ARBONIA

First Semester Financial Report 2018

Arbonia continued to grow steadily during the first half of 2018, based on its pre-defined goals and the clear business profile that it has honed in recent years. The acquisitions made in the door and heating technology sector have proven to be strategically sound, as has the focus on targeted divestments. The organisation, which became operational on 1 January 2018, focusing on the heating, ventilation and air conditioning (HVAC) and the sanitary equipment sectors as independent divisions, has performed well.

By mid 2018, Arbonia is on track to achieve its financial targets.

Dear shareholders,
dear ladies and gentlemen,

Arbonia Group again achieved growth in revenue and earnings during the first half of 2018. The Doors Division developed particularly well during the reporting period, which was significantly strengthened strategically in the previous year by the integration of Looser Group and its focus on interior doors. The HVAC Division also achieved attractive performance with its two Heating Technology and Ventilation and Air Conditioning business units.

Overall, the corporate strategy developed in 2015 and the associated three-year action programme have led to the targeted reliable business development of Arbonia Group.

Adjusted for the discontinued Industrial Services and Profile Systems Business Units in the second half of 2017, Arbonia Group grew by CHF 87 million, or 15.6% to a revenue of CHF 645.6 million in the first half of 2018. EBITDA rose from CHF 34.5 million in the period a year prior to CHF 44.2 million in the first half of 2018. EBITDA without special effects increased from CHF 35.7 million to CHF 40.5 million. EBIT rose from CHF 6.9 million in the same period last year to CHF 12.1 million in the first half of 2018. EBIT without special effects increased from CHF 7.5 million to CHF 8.4 million. Operating income after tax with continuing operations amounted to CHF 6.7 million compared to CHF 0.5 million in the same period last year.

Market environment

During the first half of 2018, Germany was once again Arbonia's largest sales market, followed by Switzerland, Poland, Italy and France. During the reporting period, the company generated 82% of its sales in these markets.

With the US Federal Reserve gradually raising interest rates, the European Central Bank has also announced the end of bond purchases in the euro zone. Increased raw material prices, especially crude oil, now pose a risk to economic growth and market development. Higher wages, especially in the countries where Arbonia's European plants are located, will also put additional burdens on companies. Overall, political instability and the escalating trade conflict are leading to an increasingly uncertain global economic environment.

New residential construction in **Germany** remained at a high level. Compared to the previous year however, the economy is likely to slow down. In addition to the global economic conditions, rising prices and bottlenecks for craftsmen and plots of land are slowing the construction boom. Despite well utilised capacities, demand is likely to slow.

The **Swiss** domestic market is maintaining its existing level. However, rising vacant properties suggest that construction activity will consolidate. In recent years, residential construction in particular has been driven forward by a lack of investment alternatives.

The market in **Poland**, one of the most dynamic economies in Europe, continued to develop positively. However, a shortage of skilled workers is also becoming apparent here in the medium term. This risk also applies to the economically expanding Eastern European countries Slovakia and the Czech Republic, in which Arbonia has production facilities and sees significant potential as sales markets.

Italy, the fourth largest sales market, was subject to political instability at the beginning of the first half of 2018. The uncertainty that prevailed in this regard increasingly led to delayed investments.

In **France**, during the first five months of 2018, construction commencements fell by more than 4% and the outlook for private residential construction deteriorated during the first half of the year. This is partly due to lower real wage developments and partly to government decisions taken at the end of 2017 regarding the expiry of subsidised 0% interest rate loans for certain construction projects. Strong commercial construction activity and the enforceability of rising prices could not compensate for this negative trend.

General activities from Arbonia Group

In the first half of 2018, Arbonia Group took further steps to position itself even more clearly in its markets and to develop into the leading integrated building supplier in Central Europe as an overall group.

With effect from 1 January 2018, the Building Technology Division's business was reorganised: The former Heating Technology and Air Conditioning and Ventilation Technology and the Sanitary Equipment Business Units are managed as two independent divisions under the names Heating, Ventilation and Air Conditioning (HVAC) and Sanitary Equipment Division. The new organisation also takes into account the strategic importance and size of the sanitary business, which has been achieved since the acquisition of Koralle Group two years ago. Arbonia Group now consists of four strong divisions HVAC, Sanitary Equipment, Windows and Doors. This structure adequately reflects the Group's market and customer-oriented operational management and offers investors greater transparency in reporting.

On 17 May 2018, Arbonia announced the acquisition and at the same time, its completion, of the Belgian Vasco Group, the market leader for radiators in Benelux countries. The former family business, headquartered in Dilsen

(Belgium), has production facilities in Belgium, the Netherlands and Poland. Vasco will be integrated into the HVAC Division. With this acquisition, Arbonia is actively participating in the consolidation process of the European radiator industry.

Financing

On 20 April 2018, Arbonia announced the successful placement of certificates of indebtedness ('Schuldscheindarlehen') in the amount of EUR 125 million. The certificates were issued with maturities of 5, 7 and 10 years, each with a fixed interest rate, and were significantly oversubscribed. Due to strong demand, the volume of the issue was increased from the original EUR 75 million to EUR 125 million. The proceeds will help to ensure that Arbonia continues to enjoy solid medium to long-term financing.

Arbonia invested CHF 50 million in the first half of 2018 to further develop the company. Investment projects totalling over CHF 100 million are also underway for 2019.

Strategies and developments by divisions

In 2015, Arbonia Group had developed a comprehensive programme of measures to achieve certain financial and strategic goals by the end of 2018 and to ensure sustainable profitable growth. These primarily included the relocation of the production footprint and the focus on divisional strategies. The planned measures were implemented step by step, in particular the relocation of Swiss sites to plants of Eastern European Group companies. Arbonia has defined four strategic directions for the future in order to further develop the company as a focused building supplier and to consolidate its position as a leading Central European supplier:

- 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
- Acceleration of regional expansion

The **HVAC Division** was formed on 1 January 2018 by the merger of two Business Units following the spin-off of the Sanitary Equipment Business Unit from the former Building Technology Division. This new division is therefore reporting its own key figures for the first time in the reporting period. At CHF 224.5 million, net revenue in the first half of 2018 was 20.2% higher than the corresponding figure for the previous year (CHF 186.9 million); adjusted for currency and acquisition effects, growth amounted to 8.1%. EBITDA rose from CHF 17.5 million in the previous year to CHF 21.8 million. EBIT rose from CHF 10.9 million to CHF 12.2 million.

Higher material costs, especially for sheet metal and copper, were offset by price increases. In addition, the massive investment programme to cut costs and increase productivity at the Plattling (D) site also had a positive effect on business development.

In Western Europe, the market for panel radiators is mainly dependent on the renovations sector, while in new construction, underfloor heating and/or ventilation systems are the preferred method of water-based heat transfer. Due to the temporarily high volume of new construction, this sector is affected by the continuing shortage of skilled workers, especially in Germany. However, medium and long-term demand in Western and Eastern Europe is fundamentally stable, which is why the division expects positive development in the coming years. In addition, the new panel radiator production facility in Stupino, Russia (Moscow area) will be ready for the machine park to move in in the second half of 2018, so that the first radiators for the Russian market can be produced there according to plan in the second quarter of 2019. Despite political and economic turbulence, Sabiana, the ventilation and air conditioning specialist, also continued to perform very well both in its home market of Italy and in selected export markets.

The integration of the Vasco Group, acquired in May, into the HVAC Division is proceeding according to plan. Vasco's leading brands established in the Benelux countries will continue to operate independently in the market. In addition, following successful integration, Vasco's markets, which are predominantly complementary to the existing sales markets of the HVAC Division, offer attractive growth potential both in sales and earnings. The Vasco Group's current key figures are within the expected range.

The **Sanitary Equipment Division**, also newly formed on 1 January 2018 from a business unit of the former Building Technology Division, generated a revenue of CHF 74.2 million during the first half of 2018. In the previous year, revenue amounted to CHF 72.2 million. Adjusted for currency effects, revenue declined by 3.7%. EBITDA fell from CHF 6.3 million in the previous year (CHF 7.5 million without special effects) to CHF 5.8 million. EBIT fell from CHF 4.3 million (CHF 5.5 million without special effects) to CHF 3.7 million.

The decline, which affected the sales markets of Germany and especially France, was due to several factors. On the one hand, the lack of sanitary and heating installers had a negative impact in Germany. On the other hand, the acquisition of Koralle also led to certain shrinkage effects in Germany, which were now evident after a year long delay. The unsatisfactory situation in France was due to a noticeable downtrading of the market, in which low-cost private labels are favoured. These developments

led to reduced revenue with the sales partner in France. The sales situation in Switzerland remains satisfactory.

Comprehensive measures to strengthen profitability were introduced in the first half of 2018; however, they will only take full effect during the course of 2019. Following the relocation of Vlotho's (D) production of Koralle products to the existing Plattling (D) site, the processes were further adapted and standardised. The targeted production efficiency is then to be achieved by the end of 2018.

The **Windows Division** can look back on a positive performance characterised by revenue growth in all of its core markets. The consolidation process in the Swiss market continued during the reporting period and EgoKiefer gained further market share during the first half of the year. The positive trend of incoming orders in the first half of the year makes us confident that the revenue targets for 2018 can be achieved. New products in the vinyl sector, which set standards in terms of quality, design and energy efficiency, should provide the division with further growth impetus beyond the second half of the year.

Progress was also made in the further expansion of the Eastern European production competence centres. In order to further expand the strategy of technology-based cost leadership, one of Europe's most modern insulating glass plants and a highly efficient lift-and-slide door production line were put into operation at Slovaktual's vinyl competence centre during the first half of the year.

The main focus of the division is currently on ramping up production output at the wood competence centre in Langenwetzendorf (D) to many times the previous year's level. This site is scheduled to completely replace the plant in Altstätten (CH) in 2019. At present, this condition presents considerable pressure on the divisional profitability with CHF 4.0 million. Despite the challenging situation in the labour market, the workforce has doubled in the meantime thanks to intensive recruitment of skilled workers. In addition, productivity at the site has improved significantly in recent months thanks to the implementation of a comprehensive package of measures.

However, the earnings situation was differentiated: the division's EBITDA was positively influenced by Dobroplast in Poland, Slovaktual in Slovakia and EgoKiefer in Switzerland. However, the negative impact of the ramp-up in production at Wertbau and the associated maintenance of production at Altstätten (CH) had a significant one-off impact on the division's results in the reporting period. In addition, compared to the previous year, exchange rate effects in Switzerland had an additional negative impact on the result.

We expect the earnings situation to be considerably improved in the second half of 2018, although the division does not expect the full impact on the annual result until the 2019 financial year.

In the first half of 2018, revenue of CHF 165.7 million was 16.6% higher than in the same period last year (previous year CHF 142.2 million). EBITDA rose to CHF 1.6 million (previous year CHF 0.2 million). Without special effects, however, EBITDA fell from CHF –0.4 million in the previous year to CHF –2.5 million. This was mainly driven by the EUR/CHF exchange rate effect. EBIT fell from CHF –6.5 million in the previous year to CHF –7.3 million, without special effects, EBIT was CHF –11.5 million (previous year CHF –7.1 million).

The **Doors Division** performed very well in the first half of 2018.

Revenue and EBITDA were significantly higher than during the same period of the previous year. In the first half of 2018, revenue increased from CHF 157.3 million in the previous year to CHF 181.1 million, adjusted for currency effects, growth amounted to 7.7%. EBITDA improved from CHF 17.2 million to CHF 20.1 million, without special effects, for the reporting period EBITDA was actually CHF 20.6 million. EBIT increased from CHF 5.9 million in the previous year to CHF 9.7 million, without special effects, for the reporting period EBIT was CHF 10.1 million.

The good business figures of the Doors Division are based in particular on the successful integration of the door companies Prüm, Garant and Invado, which were acquired with Looser Group at the end of 2016. These had brought Arbonia to a new company size and strategic positioning as a leading European supplier of interior doors. Other decisive success factors were a strong production footprint and the optimally complementary product portfolio of the four brands Prüm, Garant, Invado and RWD Schlatter. In Switzerland, for example, business with the specialist trade in functional doors from RWD Schlatter and standard doors from Prüm was significantly bolstered.

The two plants in Germany and the plant in Poland are working to capacity limits due to good demand and the continuing strong order intake. Accordingly, Arbonia is currently investing heavily in these three locations. In spring 2018, for example, a new warehouse with sorting room was put into operation at the Invado company's Ciasna (PL) production site and the ground-breaking ceremony for the new door production hall was held. The two German plants will receive their new facilities for the production of premium doors in the fourth quarter.

In Switzerland, margin pressure increased due to rising purchase prices, which also had an impact on margins at RWD Schlatter and made price increases necessary. Price increases were hesitantly accepted by the market at first,

but then in a wider context. In addition, the internal efficiency enhancement measures showed positive results.

Outlook

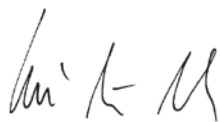
For Arbonia Group, we expect the revenue and earnings development of the first half of 2018 to weaken in the second half of the year due to the macroeconomic environment described (the economic forecasts for our main markets are more cautious than at the beginning of the year). In addition, the development of the Windows Division is being hampered by the delays at the site in Eastern Germany and the strengthening of the euro. The Sanitary Equipment Division continues to operate more strongly in a challenging market environment.

Nevertheless, we are sticking to our guidance for 2018 as a whole: we expect organic growth of 3% and EBITDA of at least CHF 110 million.

For 2019, we continue to expect organic revenue growth of 3 to 5% and EBITDA of around CHF 125 million. Our company aims to generate substantial free cash flow from 2019 and to pay a dividend again for the first time for 2018 reporting year.

We are convinced that all of our business units are well set. The current order situation, customer interest in our attractive products and the measures already introduced and newly announced confirm this.

Arbon, August 2018



Alexander von Witzleben
Chairman of the Board
of Directors and CEO

Felix Bodmer
CFO

Consolidated Income Statement (condensed)

	For the six months ended 30/06			
	2018		2017 restated[1]	
	in TCHF	in %	in TCHF	in %
Continuing operations				
Net revenues	**645 556**	**100.0**	**558 571**	**100.0**
Other operating income and capitalised own services	17 091	2.6	7 829	1.4
Changes in inventories of semi-finished and finished goods	13 082	2.0	21 879	3.9
Cost of material and goods	–312 697	–48.4	–267 364	–47.9
Personnel expenses	–223 207	–34.6	–200 002	–35.8
Other operating expenses	–95 651	–14.8	–86 463	–15.5
EBITDA	**44 174**	**6.8**	**34 450**	**6.2**
Depreciation, amortisation and impairments	–22 910	–3.5	–17 438	–3.1
Amortisation of intangible assets from acquisitions	–9 145	–1.4	–10 140	–1.8
EBIT	**12 119**	**1.9**	**6 872**	**1.2**
Net financial result	–3 195	–0.5	–4 898	–0.9
Group result before income tax	**8 924**	**1.4**	**1 974**	**0.4**
Income tax expense	–2 254	–0.3	–1 495	–0.3
Group result from continuing operations	**6 670**	**1.0**	**479**	**0.1**
Group result from discontinued operations after taxes	**8 340**	**1.3**	**1 087**	**0.2**
Group result	**15 010**	**2.3**	**1 566**	**0.3**
Attributable to:				
Shareholders of Arbonia AG	15 010		1 578	
Non-controlling interests			–12	
Earnings per share from continuing operations in CHF	0.10		0.01	
Earnings per share from discontinued operations in CHF	0.12		0.02	
Earnings per share in CHF	0.22		0.03	
Basic and diluted earnings are identical				

[1] see note 6 and 7

EBITDA = Earnings before financial results, tax, depreciation and amortisation
EBIT = Earnings before financial results and tax

The notes on pages 13 to 20 form an integral part of these condensed interim consolidated financial statements.

Consolidated Statement of Comprehensive Income (condensed)

	For the six months ended 30/06	
	2018	2017 restated[1]
	in TCHF	in TCHF
Group result	**15 010**	**1 566**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	1 329	8 724
Total items that will not be reclassified to income statement	**1 329**	**8 724**
Items that may be reclassified subsequently to income statement		
Currency translation differences	– 14 236	14 939
Total items that may be reclassified subsequently to income statement	**– 14 236**	**14 939**
Other comprehensive income after taxes	**– 12 907**	**23 663**
Total comprehensive income	**2 103**	**25 229**
Attributable to:		
Shareholders of Arbonia AG	2 103	25 095
Non-controlling interests		134
Total comprehensive income from continuing operations	– 3 475	22 624
Total comprehensive income from discontinued operations	5 578	2 605

[1] see note 6 and 7

The notes on pages 13 to 20 form an integral part of these condensed interim consolidated financial statements.

Consolidated Balance Sheet (condensed)

	30/06/2018		31/12/2017[2]		30/06/2017 restated[1]	
	in TCHF	in %	in TCHF	in %	in TCHF	in %
Assets						
Cash and cash equivalents	72 089		82 703		142 942	
Securities					2 640	
Receivables and other assets	203 238		156 217		188 621	
Inventories and contract assets	219 005		168 558		207 864	
Deferred expenses	7 144		6 441		6 923	
Assets held for sale	391		47 725			
Current assets	**501 867**	**32.9**	**461 644**	**32.6**	**548 990**	**35.6**
Property, plant, equipment and investment property	557 644		484 560		514 270	
Intangible assets and goodwill	415 051		421 096		446 157	
Deferred income tax assets	4 589		5 570		8 938	
Capitalised pension surplus	38 170		33 542		13 745	
Financial assets	7 389		10 207		10 109	
Non-current assets	**1 022 843**	**67.1**	**954 975**	**67.4**	**993 219**	**64.4**
Total assets	**1 524 710**	**100.0**	**1 416 619**	**100.0**	**1 542 209**	**100.0**
Liabilities and shareholders' equity						
Liabilities	182 255		169 196		198 004	
Financial debt	37 625		109 286		288 859	
Accruals and deferred income	93 553		74 221		85 560	
Provisions	20 534		20 812		23 030	
Liabilities associated with assets held for sale	1 269		12 724			
Current liabilities	**335 236**	**22.0**	**386 239**	**27.3**	**595 453**	**38.6**
Financial debt	172 041		23 169		31 547	
Other liabilities	13 881		13 124		12 705	
Provisions	11 397		10 146		10 960	
Deferred income tax liabilities	67 094		65 124		77 748	
Employee benefit obligations	56 453		55 698		59 897	
Non-current liabilities	**320 866**	**21.0**	**167 261**	**11.8**	**192 857**	**12.5**
Total liabilities	**656 102**	**43.0**	**553 500**	**39.1**	**788 310**	**51.1**
Total shareholders' equity	**868 608**	**57.0**	**863 119**	**60.9**	**753 899**	**48.9**
Total liabilities and shareholders' equity	**1 524 710**	**100.0**	**1 416 619**	**100.0**	**1 542 209**	**100.0**

[1] see note 7
[2] see note 2

The notes on pages 13 to 20 form an integral part of these condensed interim consolidated financial statements.

Consolidated Cash Flow Statement (condensed)

	For the six months ended 30/06	
	2018	2017 restated[1]
	in TCHF	in TCHF
Group result	**15 010**	**1 566**
Depreciation, amortisation and impairments	32 056	32 431
Profit/loss on disposal of non-current assets and subsidiaries	–14 515	–1 255
Changes in non-cash transactions	8 134	5 937
Changes in net working capital (excluding cash and cash equivalents)	–57 194	–29 579
Cash flows from operating activities – net	**–16 509**	**9 100**
To investment activities		
Purchases of property, plant and equipment and investment property	–49 182	–47 472
Purchases of intangible assets	–896	–774
Acquisition of subsidiaries (net of cash acquired)	–59 006	–2 081
Issuance of financial assets	–226	–2 287
From divestment activities		
Proceeds from sale of property, plant and equipment and investment property	8 192	457
Proceeds from sale of intangible assets	8	41
Proceeds from sale of subsidiaries/businesses (net of cash disposed)	38 985	98 240
Repayment of financial assets	3 859	2
Cash flows from investing activities - net	**–58 266**	**46 126**
From financing activities		
Proceeds from financial debts	200 835	33 732
Sale of treasury shares	1 287	2 000
To financing activities		
Repayment of financial debts and finance lease liabilities	–143 243	–74 212
Purchase of non-controlling interests		–2 160
Purchase of treasury shares		–1 603
Cash flows from financing activities - net	**58 879**	**–42 243**
Effects of translation differences on cash and cash equivalents	–852	639
Change in cash and cash equivalents	**–16 748**	**13 622**
Reconciliation of change in cash and cash equivalents		
Cash and cash equivalents as of 01/01 continuing operations	82 703	111 754
Cash and cash equivalents as of 01/01 discontinued operations	6 460	17 566
Cash and cash equivalents as of 30/06 continuing operations	72 089	142 942
Cash and cash equivalents as of 30/06 discontinued operations	326	
Change in cash and cash equivalents	**–16 748**	**13 622**
Supplementary information for operating activities:		
Interest paid	1 390	3 765
Interest received	22	755
Income tax paid	11 348	5 577

[1] see note 7

The notes on pages 13 to 20 form an integral part of these condensed interim consolidated financial statements.

Consolidated Statement of Changes in Equity (condensed)

	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Attributable to equity holders Arbonia	Non-controlling interests	Total shareholders' equity
	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Balance at 31/12/2016	**287 640**	**518 043**	**–8 576**	**–86 979**	**8 489**	**718 617**	**10 134**	**728 751**
Group result[1]					1 578	1 578	–12	1 566
Other comprehensive income after taxes[1]				14 793	8 724	23 517	146	23 663
Total comprehensive income[1]				**14 793**	**10 302**	**25 095**	**134**	**25 229**
Issuance of share capital (net)	4 147	5 244				9 391		9 391
Changes in treasury shares			–1 336		1 461	125		125
Share based payments			1 752		–63	1 689		1 689
Purchase of non-controlling interests				145	–1 163	–1 018	–10 268	–11 286
Total transactions with owners	**4 147**	**5 244**	**416**	**145**	**235**	**10 187**	**–10 268**	**–81**
Balance at 30/06/2017 restated[1]	**291 787**	**523 287**	**–8 160**	**–72 041**	**19 026**	**753 899**		**753 899**
Balance at 31/12/2017	**291 787**	**526 319**	**–8 265**	**–29 759**	**83 037**	**863 119**		**863 119**
Restatement IFRS 15[2]					1 233	1 233		1 233
Balance at 01/01/2018 restated[2]	**291 787**	**526 319**	**–8 265**	**–29 759**	**84 270**	**864 352**		**864 352**
Group result					15 010	15 010		15 010
Other comprehensive income after taxes				–14 236	1 329	–12 907		–12 907
Total comprehensive income				**–14 236**	**16 339**	**2 103**		**2 103**
Changes in treasury shares					1 287	1 287		1 287
Share based payments			1 097		–231	866		866
Total transactions with owners			**1 097**		**1 056**	**2 153**		**2 153**
Balance at 30/06/2018	**291 787**	**526 319**	**–7 168**	**–43 995**	**101 665**	**868 608**		**868 608**

[1] see note 7
[2] see note 2

The notes on pages 13 to 20 form an integral part of these condensed interim consolidated financial statements.

Selected Explanatory Notes to the Interim Consolidated Financial Statements

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 unaudited interim consolidated financial statements have been approved for issue by the Board of Directors of Arbonia AG on 6 August 2018.

2 General principles and basis of preparation

The unaudited interim consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the International Financial Reporting Standard (IFRS) IAS 34 “Interim Financial Reporting”. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should therefore be read in conjunction with the consolidated financial statements 2017.

The preparation of interim financial statements 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. Consequently actual results might deviate from such estimates.

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 interim 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”

The adoption of IFRS 9 did not have any impact on the Group’s interim financial statements 2018.

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).

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 a 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 an allowance amounting to the total contract loss resulting from the total budgeted costs not covered by the total amount of the transaction price. When a contract asset amounts to CHF 0 on a net contract-by-contract basis, then a provision is recognised up to the required amount. 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 a recognition of a contract asset is not required. Variable considerations are recognised as sales deductions.

The most significant impacts on the consolidated balance sheet and income statement as of 30 June 2018 are hereinafter described, had IAS 18 instead of IFRS 15 been applied:

The balance sheet item "Receivables and other assets" would have been increased by CHF 8.5 million because of the possibility of issuing an invoice for partial delivery under IAS 18 given certain conditions. The item "Inventories and contract assets" would have been increased by CHF 8.8 million due to the fact that under IAS 18 no contract asset had to be recognised on the one hand and inventories (semi-finished and finished goods) instead were presented without offsetting the corresponding partial payments on the other hand. The item "Liabilities" would have been increased by CHF 20.4 million because under IAS 18 partial payments had not been deducted from the corresponding inventories. Equity would have been decreased by CHF 3.6 million, thereof contributing CHF 2.4 million from the Group result from continuing operations for the reporting period 2018. CHF 1.2 million relate to the cumulative first-time effect recognised in retained earnings. Net revenue would have been decreased by CHF 20.8 million because under IAS 18 no revenue recognition proportionally as costs are incurred was done. The line item "Changes in inventories of semi-finished and finished goods" would have been increased by CHF 16.6 million because revenue recognition under IAS 18 led to a higher stock of inventory.

The impairment loss on the project business which is included in the balance sheet item "Inventories and contract assets" amounts to CHF 0.9 million for the reporting period 2018.

Published standards that are neither yet effective nor adopted early

The following published, but as of the balance sheet date not yet effective, significant new standard has 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 virtually 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 an initial assessment of the potential impact on its consolidated financial statements as of 1 January 2019. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate on 1 January 2019, the composition of the Group's lease portfolio and the Group's latest assessment of whether it will exercise any lease renewal or purchase options. The potential impact on the Group's consolidated balance sheet on a discounted basis amounts to approximately CHF 54 million as of 1 January 2019. The most significant impact identified is that the Group will have to recognise real estate and vehicle contracts which have been classified as operating leases under IAS 17.

Arbonia plans to apply the exemptions regarding short-term leases and leases of low-value assets. Additionally, Arbonia plans to 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.

3 Changes in the scope of consolidation

The following changes occurred during the reporting period in the Group:
- As of 22 January 2018, Arbonia sold the business unit Profile Systems to Belgian Reynaers Group (see note 6).
- As of 16 May 2018, Arbonia acquired 100% of the shares of Belgian Vasco Group, BE-Dilsen (see note 7).

4 Foreign currency rates

The following foreign currency rates have been applied:

		30/06/2018		30/06/2017	
Currency	Unit	Closing rate	Half-year average rate	Closing rate	Half-year average rate
EUR	1	1.1568	1.1695	1.0926	1.0763
GBP	1	1.3083	1.3298	1.2427	1.2514
USD	1	0.9936	0.9664	0.9567	0.9944
CZK	100	4.4458	4.5879	4.1710	4.0189
PLN	100	26.5224	27.7216	25.8512	25.2237
CNY	100	15.1186	15.1817	14.0988	14.4700
RUB	100	1.5848	1.6255	1.6187	1.7161

5 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 included in "Others and eliminations".

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 "Others and eliminations".

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

						Six months ended 30/06/2018
	HVAC	Sanitary Equipment	Windows	Doors	Others and eliminations	Total Group
	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Sales with third parties over time	224 520	74 177	106 297	147 896	2	552 892
Sales with third parties at point in time			59 442	33 222		92 664
Sales with other segments	2				–2	
Net revenues	**224 522**	**74 177**	**165 739**	**181 118**		**645 556**
Segment results I (EBITDA)	**21 793**	**5 833**	**1 645**	**20 129**	**–5 226**	**44 174**
in % of net revenues	*9.7*	*7.9*	*1.0*	*11.1*		*6.8*
Depreciation and amortisation	–8 430	–1 244	–6 958	–5 260	–906	–22 798
Reversal of impaiment on property, plant and equipment			15			15
Impaiment property, plant and equipment			–127			–127
Segment results II (EBITA)	**13 363**	**4 589**	**–5 425**	**14 869**	**–6 132**	**21 264**
in % of net revenues	*6.0*	*6.2*	*–3.3*	*8.2*		*3.3*
Amortisation of intangible assets from acquisitions	–1 128	–899	–1 898	–5 219		–9 145
Segment results III (EBIT)	**12 235**	**3 690**	**–7 323**	**9 650**	**–6 134**	**12 119**
in % of net revenues	*5.4*	*5.0*	*–4.4*	*5.3*		*1.9*
Interest income	56	14	99	53	6	228
Interest expenses	–1 241	–228	–2 095	–1 401	2 355	–2 610
Minority share from associated companies			–622			–622
Other financial result	–1 201	–563	–535	–589	2 697	–191
Result before income tax	**9 849**	**2 912**	**–10 475**	**7 713**	**–1 075**	**8 924**
Income tax expense	–2 749	–567	2 744	–1 188	–494	–2 254
Result after income tax	**7 100**	**2 345**	**–7 731**	**6 525**	**–1 569**	**6 670**
Average number of employees	**2 324**	**785**	**2 859**	**1 861**	**66**	**7 893**
Total assets as of 30/06/2018	**538 861**	**110 239**	**295 895**	**503 945**	**75 379**	**1 524 319**
Total liabilities as of 30/06/2018	**288 907**	**61 982**	**252 316**	**205 687**	**–154 059**	**654 833**

						Six months ended 30/06/2017 restated
	HVAC	Sanitary Equipment	Windows	Doors	Others and eliminations	Total Group
	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Sales with third parties	186 857	72 197	142 195	157 314	8	558 571
Sales with other segments	9		5		–14	
Net revenues	**186 866**	**72 197**	**142 200**	**157 314**	**–6**	**558 571**
Segment results I (EBITDA)	**17 492**	**6 261**	**183**	**17 208**	**–6 694**	**34 450**
in % of net revenues	*9.4*	*8.7*	*0.1*	*10.9*		*6.2*
Depreciation and amortisation	–6 157	–1 090	–4 956	–4 804	–1 022	–18 029
Reversal of impaiment on property, plant and equipment	591					591
Segment results II (EBITA)	**11 926**	**5 171**	**–4 773**	**12 404**	**–7 716**	**17 012**
in % of net revenues	*6.4*	*7.2*	*–3.4*	*7.9*		*3.0*
Amortisation of intangible assets from acquisitions	–1 034	–899	–1 734	–6 474		–10 140
Segment results III (EBIT)	**10 892**	**4 272**	**–6 507**	**5 930**	**–7 715**	**6 872**
in % of net revenues	*5.8*	*5.9*	*–4.6*	*3.8*		*1.2*
Interest income	69	20	10	9	49	157
Interest expenses	–1 097	–157	–2 133	–1 195	21	–4 562
Minority share from associated companies			–407			–407
Other financial result	–1 396	639	–902	–1 047	2 621	–87
Result before income tax	**8 467**	**4 774**	**–9 939**	**3 696**	**–5 025**	**1 974**
Income tax expense	–2 278	–1 438	1 722	–994	1 493	–1 495
Result after income tax	**6 189**	**3 336**	**–8 217**	**2 702**	**–3 532**	**479**
Average number of employees	**2 176**	**817**	**2 823**	**1 761**	**66**	**7 643**

The reconciliation of the continuing and discontinued operations on the segment information as presented in the 2017 interim consolidated financial statements and taking into consideration the restatement based on the final purchase price allocation stemming from the Looser acquisition (see note 7) is as follows:

Six months ended 30/06/2017 restated	Continuing operations	Discontinued operations Industrial Services	Discontinued operations Profile Systems	Others and eliminations	Total Group
	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Net revenues	**558 571**	**29 275**	**36 507**		**624 353**
Segment results I (EBITDA)	**34 450**	**6 879**	**2 923**	**384**	**44 636**
in % of net revenues	*6.2*	*23.5*	*8.0*		*7.1*
Segment results III (EBIT)	**6 872**	**2 622**	**2 328**	**383**	**12 205**
in % of net revenues	*1.2*	*9.0*	*6.4*		*2.0*
Interest result	–4 405	–109	–31	160	–4 385
Other financial result	–493	–106	–398	542	–455
Result before income tax	**1 974**	**2 407**	**1 899**	**1 085**	**7 365**
Income tax expense	–1 495	–524	–249	–9	–2 277
Result after income tax	**479**	**1 883**	**1 650**	**1 076**	**5 088**

Group result from discontinued operations after taxes for the period 2017 included a loss of CHF 3.5 million from the sale of the Coatings business. This loss is not shown in the above reconciliation, because Coatings were not part of the management reporting.

6 Discontinued operations

In the consolidated financial statements 2017, the business units Profile Systems, Industrial Services and Coatings were already presented in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". On 22 January 2018, the last as of 31 December 2017 held for sale business unit Profile Systems was sold to Belgian Reynaers Group. All prior-year figures in the income statement have been restated accordingly.

As a result of the sale of the business unit Profile Systems on 22 January 2018, a net cash inflow of CHF 36.5 million is contained in the cash flow statement of the reporting period under divestments subsidiaries/businesses. The sale of Profile Systems resulted in a disposal gain of CHF 8.6 million. The disposal gain includes the provisionally calculated gain due to partial liquidation of the pension plan (settlement). Because the partial liquidation will occur in some months and the calculation is based on today's estimates, the gain may change up to the end of the partial liquidation. 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.

In the reporting period, 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 divestments subsidiaries/businesses.

7 Acquisitions

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

Vasco Group	
in TCHF	Fair Value
Assets	
Cash and cash equivalents	3 202
Receivables	19 149
Inventories	20 323
Deferred expenses	750
Property, plant and equipment	59 449
Intangible assets	755
Deferred income tax assets	1 246
Financial assets	32
Total assets	**104 906**
Liabilities	
Liabilities	14 305
Financial debts	21 500
Accruals and deferred income	8 901
Provisions	1 155
Deferred income tax liabilities	5 667
Employee benefit obligations	333
Total liabilities	**51 861**
Net assets acquired	**53 045**
Intangible assets/goodwill (before PPA)	9 162
Purchase consideration	**62 208**
Net cash outflow was as follows:	
Purchase price	62 208
Cash and cash equivalents acquired	–3 202
Net cash outflow on acquisition	**59 006**

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 8.1 million in net revenues and CHF 0.1 million in loss to the Group. Had the acquisition taken place on 1 January 2018, net revenues for the reporting period would have been CHF 51.2 million and profit would have been CHF 0.2 million. The gross carrying amount of accounts receivables amounted to CHF 17.5 million, of which CHF 1.6 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.7 million and are included in operating expenses in 2017 and 2018. The fair value of the acquired assets (especially inventories and property, plant and equipment) and the fair value of the acquired liabilities (especially provisions and deferred income tax liabilities) could only be determined on a provisional basis, since the acquisition occurred shortly before the half-year and therefore not all assessments could be thoroughly carried out or checked. Because Vasco Group owns several production sites, real estate valuations were commissioned. However they are still pending. Furthermore, the purchase price allocation for the identification and valuation of intangible assets such as customer relationships, brands, technologies, etc. is also outstanding. Consequently the difference between the purchase price and acquired net assets of Vasco Group are currently disclosed as intangible assets/goodwill. It cannot be excluded thus that the definitive values will change significantly compared with the provisional figures presented in these interim financial statements.

In the interim consolidated financial statements 2017, the reported fair values from the acquisition of Looser Group were determined on a provisional basis and were finalised by 31 December 2017. Since final values compared to the provisional values have changed, prior year's figures had to be restated in accordance with IFRS 3 with a material impact on individual balance sheet and income statement items as well as group result, but immaterial impact on the statement of comprehensive income, statement of cash flows and statement of changes in equity. The most significant adjustments in the balance sheet were made between the positions intangible assets (CHF 12.2 million), property, plant and equipment (CHF 1.2 million), goodwill (CHF -10.0 million) and deferred income tax liabilities (CHF -3.4 million). The adjustments in the income statement occurred between the positions amortisation of intangible assets from acquisitions (CHF -0.4 million) and income tax expense (CHF 0.1 million). Group result from continuing operations was impacted by CHF -0.3 million by these adjustments.

8 Seasonality of operations

Due to the seasonal nature of certain divisions of the Group, higher net revenues and operating results are usually expected in the second half of the year rather than in the first semester.

9 Transfer of financial assets

Since February 2010 Arbonia sells receivables under a factoring agreement. Because Arbonia neither transfers nor retains substantially all the risks and rewards of ownership but 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 30 June 2018, the book value of the transferred receivables amounts to CHF 56.5 million. Thereof Arbonia already received from the factor CHF 31.5 million of cash and the remaining CHF 25.0 million are disclosed as receivables against the factor. In addition a receivable and a liability of CHF 0.3 million are recorded for the consideration of the continuing involvement.

10 Property, plant, equipment and investment property

In the reporting period, a property in Switzerland was sold, resulting in a sales gain of CHF 4.3 million. The cash inflow of CHF 7.2 million is included in the cash flow statement under divestments of property, plant and equipment and investment property.

11 Financial assets

In the reporting period, the loan of CHF 3.9 million originating 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 book gain of CHF 1.6 million, which is included in the financial result. In the cash flow statement the cash inflow is included under divestments of financial assets.

12 Financial debts

On 20 April 2018 Arbonia has taken up a promissory note loan of EUR 125 million with maturities of five, seven and ten years. During the reporting period, further net CHF 20 million and EUR 20 million of the syndicated loan were drawn. As a result of the promissory note loan, EUR 100 million of the syndicated loan were repaid. As of 30 June 2018, CHF 30 million of the syndicated loan has been utilised.

13 Financial instruments

The following information is to be read in conjunction with note 43 "Additional disclosures on financial instruments" of the consolidated financial statements 2017. Financial instruments measured at fair value are allocated to the respective hierarchy levels as follows:

in TCHF	Level 2	Fair value at 30/06/2018
Liabilities **Financial liabilities at fair value through profit or loss – trading (FL FVTPL trading)**		
– Interest rate swaps without hedges	1 648	1 648
Total liabilities	**1 648**	**1 648**

In the reporting period, no reclassifications occurred between levels 1 and 2.

14 Share capital

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). To increase the share capital in the 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 are limited to an additional share capital of CHF 57’960’000.

15 Treasury shares

Compared to 31 December 2017, the balance of treasury shares has decreased by 140'094 to 854'054 shares. In the reporting period, 140'094 shares were used for the share-based payment plans.

16 Capital commitments

As of 30 June 2018, capital commitments for the purchase of property, plant and equipment amount to CHF 45.1 million and for intangible assets to CHF 0.9 million.

17 Contingencies

No significant changes have occurred from those disclosed in the consolidated financial statements 2017.

18 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 interim consolidated financial statements.

Supplementary Information for Investors

Share figures	30/06/2018	30/06/2017	30/06/2016	30/06/2015	30/06/2014
Number of shares					
Registred par value CHF 4.20	69 473 243	69 473 243	45 471 794	18 225 603	18 225 603
Stock market prices in CHF					
Highest price during reporting period	18.3	19.1	15.7	18.6	26.3
Lowest price during reporting period	15.2	16.3	8.8	11.5	19.9
Share price at 30/06	16.3	17.6	13.9	13.1	22.2
Market capitalisation in CHF million	1 132	1 219	632	323	549

Dates

November 12, 2018
Investors' day at Sabiana in Corbetta (I)

January 22, 2019
Publication of revenue for 2018 financial year

February 26, 2019
Publication of the annual results 2018
Financial media information and analysts’ conference on the 2018 financial year

April 12, 2019
32 Annual General Meeting 2019

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Arbonia AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
www.arbonia.com