Group analyzed the impact of the new standard for all Group entities. Revenue recognition only changed for entities operating in the project business. Previously, revenue had only been recognized once a legally signed acceptance protocol existed. As from the financial year 2018, revenue is recognized in the amount of the expected consideration over the period of the provided services (planning, production, assembly, acceptance). For a large part of Arbonia Group's revenues, namely those in the resale/commercial business, there was no change in the timing of their recognition.

As the requirements of IFRS 15 have significant impact, also on future periods, and in consideration of the extensive disclosure requirements, we determined the implementation of revenue recognition according to IFRS 15 to be a key audit matter.

Our response

Our procedures included, amongst others, evaluating the amended accounting policies as well as their correct application related to the different revenue streams (resale/commercial business and project business).

Amongst others, we performed the following procedures:

— challenging the applied revenue recognition policy, in particular with regard to the client's conclusion that for a large part of revenues no change was required;

— analyzing conditions in contracts on a sample basis with respect to the correct determination of the revenue recognition policy based on the applicable five-step model;

— assessing for entities recognizing revenues over time whether the prerequisites are met (i.e. whether the transfer of control takes place over time);

— reconciling contract assets and contract liabilities with detailed statements and evaluating their mathematical accuracy based on the expected sales, expected contract costs and costs incurred;

— for material items of the detailed statements, respectively significant projects: reconciling on a sample basis expected sales with underlying evidence (such as contracts or order confirmations), assessment of budgeted respectively forecasted contract costs and of the amount and appropriate period allocation of costs incurred.

We also assessed the appropriateness of the disclosures in relation to the implementation of revenue recognition according to IFRS 15.

For further information on the implementation of revenue recognition according to IFRS 15 refer to the following:

— Note 2 „General principles and basis of preparation“, paragraph “First time adoption of IFRS 15”, page 102
— Note 29 „Income Statement”, paragraph “Net revenue”; page 113
— Note 30 „Significant accounting judgments, estimates and assumptions“, paragraph “Revenue recognition”, page 115
— Note 31 “Segment information”, page 117
— Note 33 „Accounts receivable/contract balances“, paragraph „Contract balances“ page 122

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

KPMG

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker Licensed Audit Expert Auditor in Charge	Oliver Eggenberger Licensed Audit Expert

St. Gallen, 19 February 2019

FINANCIAL STATEMENTS ARBONIA AG

Income statement

		2018		2017	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Dividend income		20 000		2 000	
Financial income	2.7	29 122		11 487	
Other operating income		15		20	
Total income		**49 137**	**100.0**	**13 507**	**100.0**
Financial expenses	2.8	−25 531	−52.0	−23 273	−172.3
Personnel expenses		−890	−1.8	−961	−7.1
Other operating expenses	2.9	−5 372	−10.9	−5 438	−40.3
Total expenses		**−31 793**	**−64.7**	**−29 672**	**−219.7**
Net profit/loss for the year		**17 344**	**35.3**	**−16 165**	**−119.7**

The notes on pages 182 to 185 are an integral part of these financial statements.

Balance sheet

		31/12/2018		31/12/2017	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Assets					
Cash and cash equivalents		43 625		17 265	
Other receivables					
Third parties		105		99	
Shareholdings		223 147		136 701	
Deferred expenses		28		30	
Financial assets		10 000			
Current assets		**276 905**	**20.9**	**154 095**	**12.9**
Loans to shareholdings		257 048		250 068	
Investments	2.1	788 812		788 812	
Non-current assets		**1 045 860**	**79.1**	**1 038 880**	**87.1**
Total assets		**1 322 765**	**100.0**	**1 192 975**	**100.0**

		31/12/2018		31/12/2017	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable					
Third parties		13		80	
Shareholdings		493		7	
Interest bearing liabilities	2.2				
Bank loans		20 000		103 672	
Shareholdings		154 898		109 396	
Other liabilities					
Third parties		232		47	
Shareholdings		48			
Accruals and deferred income		2 373		1 770	
Current liabilities		**178 058**	**13.5**	**214 972**	**18.0**
Interest bearing liabilities	2.3				
Promissory note loan		146 975			
Non-current liabilities		**146 975**	**11.1**		
Total liabilities		**325 033**	**24.6**	**214 972**	**18.0**
Share capital	2.4	291 788		291 788	
Legal capital reserves					
Capital contribution reserve	2.5	483 138		483 138	
Other capital reserves		42 812		42 812	
Voluntary reserves					
Free reserves		19 137		17 916	
Retained earnings		158 114		174 279	
Net profit/ loss for the year		17 344		– 16 165	
Treasury shares	2.6	– 14 601		– 15 765	
Shareholders' equity		**997 732**	**75.4**	**978 003**	**82.0**
Total liabilities and shareholders' equity		**1 322 765**	**100.0**	**1 192 975**	**100.0**

The notes on pages 182 to 185 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

1.1 General information

These financial statements 2018 were prepared under the provisions of the Swiss accounting law (32nd title of the Swiss Code of Obligations).

Since Arbonia AG prepares consolidated financial statements in accordance with a recognised financial reporting standard (International Financial Reporting Standards), the company is not disclosing in accordance with the statutory provisions the audit fees and is not presenting a cash flow statement and a management report.

1.2 Other current receivables

Other current receivables from shareholdings are short term loans, which are accounted for at nominal value and for which if necessary, have individual specific valuation allowances been booked.

1.3 Financial assets/non-current loans

Financial assets consist of short-term loans to third parties and long-term loans to shareholdings and are valued at cost reduced by required impairments. Loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (imparity principle).

1.4 Treasury shares

Treasury shares are recognised at acquisition date at cost as a negative item in equity. In a subsequent sale or delivery in the context of the share based payments, profit or loss arising from the sale of treasury shares is recognised directly in equity under voluntary reserves.

1.5 Share based payments

A share based payment plan exists for members of the Board of Directors. Under this plan, members receive a minimum of 50% of their compensation in shares. The determination of the number of shares is based on the volume weighted average share price of 20 trading days, less a 20% discount for the restriction period. These shares granted have a restriction period of four years. The fair value of the equity compensation instruments is determined at the grant date and recorded to the income statement as personnel expenses with a corresponding offsetting entry to equity.

1.6 Interest bearing liabilities

Interest bearing liabilities are accounted for at nominal value. Long-term loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (imparity principle).

2 Information and notes to the financial statements

2.1 Investments

	31/12/2018		31/12/2017	
Company	Share capital in 1 000 CHF	Capital and voting interest in %	Share capital in 1 000 CHF	Capital and voting interest in %
AFG Schweiz AG, Arbon	1 000	100.00 %	1 000	100.00 %
AFG International AG, Arbon	1 000	100.00 %	1 000	100.00 %
Arbonia Management AG, Arbon	250	100.00 %	250	100.00 %
Arbonia Services AG, Arbon	250	100.00 %	250	100.00 %
Looser Holding AG, Arbon			32 047	100.00 %

All subsidiaries directly or indirectly held by Arbonia AG are disclosed in note 60 in the notes to the consolidated financial statements of Arbonia Group.

2.2 Current interest bearing liabilities

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Bank loans – syndicated loan	20 000	103 672
Loans to shareholdings	154 898	109 396
Total	**174 898**	**213 068**

On 14 September 2016, Arbonia AG entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks, had a line of credit of CHF 100 million with a due date no later than 31 December 2017 and was used to finance the cash settlement of the Looser acquisition. The other line of credit of 400 million matures on 14 September 2021. However due to the sale of the business unit Industrial Services in 2017, the credit line was reduced to CHF 350 million. Due to the sale of the Coatings segment, the credit line of CHF 87 million used to finance the cash settlement of the Looser acquisition was completely repaid by 10 July 2017.

2.3 Non-current interest bearing liabilities

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Promissory note loan	146 975	
Total	**146 975**	

On 20 April 2018, Arbonia has taken up a promissory note loan in the amount of EUR 125 million with maturities of five, seven and ten years.

Maturity structure

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Within 5 years	70 548	
Over 5 years	76 427	
Total	**146 975**	

2.4 Share capital

Refer to note 47 in the notes to the consolidated financial statements of Arbonia Group.

2.5 Capital contribution reserve

The capital contribution reserve includes the premium from the capital increases in 2007, 2009, 2015, 2016 and 2017 reduced by previous distributions.

The distribution from capital contribution reserve is fiscally treated like a redemption of share capital. The Swiss Federal Tax Administration (FTA) has confirmed the disclosed capital contribution reserve (balance as of 31 December 2017) as capital contribution within the meaning of article 5 para. 1^{bis} VStG.

2.6 Treasury shares

			2018			2017
	Ø market value in CHF	Number of shares	Amount in 1 000 CHF	Ø market value in CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	**16**	**994 148**	**15 765**	**13**	**664 351**	**8 576**
Purchase				17	718 391	12 074
Transfer for share based payments	17	–140 094	–2 384	17	–143 953	–2 454
Sale				17	–244 641	–4 280
Gain (+) / loss (-)			1 220			1 849
Balance at 31/12	**17**	**854 054**	**14 601**	**16**	**994 148**	**15 765**

2.7 Financial income

Financial income totals CHF 29.1 million (2017: CHF 11.5 million) and consists mainly of interest income on loans to shareholdings and foreign currency exchange gains.

2.8 Financial expenses

Financial expenses totals CHF 25.5 million (2017: CHF 23.3 million) and consists mainly of bank interest and foreign currency exchange losses.

2.9 Other operating expenses

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Administrative costs	4 925	4 799
Consultancy and audit fees	287	384
Other operating expenses	159	255
Total	**5 372**	**5 438**

3 Other disclosures

3.1 Guarantees, warranty obligations and collateral in favour of third parties

The following guarantees were issued for the companies listed below:

		31/12/2018	31/12/2017
UBS AG			
in favour of AFG Immobilien AG	in 1 000 CHF	3 465	3 465
St. Galler Kantonalbank			
in favour of EgoKiefer AG	in 1 000 CHF	340	1 000
UniCredit Bank			
in favour of Kermi GmbH	in 1 000 EUR	648	1 500
in favour of Wertbau GmbH	in 1 000 EUR	2 163	2 500
in favour of Dobroplast Fabryka Okien sp. z o.o.	in 1 000 EUR	963	

3.2 Contingent liabilities

A joint and several liability exists towards the affiliated subsidiaries under the cash pooling agreement with UniCredit Bank AG.

3.3 Major shareholders

	31/12/2018	31/12/2017
	Voting and capital interest	Voting and capital interest
Artemis Beteiligungen I AG	22.07 %	21.53 %

3.4 Headcount in full-time equivalents

Arbonia AG does not employ any staff.

3.5 Disclosure of shareholding

The following members of the Board of Directors and the Group Management (including related parties) held the following number of shares of Arbonia AG:

	31/12/2018	31/12/2017
	Number of registered shares	Number of registered shares
Alexander von Witzleben (Chairman of the BoD and Group Management)	275 651	171 984
Peter Barandun (Member of the BoD)	27 412	23 801
Peter E. Bodmer (Member of the BoD)	15 341	12 813
Markus Oppliger (Member of the BoD)	20 446	17 557
Heinz Haller (Member of the BoD)	100 000	51 260
Michael Pieper (Member of the BoD)	15 329 516	14 954 493
Thomas Lozser (Member of the BoD)	366 074	397 294
Rudolf Huber (Member of the BoD until 20/04/2018)		129 873
Felix Bodmer (Group Management)	74 187	68 168
Knut Bartsch (Group Management)	45 127	39 252
Harald Pichler (Group Management)	22 195	9 556
Peter Spirig (Group Management)	8 194	2 733
Ulrich Bornkessel (Group Management from 01/01/2018)	9 724	
Total	**16 293 867**	**15 878 784**

PROPOSAL OF THE BOARD OF DIRECTORS

The Board of Directors will propose at the Annual General Meeting of the shareholders on 12 April 2019 the following:

Appropriation of retained earnings

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Retained earnings carried forward from previous year	158 114	174 279
Net profit/loss for the year	17 344	– 16 165
Retained earnings	**175 458**	**158 114**
Retained earnings carried forward	175 458	158 114
Total	**175 458**	**158 114**

Appropriation of capital contribution reserve

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Carry forward from previous year	483 138	483 138
Withholding tax free distribution [1]	– 13 895	
Capital contribution reserve	**469 243**	**483 138**

[1] No distribution for treasury shares at the time of payment.

Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arbonia AG, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 179 to 185) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Valuation of investments and loans due from shareholdings

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

KPMG

Valuation of investments and loans due from shareholdings

Key Audit Matter

The financial statements of Arbonia AG as at 31 December 2018 include investments amounting to CHF 788.8 million and loans due from shareholdings (included in the balance sheet items “Other receivables shareholdings” as well as “Loans to shareholdings”) amounting to CHF 480.2 million. The company reviews the individual investments and loans due from shareholdings for impairment annually.

The impairment assessment of investments and loans due from shareholdings requires significant management judgment, and is therefore a key area of audit focus.

Our response

During our audit, we assessed management’s impairment review of the investments and the loans due from shareholdings.

Amongst others, we performed the following audit procedures:

— Comparing the carrying amounts of the investments with the equity of the relevant companies, in some cases considering the pro-rata net assets of indirect investments or relying on management’s impairment reviews that had already been assessed during the group audit;

— Assessing the recoverability of loans due from shareholdings by analyzing the equity position of the borrower.

For further information on Valuation of investments and loans due from shareholdings refer to the following:

— Note 1.2 „Other current receivables“, page 182
— Note 1.3 „Financial assets/non-current loans“, page 182
— Note 2.1 „Investments“, page 183

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

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

KPMG

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2019

KPMG AG, Bogenstrasse 7, Postfach 1142, CH-900 St. Gallen

SUPPLEMENTARY INFORMATION FOR INVESTORS

	2018	2017	2016	2015	2014
Number of shares					
Registered par value CHF 4.20	69 473 243	69 473 243	68 485 790	44 557 125	18 225 603
Registered par value CHF 4.20 average number	69 473 243	69 061 804	47 448 515	29 658 846	18 225 603
Stock market prices in CHF [1]					
Highest	18.3	19.1	17.0	18.6	26.3
Lowest	10.5	15.1	8.8	8.7	14.0
31/12	10.8	16.3	16.4	10.1	18.2
Stock market capitalisation in CHF million (31/12)	**750.3**	**1 128.9**	**1 123.2**	**450.0**	**449.3**
Per share data [1]					
Gross dividend in CHF [2]	0.2	0.0	0.0	0.0	0.0
Pay-out ratio (in % of Group earnings)	29.9	0.0	0.0	0.0	0.0
Group earnings in CHF	0.7	0.7	0.2	–6.1	0.6
Cash flow from operating activities in CHF	1.0	1.0	0.7	1.8	1.6
Shareholders’ equity in CHF	12.8	12.4	10.5	7.9	14.7
Price/earnings ratio (highest)	27.6	28.4	106.1	–3.1	31.7
Price/earnings ratio (lowest)	15.8	22.4	54.6	–1.5	16.9
Price/earnings ratio (31/12)	16.3	24.2	102.3	–1.7	22.0
Price/cash flow ratio (highest)	18.3	19.1	25.2	10.1	12.1
Price/cash flow ratio (lowest)	10.4	15.1	13.0	4.8	6.5
Price/cash flow ratio (31/12)	10.8	16.3	24.3	5.5	8.4

[1] Adjusted for 2015 capital increase
[2] 2019 proposal to the Annual General Meeting

GLOSSARY

Artemis Beteiligungen I AG Affiliated company that is controlled by Michael Pieper and has been the main shareholder in Arbonia AG since December 2014.

BIM (Building Information Modeling) Describes a method of optimised planning, execution and management of buildings and other structures with the aid of software.

Cash flow Positive or negative surplus cash arising from commercial activity, measured over a certain period. Cash flow can be used to evaluate how financially strong a company is.

Coextrusion A technique for manufacturing multilayered products. Material from the main extruder is combined with a second material that is extruded – in other words, moulded – using a small extruder (or coextruder). This creates a multilayered product.

Consolidation The process of combining the individual annual account items of all the companies belonging to a group, in order to form a consolidated financial statement.

Door leaf Movable part of a door element that allows or prevents access to rooms. Often simply referred to as a door.

Door rebate A distinction is made between rebated and unrebated doors for interior doors. This refers to the type of edge geometry: With a rebated door, i.e. a door leaf with an L-shaped edge, the door leaf does not lie flush in the frame, but lies lightly on the frame. These doors have the advantage that they cover the gap between the frame and the door leaf and thus close more tightly. There are also blunt or unrebated door leaves. The edge of the door leaf is straight, without rebate; door leaf and frame are on the same level.

Downtrading A deliberate reduction in the level of performance and/or quality of a product, often accompanied by a reduction in price. This is a market strategy that changes products in such a way as to address consumer groups whose income is lower than that of previous target groups.

EBIT Earnings Before Interests and Taxes: a company's operating results before interest and taxes are taken into account.

EBIT margin Indicates EBIT in relation to revenue.

EBITDA Earnings Before Interests and Taxes, Depreciations and Amortization: a company's operating results before interest, taxes, depreciation and amortization are taken into account. EBITDA is one of the most meaningful figures in evaluating a company's earning power.

EBITDA margin Indicates EBITDA in relation to revenue.

Equity ratio Indicates the shareholders' equity in relation to total capital. It is used to assess a company's financial capacity and stability. If the equity ratio is high, you can assume that the company is less dependent on third-party funds.

Fan coil Depending on the temperature of the flow water for a connected water heater / chiller, fan coils are able to heat, cool and dehumidify a room, and are able to provide ventilation and the option of filtering indoor air in fan-only operation. This results in maximum comfort with optimum room air quality. A fan radiator is able to heat (but not cool) a room by means of convection when the fan is switched off.

Fitting A functional element for opening and closing a window which acts mechanically via the handle. Window fittings connect the movable part of a window (window sash) with the immovable part (window frame).

Frame Also known as a lining construction, which covers the passageway in the wall and serves to accommodate the door leaf.

Free cash flow The operating cash flow minus cash flow from investing activities; illustrates how much cash remains free for shareholder dividends and/or any repayment of debt financing that may be required.

Free float The portion of the total number of a company's shares that is not in fixed ownership. Small portions owned by private investors are also included in the free float, even though they are essentially in fixed ownership.

Goodwill In accounting, goodwill represents an intangible asset within the company that arises through the acquisition of other companies or parts of companies in return for payment.

Heat pump Draws its heat energy from the air, groundwater or soil, and uses this extremely efficiently to generate the heat required for heating drinking water and rooms. Compared to heat pumps, no other kind of heat generator is a more environmentally sustainable solution or is more fit for the future.

Installation depth Indicates the thickness of the window frame profile. It depends, among other things, on the number of air chambers in the window frame, but also on the thickness of the glazing that can be inserted into the frame.

Insulating glass Multi-pane insulating glass (MIG), also known as insulated glazing or double/triple glazing, is a construction element made up of at least two panes of glass and is used for windows or other glass features. The area between the panes is hollow and sealed against gas and moisture. This helps to keep noise out and heat in.

Market capitalisation A company's stock market value. It is calculated using the number of shares x the current share price.

Net indebtedness The total that remains when cash and cash equivalents are deducted from non-current liabilities. This indicates how much cash would be available for repaying loans if the cash and cash equivalents were already used up and the company had to liquidate its current assets.

RFID (radio-frequency identification) Refers to the technology used by sender-receiver systems to automatically identify and locate objects and living organisms using radio waves, meaning that no contact is required.

Surface heating A catch-all term covering various types of heating and cooling, and denotes a process in which heat is emitted or absorbed via the surfaces of the components in a building.

HISTORY

In **1874**, Franz Josef Forster opened a coppersmith's shop producing hot-water bottles, cookware and other receptacles. The company changed its name to Hermann Forster AG in 1922. By this time, it was manufacturing steel tubes.

In **1904**, Karl Schnitzler set up a factory to make heat exchangers under the Arbonia brand.

In **1954**, Arbonia AG was established.

In **1973**, the majority of the shares in Hermann Forster AG were transferred to Arbonia AG, which had been wholly owned by Jakob Züllig since 1959. The Arbonia-Forster Group comprised Hermann Forster AG (steel tubes technology, kitchens and refrigeration equipment), Arbonia AG (radiators and heaters), Asta AG (road transport) and Buhler-Regina AG (embroidery supplies).

In **1987**, AFG Arbonia-Forster-Holding AG was registered with the commercial register with CHF 30 million in share capital. A year later, the company was listed on the stock exchange.

In **1999**, Jakob Züllig, majority shareholder and Chairman of the Board of Directors, died. Prolux Heizkörper AG was bought in the same year.

In **2001**, AFG took over the German company Kermi GmbH, which provided a major boost for its radiator and shower stall business.

In **2003**, the Züllig estate sold its majority interest to Dr Edgar Oehler, the new CEO and Chairman of the Board of Directors.

In **2004**, there were three acquisitions: Bruno Piatti AG, Dietlikon ZH (CH); EgoKiefer AG, Altstätten SG (CH); and Spedition Gächter GmbH, Stachen-Arbon TG (CH).

In **2005**, there followed a further acquisition: in September, AFG acquired Miele Kitchens, based in Warendorf (D), from the German company Miele & Cie. KG, based in Gütersloh (D).

In **2006**, the Group acquired Schmidlin ASCO Swiss AG, Zwingen BL. The company specialises in underfloor convectors which, alongside their conventional heating function, can also be used for cooling.

In **2007**, AFG acquired STI Surface Technologies International Holding AG, Steinach SG (CH) and RWD Schlatter AG, Roggwil SG (CH). In September, AFG acquired the British company Aqualux Products Holdings Ltd.

In **2008**, AFG took over Slovaktual s.r.o., Slovakia's leading windows manufacturer. In October, AFG set up a new Asia Pacific regional branch with headquarters in Shanghai (CN).

In **2009**, AFG presented its new Warendorf brand of kitchens. This represents the successor to the Miele Kitchens (Miele Die Küche) brand.

In **2010**, shareholders at AFG's ordinary General Meeting approved the abolition of the hitherto unequal weighting of registered shares and bearer shares, introducing a single class of registered shares.

In **2011**, Edgar Oehler was succeeded as Chairman of the Board of Directors by Paul Witschi on 29 April and as CEO by Daniel Frutig on 1 June.

In **2012**, AFG sold its transport and logistics business Asta, its British subsidiary Aqualux and the German company Warendorf. With the acquisition of the Polish window manufacturer Dobroplast, it focused on expanding one of its core business areas.

In **2013**, AFG intensified its focus on its core business based on building envelope and interior. It sold off Forster Refrigeration Technology as well as Forster Precision Steel Tubes.

In **2014**, the AFG kitchen business and the STI Group were sold. AFG acquired Sabiana, a market leader in commercial heating, ventilation and air-conditioning.
Artemis Beteiligungen I AG, led by Michael Pieper, became AFG's new main shareholder.

In **2015**, the General Meeting elected Alexander von Witzleben as the new Chairman of the Board of Directors. In July, he also assumed the role of interim CEO. In August, the Board of Directors decided to relocate the production plants to other European countries as a result of significant pressure from competition. The Eastern German window manufacturer Wertbau GmbH was also acquired in August. As part of a capital increase carried out with the aim of strengthening the Group's financial standing, Artemis Beteiligungen I AG reaffirmed its commitment to the Group and, by the end of the year, had increased its stake to just under 28%.

In 2016, AFG acquired the Koralle Group, a specialist in sanitary facilities, from Geberit AG. The move marks an expansion of the Building Technology Division's product range and will help it enhance its position in the core markets of Switzerland, Germany and Austria with a lasting effect. To improve its value chain and market presence in France and Luxembourg, AFG took over the Sabiatherm, Sabiana's exclusive distribution partner in France. In September, AFG announced the takeover of the Looser Group, which is also active in the building supply business and consists of two main arms: doors (Prüm, Garant and Invado) and industrial services (Condecta). This transaction represents an important step in AFG's efforts to achieve its strategic goal of becoming a leading European building supplier. As part of this transaction, AFG Arbonia-Forster-Holding AG was renamed Arbonia AG.

In 2017, with the cancellation of the final Looser shares remaining in public hands, and the cash settlement paid to the shareholders affected by this, Arbonia's takeover of the Looser Group can come to a successful conclusion. Looser's Coatings business (Feyco Treffert, Schekolin, Ilag) will be sold in full in the first half of the year. In November, Arbonia is also selling Looser's Condecta Group. With the sale of the Profile Systems Business Unit and the associated companies Forster Profile Systems and Bloxer Ronchi in December, Arbonia will continue to focus on its three core areas of building technology, windows and doors. Following the split of the Building Technology Division in January 2018, this will become four core areas: HVAC, sanitary equipment, windows and doors.

In 2018, Arbonia is taking an active part in the European market consolidation process in the area of design and steel panel radiators by acquiring the Belgian company Vasco Group for its heating, ventilation and air-conditioning technology division. The acquisition will expand its geographical footprint and strengthen the division's range of products.

ADRESSES

Arbonia AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41
holding@arbonia.com
www.arbonia.com

Arbonia Doors AG
Amriswilerstrasse 50
9320 Arbon
Switzerland

Arbonia HVAC AG
Amriswilerstrasse 50
9320 Arbon
Switzerland

Arbonia Solutions AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 47 47
info@arbonia.ch
www.arbonia.ch

Arbonia Windows AG
Hohenemserstrasse 32
9444 Diepoldsau
Switzerland

Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H
Heidestrasse 9
2433 Margarethen am Moos
Austria
T +43 22 30 280 50
info@baduscho.at
www.baduscho.at

Bekon-Koralle AG
Baselstrasse 61
6252 Dagmersellen
Switzerland
T +41 62 748 60 60
info@koralle.ch
www.koralle.ch

Brugman Radiatorenfabriek BV
Boskampstraat 26,
7651 AM Tubbergen
Netherlands
T +31 546 62 93 20
info@brugman.eu
www.brugman.eu

Dobroplast Fabryka Okien sp. z o. o.
Produktionsbetrieb für Dachflächenfenster
ul. Vetterów 7
20-277 Lublin
Poland
T +48 86 276 34 64
arkadiusz.albiniak@dobroplast.pl
www.dobroplast.pl

Dobroplast Fabryka Okien sp. z o. o.
Stary Laskowiec 4
18-300 Zambrów
Poland
T +48 86 276 35 00
dobroplast@dobroplast.pl
www.dobroplast.pl

EgoKiefer AG
Fenster und Türen
Schöntalstrasse 2
9450 Altstätten
Switzerland
T +41 71 757 33 33
zentrale@egokiefer.ch
www.egokiefer.ch

GARANT Türen und Zargen GmbH
OT Ichtershausen
Garantstrasse 1
99334 Amt Wachsenburg
Germany
T +49 36202 910
service@garant.de
www.garant.de

Invado Sp. z o.o.
Dzielna, ul. Lesna 2
42-793 Ciasna
Poland
T +48 34 35 10 540
biuro@invado.pl
www.invado.pl

Kermi GmbH
Pankofen-Bahnhof 1
DE-94447 Plattling
Germany
T +49 9931 50 10
info@kermi.de
www.kermi.de

Kermi s.r.o.
Ul. Dukelská 1427
34901 Stříbro
Czech Republic
T +420 374 611 111
info@kermi.cz

Koralle Sanitärprodukte GmbH
Wilhelmstrasse 8
32602 Vlotho
Germany
T +49 5733 14 0
info@koralle.de
www.koralle.de

Prolux Solutions AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 48 48
info@prolux-ag.ch
www.prolux-ag.ch

PRÜM-Türenwerk GmbH
Andreas-Stihl-Strasse 1
54595 Weinsheim
Germany
T +49 6551 1201
kontakt@tuer.de
www.tuer.de

PZP HEATING a.s.
Dobré 149
517 93 Dobré
Czech Republic
T +420 494 664 203
info@pzpheating.com
www.pzpheating.com

RWD Schlatter AG
St. Gallerstrasse 21
9325 Roggwil
Switzerland
T +41 71 454 63 00
info@rwdschlatter.ch
www.rwdschlatter.ch

Sabiana S.p.A.
Via Piave 53,
20011 Corbetta (MI)
Italy
T +39 02 972031
info@sabiana.it
www.sabiana.it

Sabiatherm S.A.S.
81, Rue Francois Mermet
69160 Tassin-la-Demi-Lune
Frankreich
T +33 437 49 02 73
info@sabiana.it
www.sabiana.it

Slovaktual s.r.o.
972 16 Pravenec 272
Slovakia
T +421 46 544 74 32
slovaktual@slovaktual.sk
www.slovaktual.sk

Superia Radiatoren BVBA
Remi Claeysstraat 66
8210 Zedelgem
Belgium
T +32 50-20 94 61
info@superia.be
www.superia.be

TECNOLOGIA DE AISLAMIENTO
Y CLIMATIZACION SL
Crta. Paracuellos a Fuente el Saz
Km 19.100 (Antigua M-111)
28110 Algete
Spain
T +34 93 450 05 94
comercial@tecna.es
www.tecna.es

TPO Holz-Systeme GmbH
Färbereistrasse 8
91578 Leutershausen
Germany
T +49 9823 454
info@tpo-holz.de
www.tpo-holz.de

Vasco Group NV
Kruishoefstraat 50
3650 Dilsen
Belgium
T +32 89 79 04 11
info@vasco.eu
www.vasco-group.eu

Vasco Group Sp. Z.o.o.
Ul. Jaworzýnska 295
59-220 Legnica
Poland
T +48 76 850 83 90
sprzedaz@vasco.pl
www.vasco.pl

WERTBAU GmbH
Am Dasslitzer Kreuz 3
07957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de
www.wertbau.de

DATES

12 April 2019

32nd Annual General Meeting
Würth Haus, Rorschach (CH)

13 August 2019

Publication of first semester results for 2019 financial year

PUBLICATION INFORMATION

Publisher
Arbonia AG
Corporate Communications
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41
media@arbonia.com
www.arbonia.com

Design
KA BOOM, Kommunikationsagentur AG, St. Gallen (CH)

Potrait photos
Jos Schmid, Zürich (CH)

Translation
Transline Deutschland GmbH, Reutlingen (D)

Printing
Gmähle-Scheel Print-Medien GmbH, Esslingen (D)

This Annual Report is published in German and English.
The original language is German.

This Annual Report is printed on FSC-certified paper.