ARBONIA ANNUAL REPORT

2019

ARBONIA

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)
- Dobré (CZ)
- Legnica (PL)
- Plattling (D)
- Stříbro (CZ)
- Stupino (RUS)
- Tubbergen (NL)

Average headcount in FTE 2019

2 947

Sanitary Equipment Division

Areas of activity

- Acrylic bathtubs and shower trays
- Shower areas
- Shower enclosure
- Shower stalls

Brands

- Baduscho
- Kermi
- Koralle

Production sites

- Dagmarsellen (CH)
- Platting (D)

Average headcount in FTE 2019

811

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 in FTE 2019

2 823

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 in FTE 2019

1 961

Key Figures 2015 – 2019

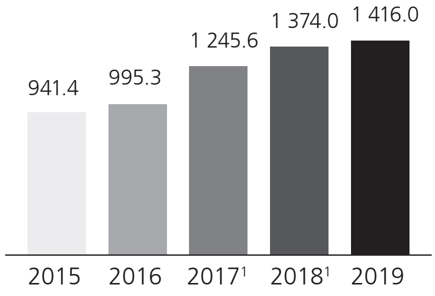
in CHF million	2019	2018[1]	2017[1]	2016	2015
Net revenue	1 416.0	1 374.0	1 245.6	995.3	941.4
EBITDA[2]	125.4[3]	130.5[3]	120.3	68.7	26.6
EBIT[2]	39.7[3]	61.0[3]	61.3	29.1	–158.4
Group result[2]	26.2[3]	38.7[3]	37.5	7.6	–177.1
Total assets	1 534.4	1 511.9	1 416.6	1 526.9	900.5
Shareholders' equity	873.3	887.7	863.1	728.8	351.8
in % of total assets	56.9	58.7	60.9	47.7	39.1
Net debt	180.6	116.8	43.3	225.1	21.7
Net debt adjusted	128.0				
Cash flow from operating activities	111.8	69.6	68.8	32.0	54.5
Free cash flow	8.4	–53.8	190.4	–67.3	16.0
Capex	113.0	134.7	105.1	62.1	21.9
Average headcount in FTE	8 606	8 198	7 754	6 325	6 186
Market capitalisation	875	750	1129	1123	450

[1] Continuing operations
[2] With one-time effects
[3] 2018: Positive one-time effects from the sale of properties no longer required for operations
2019: Negative one-time effects, primarily from plant closures

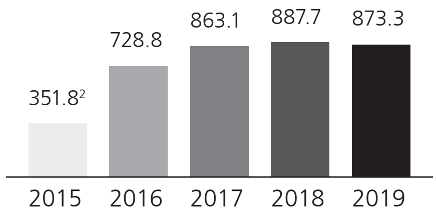
Information for Investors[4]

	2019	2018	2017	2016	2015
Share price on 31.12 in CHF	12.6	10.8	16.3	16.4	10.1
Market capitalisation in CHF milion[4]	875.4	750.3	1 128.9	1 123.2	450.0
Earnings per share in CHF	0.4	0.7	0.7	0.2	–6.1
Price/earnings ratio per share[4]	33.4	16.3	24.2	102.3	–1.7
Gross dividend per share in CHF	0.22	0.20	0.00	0.00	0.00

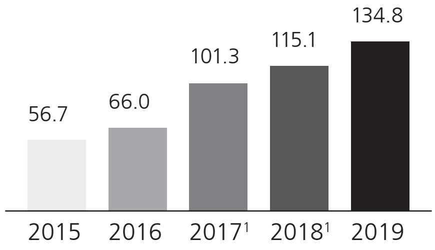
[4] Calculated on the basis of the share price on 31 December



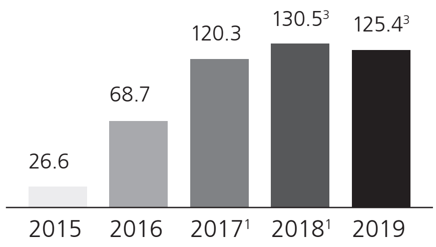
Net revenue
[1] Continuing operations



Shareholders' equity
[2] H1 2015: CHF 187 million



EBITDA without one-time effects
[1] Continuing operations



EBITDA with one-time effects
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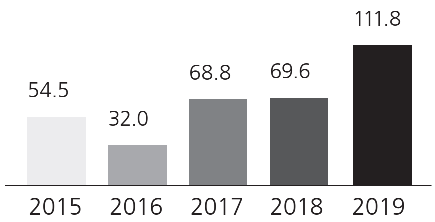
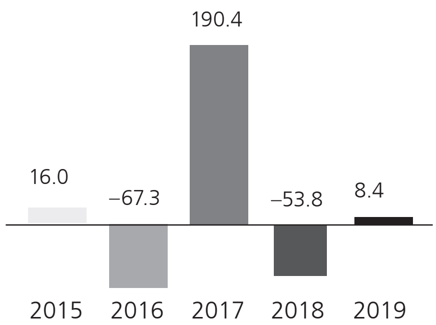
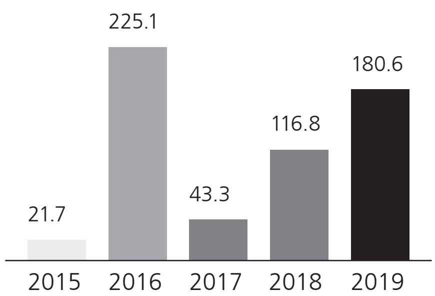


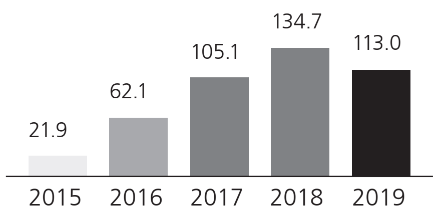
Cash flow from operating activities



Free cash flow



Net debt



Capex

Note: Explanations, definitions and reconciliations of the alternative performance measures can be found in the section "Alternative performance measures".

All figures in CHF million

Report section

Financial section

Notes

Letter to the Shareholders

After five formative years of comprehensive restructuring, which not only involved relocations with a completely different competitiveness but also an urgently required high level of investment, Arbonia has created a strong and competitive foundation for future growth and a continuous increase in profitability.

Dear Shareholders
Dear ladies and gentlemen

In the 2019 reporting year, the Arbonia Group once again achieved solid results, even though the year was marked by economic and political uncertainties as well as the continuing shortage of skilled workers in the installation trade.

Arbonia increased the net revenue compared to the previous year (CHF 1374.0 million) by 3.1% to CHF 1416.0 million. In operational terms, Arbonia increased its EBITDA without one-time effects by 17% from 2018 to 2019 from CHF 115.1 million to CHF 134.8 million. EBITDA without one-time effects at the HVAC Division rose by 7.7%, at the Sanitary Equipment Division by 21.5%, at the Windows Division by 69.3%, and at the Doors Division by 9.2%. While the one-time effects in the reporting year were largely due to the closure costs of three production plants and were therefore negative (just under CHF 10 million), on the other hand, the one-time effects in 2018 were positive at just under CHF 26 million due to the sale of property no longer required for operations. The EBITDA with one-time effects decreased from CHF 130.5 million to CHF 125.4 million due to the described negative effects of the production plant closures and restructuring in 2019 and the positive effects in 2018. Despite a 32% increase in depreciation due to investments and acquisitions, the EBIT without one-time effects rose from CHF 47.8 million to CHF 52.3 million, which represents an increase of 9.5%. The EBIT with one-time effects fell from CHF 61.0 million to CHF 39.7 million. Arbonia achieved a group result without one-time effects of CHF 36.5 million. In the previous year, this figure was CHF 23.8 million. The group result with one-time effects amounted to CHF 26.2 million (previous year: CHF 38.7 million).

Derived from these positive earnings figures, cash flow from operating activities increased by 60.7% from CHF 69.6 million to CHF 111.8 million and the free cash flow by CHF 62.2 million from CHF –53.8 million to CHF 8.4 million.

The sound financial basis allows Arbonia to continue its sustainable dividend policy, which is why it is proposing a 10% higher dividend of CHF 0.22 per registered share to its shareholders for the 2019 financial year.

Market environment

The trade war between the United States and the People's Republic of China continued during the reporting year. Although the United Kingdom has now left the EU, the discussions about Brexit influenced the markets in 2019. The negotiations about a trade agreement between the EU and the United Kingdom will continue to shape the markets in 2020. This and the political pressure in the direction of electromobility have had a significant impact on the economy, so that European demand has drastically affected the automotive industry and its suppliers. However, as economic indictors, the steel industry and plant construction also deplored massively declining business trends. In this environment, the central banks either cut their interest rates further or, like the Federal Reserve in the United States, abruptly abandoned their course of raising interest rates and cut interest rates again.

In Arbonia's most important market, **Germany**, residential construction increased by 3.5% compared with the previous year, even though the environment has continued to be hampered by the lack of skilled workers and by the fact that the great demand for residential construction (new constructions and renovations) is still not being met. This positive trend in residential construction continues to prevail in an increasingly gloomy and uncertain economic climate, which is being caused by the German automotive and mechanical engineering sector. The renovation market is stagnating in this environment. The legislative package on climate protection of the German federal government, that was passed at the end of the year, should prove to be good for Arbonia. This will have a significant impact on new construction and renovations in Germany. It can therefore be assumed that the trend towards enhanced insulation and thermal insulation, residential ventilation and efficient heating systems will grow in the renovation sector as well.

In the company's domestic construction market, **Switzerland**, the uncertain economic situation has also already resulted in a slowdown in construction activity, though this development is distinctly regional. In towns, flats are still in great demand, while the rest of building construction continues to grow due to a few large-scale projects (such as "The Circle"). In terms of Switzerland as a whole, the revenue growth in the residential construction sector is declining (–2.5%) due to the relatively high vacancy rates in peripheral locations; however, it remains an attractive sector due to low interest rates. The vacancy rate is also inhibiting the renovation market for flats, which is also declining (–0.9%).

In Eastern Europe, the markets developed in different ways: **Poland** is still the country with the highest expected economic growth in Europe and therefore also has a booming construction industry. However, even this growth is easing off now due to a lack of skilled workers, rising personnel costs and real estate prices. In contrast, the influence of the automotive sector can be felt in **Slovakia**. This has already led to changes in production volumes, short-time working and dismissals in the automotive sector and at their suppliers. This resulted in private construction projects being stopped completely or postponed. Despite all this, the residential construction sector still enjoyed significant growth in 2019. With the weakening of exports in **the Czech Republic**, particularly in the key automotive sector, the pressure has eased off in the labour market. This in turn has improved the capacity bottleneck in the construction industry. As a result, there continued to be no capacity for renovations, but the residential construction sector was able to gain a lot more ground.

In **Italy and Spain,** the construction industries were able to decouple themselves from the overall economic weakness last year and thus further recover in the new residential construction and renovation segments. While renovation is subsidised by the state on the one hand, on the other hand, vacancies are absorbed and make these construction markets attractive in the future as well.

In **Belgium and the Netherlands**, which are especially important markets for the HVAC Division, the construction market did not grow as strongly as last year, thus following the trend of declining economic momentum. In addition, the Dutch market in particular is increasingly hampered by capacity bottlenecks at developers, local governments and construction companies. In Belgium, on the other hand, no such impediment exists and construction activity, especially in the field of renovation, should continue to grow strongly as demand for high-quality housing increases.

Cross-divisional integration and restructuring activities of the Arbonia Group

In the 2019 financial year, Arbonia focused primarily on the integration of Vasco, which operates in the Benelux countries and has four production plants, and Tecna of Spain, as well as on improving the operating performance of its divisions. As part of the integration of Vasco and for the planned reduction of overcapacity in the European market for steel panel radiators, Arbonia announced and implemented the restructuring of the Vasco site in Dilsen (BE) at the beginning of the year and completed the closure of the production plant in Zedelgem (BE). Wertbau Elemente GmbH, which combined the facade business of Wertbau, was also closed last year. In the future, a large proportion of the affected employees will be employed in the manufacturing area of wood/aluminium windows, which are in great demand. A further measure to increase the vertical integration was the extension for a painting line at the special door manufacturing facility in Roggwil (CH). On the one hand, this system saves logistics costs and on the other hand, it optimises the production process. The construction of a new office building including a modern product exhibition at Bekon-Koralle in Dagmarsellen (CH) also represents an investment in the future.

Another important project for the Arbonia Group in this financial year was the construction of the new production plant for steel panel radiators in Stupino (RUS). This was opened in October 2019 and has since started production. The new production plant will enable Arbonia to supply the Russian market locally and that of its neighbouring countries cost-effectively from this new production facility. In addition, this not only eliminates logistics costs but also the retooling costs that became necessary at other division locations after a different sheet thickness was prescribed for new radiators in Russia. The government issued this requirement to protect domestic radiator manufacturers against foreign providers. As a locally based provider, Arbonia will be able to participate more in domestic construction projects in the future.

In addition, ARBONIA DIGITAL commenced operations in the financial year. ARBONIA DIGITAL was founded as a service provider and competence centre for Arbonia to advise the Group and its divisions on issues relating to digitisation and to implement projects together with them.

Strategies and developments by divisions

It took a five-year period to restore Arbonia to a completely healthy industrial base with sustainable competitiveness. During these years of intensive restructuring, seven manufacturing facilities were relocated to so-called "best-cost country" locations. Arbonia has invested over CHF 400 million from 2015 to the present; **on the one hand, to make up for missed investments and, on the other hand, to invest in the most modern production technologies, a greater vertical integration and thus the restoration of competitiveness.** After the necessary high investment requirements of recent years, Arbonia is now approaching a level slightly above the annual depreciation in order to preserve its capital stock. Only in the Doors Division is an investment programme for a significant capacity expansion of around 40% still pending as part of a comprehensive four-year programme. These groundbreaking investments, with a focus on frame production at the German site in Weinsheim in 2020/2021, are necessary above all to increase efficiency and expand capacity, to achieve a sustained increase in profitability and to maintain and expand market shares.

HVAC Division
Over the past four years, the Heating, Ventilation and Air-Conditioning Technology (HVAC) Division has relocated its radiator manufacturing from Switzerland to the Czech Republic and integrated the Vasco and Tecna companies acquired in 2018. It thus expanded its product portfolio in the area of surface heating and its market presence in Belgium, the Netherlands, Poland as well as on the Iberian Peninsula. In the course of the integration, the division closed a radiator plant in Zedelgem (BE) in order to transfer production volumes to the existing production plants in Plattling (D) and Tubbergen (NL). With the acquisition of Vasco, the division also went from being a dealer of underfloor heating products to a manufacturer. During the reporting year, it restructured this site in Dilsen (BE) and invested in the manufacturing of underfloor heating. In 2019, the newly built radiator plant in Russia went into operation, which not only provides access to local projects but also improves competitiveness through fast delivery times, shorter transport routes and flexible reaction capability.

On the one hand, the division is pursing a strategy of consolidation and process optimisation in all production plants to increase their competitiveness and production efficiency. On the other hand, the cornerstone for **future growth lies in the product groups of underfloor heating, heat pumps and residential ventilation**. The division is focusing on building up these businesses, both organically and inorganically, and is moving further towards becoming a system provider: The climate packages of the European countries provide for tax depreciation and subsidies for the modernisation of houses and especially heating systems in order to reduce CO_2 emissions. The HVAC Division is intensively pursuing the strategy of offering an **integrated heating system with solutions ranging from efficient heat generation to energy-conscious heat transfer and energy storage**. For the latter, the division is in discussions with various suppliers for a possible partnership.

Sanitary Equipment Division
The integration of the Koralle Group, which was acquired in 2016, into the Kermi organisation was completed, with the result that the construction of a new office building, including exhibition and training rooms, was started at Bekon-Koralle in the reporting year. Together with the modernisation of the manufacturing facilities in Dagmarsellen (CH), the division invested in its service offering during the reporting year and implemented various measures to improve results and further increase productivity. This sustained cost discipline and the yield from the investments made have created very good conditions for 2020. The division is further expanding its strategic purchasing and at the same time professionalising the data connection with suppliers. In the future the forces in the area of research and development (R&D) will also be bundled.

The course has been set in the areas of production and development as well as in sales and service, and a good starting position has been created for generating sustainable growth and profit.

Windows Division
The Windows Division has achieved the most impressive turnaround. Since 2015 it has relocated four manufacturing facilities from Switzerland to competitive locations in Eastern Europe and increased its EBITDA from CHF 7 million to almost CHF 30 million within this time horizon. In addition the investments released in these years have meant that the three production centres in eastern Germany, Slovakia and Poland now boast a high level of automation and a greater vertical integration. After this intensive restructuring phase, the division has returned to a sustainably healthy level of profitability and will continue to gain market shares with its product range.

In light of the constant high demand for wood/aluminium windows, the capacities will be significantly increased again in 2020 as part of the optimisation and increases in productivity at the wood competence centre in Langenwetzendorf (D). To eliminate bottlenecks, only one further fully automatic profiling system will be put into operation. At the location in Slovakia, the division is developing new profile geometries that will set its products apart from the competition. Digitisation remains an important focus of the Windows Division. The aim here is to exploit the possibilities offered by new technologies and digitisation along the entire vertical integration.

For the Windows Division, too, the CO_2 reduction target will become an increasingly important topic in the coming years. This is because, in addition to reducing the energy consumption of heating systems, insulation by the building envelope using windows also plays a decisive role in an energy efficient building.

Due to the highly diversified and broad-based network of specialist trade partners and the still very high demand for renovation in all core markets, the Windows Division can still expect to achieve good growth.

Doors Division
Following the acquisition of the Looser Group in 2016, the Prüm, Garant and Invado companies were fully integrated into the Doors Division. **The subsequent overall objective is a multi-year investment programme** at Prüm's Weinsheim (D) site. On the one hand, this is to make up for investments not made in the past and, on the other hand, **to enable the division to maintain its market shares as the leading door manufacturer and to expand them further thanks to the strong market growth.**

This extensive investment programme is implemented in a four-year plan, so that there will be an operationally optimised door manufacturing and a separate frame manufacturing facility at the end of the period. According to the current forecast, the investment volume amounts to EUR 68 million. This will not only increase productivity and improve delivery performance, but is also expected to result in a capacity expansion of 40%, which will increase the EBITDA margin by 4 percentage points.

The investments in the two new door leaf edging lines for Prüm and Garant are nearing completion. These systems are the industry's first series systems for edging the door rebate with zero-joint technology. At the same time, a new frame jamb line was installed at the production plant in Weinsheim (D). At the production plant in Ichtershausen (D), a new special frame production line will be delivered in the first quarter of 2020. The capacity in the special doors segment will be significantly expanded with the investments in one new double machining centre each at both German production plants. In addition to the capacity expansion, the investments will already contribute significantly to reducing delivery times for technical doors in 2020. Another focus at the Prüm production plant is the expansion of the logistics. The modernisation of the second high-bay warehouse is currently in the project planning phase.

The location in Poland also focused on increasing efficiency and capacity as well as increasing quality and thus achieving a better coverage of the growing demands of consumers in Poland, the Czech Republic and Slovakia.

In Switzerland, RWD Schlatter worked on increasing the vertical integration in 2019 and in the future. To this end, the division is constructing an extension that will create space for its own paint shop and an additional door processing centre.

In addition to investments in state-of-the-art production capacities to increase efficiency and optimise processes, the topic of digitisation is also being advanced at a great pace by the Doors Division.

Outlook
For the coming year, there are widely diverging expectations for economic development. While some experts expect a noticeable recovery, others assume that the economic environment will remain difficult. This economic uncertainty and the specific subsidy conditions for mitigating climate change that have been planned but not yet published in European countries already led companies to postpone investments in 2019. This development is likely to continue in the current year. In the medium and long term, the climate package in Germany as well as the programmes of the European Union for reducing CO2 emissions offer considerable growth opportunities for Arbonia.

In all markets and above all in Germany, the limited numbers of tradespeople in the construction industry continue to curb the potential for growth. Other factors that are gaining in importance are increasing transport costs, especially in Germany with the expansion of the lorry toll, and rising energy prices in Eastern Europe.

For the core market **Germany**, Arbonia does not expect any slowdown. On the contrary, Arbonia expects a robust market environment due to the high demand for residential space in the metropolitan areas and the continuing low interest rate policy. Arbonia offers an ideal product range for the necessary redensification and renovation in cities. Arbonia is well positioned with this, for the announced German climate package, and in particular with the products of the HVAC Division.

Although investment activity in the commercial and industrial sectors is expected to decline and there is a large number of empty apartments on the periphery, construction is taking place in **Switzerland** due to low interest rates. Arbonia assumes a flat market volume in the overall view.

In the Eastern European target markets of **Poland and the Czech Republic,** Arbonia expects the development of the construction industry to remain strong in the coming year. In **Slovakia**, on the other hand, there is a reluctance to invest in real estate in general and in owner-occupied homes in particular due to the dependence on the automotive industry. These countries, which are also important production sites for Arbonia, are characterised by rising labour costs. This development has so far been compensated for by targeted investments in the degree of automation of the production plants.

In the southern European markets of **Italy and Spain**, Arbonia also anticipates a good demand for new buildings. The need for renovation will follow in these countries as well.

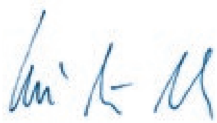
Belgium and the Netherlands, which probably have the strictest environmental regulations in Europe, also offer strong growth opportunities for Arbonia. For example, the steps taken so far to gradually tighten the regulation of energy consumption of houses in Belgium have already led to increased construction activity. With its resource- and energy-saving products, the HVAC Division in particular offers solutions for this complex issue.

Guidance
For 2020, we expect organic revenue growth of ~3% and an EBITDA margin without one-time effects of 10%, assuming a stable market environment and stable exchange rate conditions. We are pursuing a dividend policy with an annual increase of ~10% and will invest across all divisions in the next three years to the amount of approximately 110% of depreciation and amortisation. At the General Meeting, the Board of Directors will propose to pay a dividend of CHF 0.22 per share for the 2019 financial year.

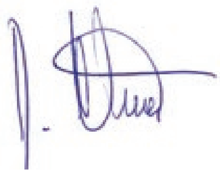
Acknowledgements

Five years ago, we started an ambitious restructuring and repositioning phase with Arbonia. Today we can proudly say that we have successfully completed this intensive transformation of Arbonia and thus created a solid foundation. In 2019, we also set the course for other issues that will concern us in the future, including climate protection and efficiency as well as digitisation.

On behalf of the entire Board of Directors and Group Management, we would like to take this opportunity to thank our many employees for their perseverance and flexibility. We would also like to thank our suppliers and customers for their loyalty and especially you, our esteemed shareholders, for your continuous trust.



Alexander von Witzleben
Chairman of the Board of Directors
and CEO



Daniel Wüest
CFO

Innovative, agile and focussed

– how ARBONIA DIGITAL digitises sales, marketing and service

Digitisation means change. Analogue processes are becoming digital. Opportunities for innovations are opening up on all levels. It is all the more important to make focused use of the opportunities offered by this transformation. At the beginning of 2019, the digital unit of Arbonia started creating value in the areas of sales, marketing and service. Its mission is to develop digital solutions, services and business models that put customers and their needs right at the centre. Here is a review of the year 2019 for ARBONIA DIGITAL.

SPECIALIST PARTNERS

New point of sale

Analogue processes are still widespread in the craft trades. Specialist trade partners and installers calculate quotations from home, and customers often receive an initial price indication only after several days or even weeks. ARBONIA DIGITAL wants to provide specialist trade partners and installers with a simple tool that not only facilitates their daily work but also helps customers to have a better service experience. With a mobile app, they can put together products with customers on site in no time at all and quote a price directly.

END CUSTOMER

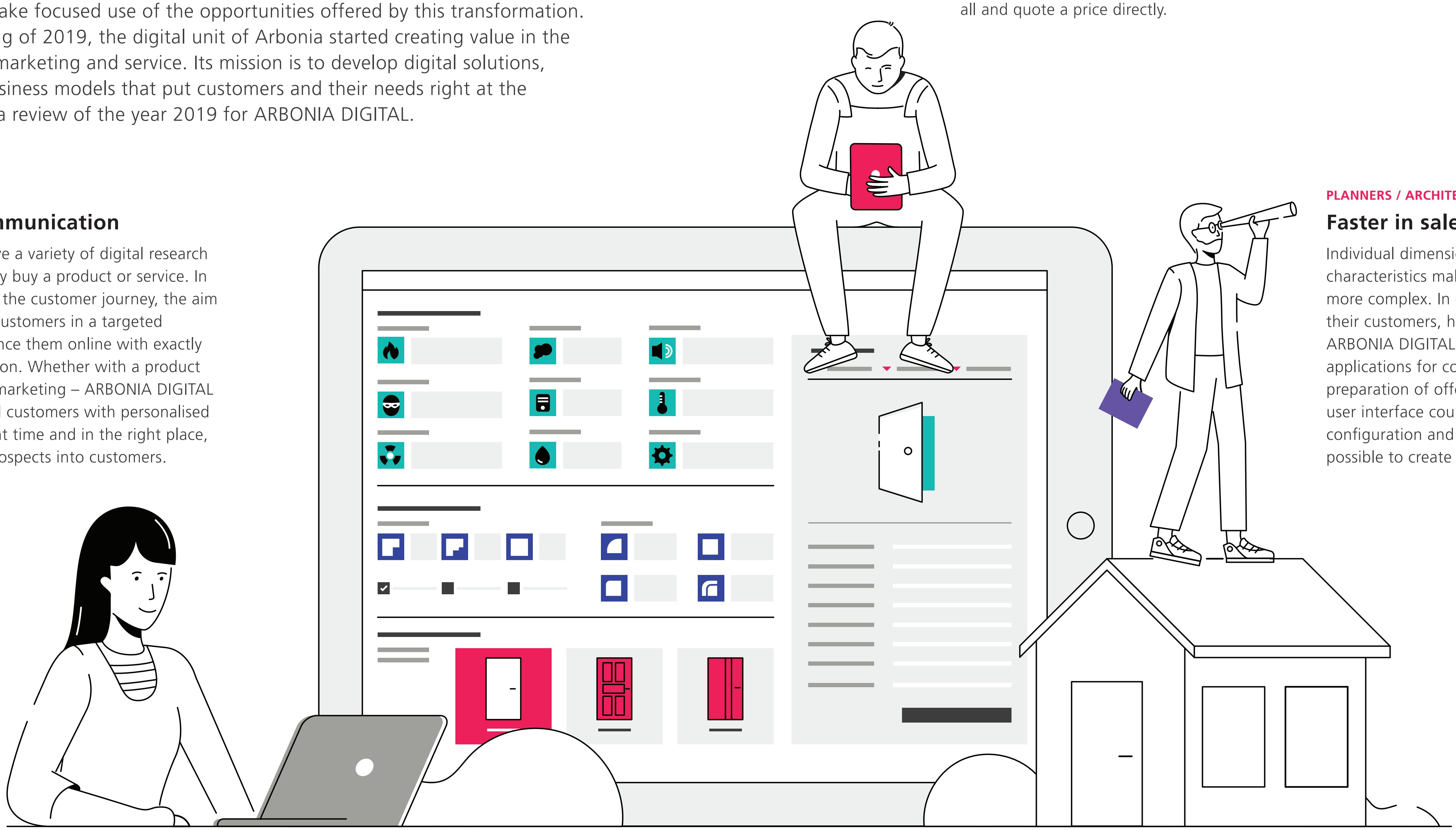
Targeted communication

End customers have a variety of digital research options before they buy a product or service. In this early phase of the customer journey, the aim is to draw in end customers in a targeted manner and convince them online with exactly the right information. Whether with a product finder or content marketing – ARBONIA DIGITAL reaches out to end customers with personalised content at the right time and in the right place, thus converting prospects into customers.

PLANNERS / ARCHITECTS

Faster in sales

Individual dimensioning and product characteristics make the preparation of offers more complex. In order to meet the needs of their customers, however, planners must be fast. ARBONIA DIGITAL realises innovative applications for configuration, calculation and preparation of offers for products. An intuitive user interface coupled with rule-based product configuration and automated pricing makes it possible to create offers in minutes.



One unit, three values

Arbonia and ARBONIA DIGITAL consistently understand the digital revolution as an opportunity – both for business development and for the growth of the divisions. Three fundamental values are at the heart of this:

Customer-centric

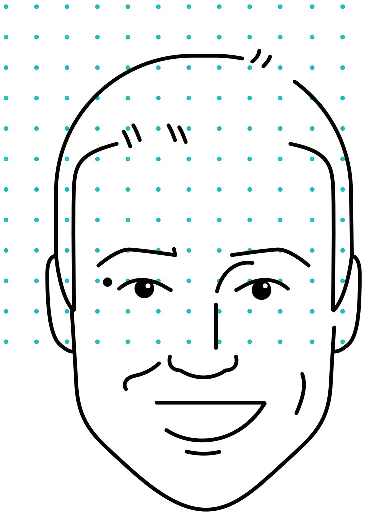
A deep understanding of customers and their needs is the prerequisite for the development of successful digital solutions. The central question is always "how can we improve our customers' experience?" ARBONIA DIGITAL delves deep into customer journeys, analyses behaviours and identifies both pain points and opportunities for better customer experiences.

Agile and lean

Innovations should reach the market quickly. ARBONIA DIGITAL therefore works with interdisciplinary teams that develop products with modern working methods in a self-organised and step-by-step manner. In this way, operable minimal solutions that can be tested and validated are created with as little effort and time as possible.

Cross-divisional

ARBONIA DIGITAL advises and acts across divisions. If a solution is designed for one Arbonia company, it can also be used for other divisions of the Group later on or at least create a development lead.



Customer-focused thinking is the leading competence of our time. With the solutions from ARBONIA DIGITAL we create products that our customers understand and enjoy.

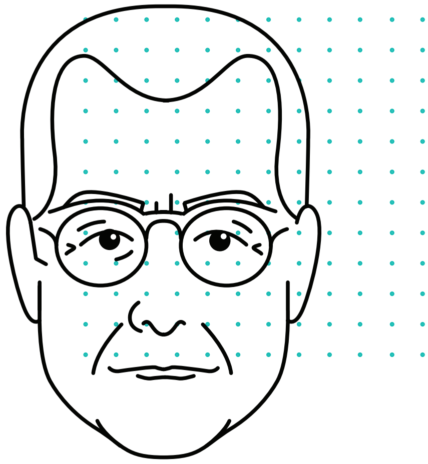
Claudius Moor

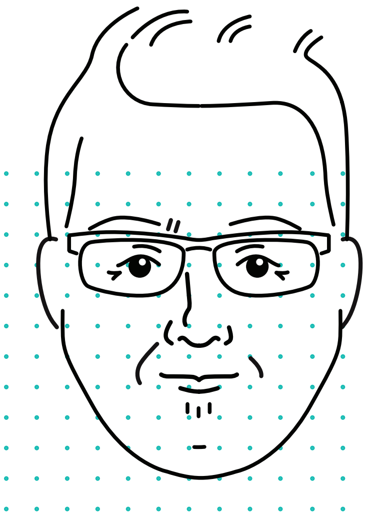
Managing Director at Prüm and Garant (Doors Division)

With ARBONIA DIGITAL we make the opportunities of digitisation tangible. And that is across all divisions.

Alexander von Witzleben

CEO and Chairman of the Board of Directors of Arbonia





Through the strong involvement of our employees in the product development process, we have developed an application together with ARBONIA DIGITAL that will make our daily work much easier.

Markus Kretschmer

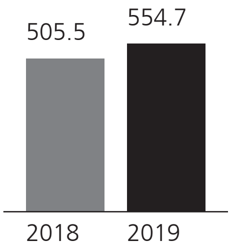
Department Manager Doors of ZEG

HVAC	Sanitary Equipment	Windows	Doors
KERMI			
arbonia			
SABIANA IL CLIMA AMICO			
prolux			
VASCO		EgoKiefer Fenster und Türen	PRÜM Türen die zu Ihnen passen
TECNA	KERMI	WERTBAU Mehr Licht zum Leben	GARANT Türen für Ihr Zuhause
BRUGMAN	Koralle	Fenster & Türen Slovaktual	INVADO
superia	Baduscho	dobroplast	RWDSchlatter Objekttüren nach Mass

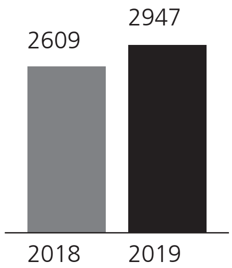
ARBONIA

HVAC Division

The Heating, Ventilation and Air Conditioning (HVAC) Division offers a wide range of products for all applications in residential and commercial construction, as well as for industrial and public buildings, mainly in the field of heat transfer. In Europe it is one of the leading providers in this segment with its main brands Kermi, Arbonia, Sabiana, Prolux, Vasco, Tecna, Brugman and Superia. The division's production sites are located in Germany, the Czech Republic, Italy, Belgium, Russia, Poland and the Netherlands. In addition, a large number of sales locations – most of them in Europe – and a global network of sales partners guarantee market presence and customer proximity.



Net revenue
in CHF million

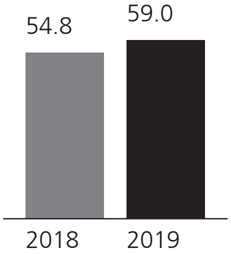


Average headcount
full-time equivalent

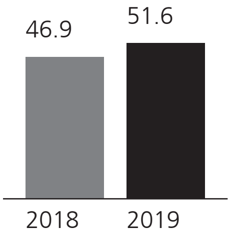
Market trends
The HVAC Division achieved a total revenue of CHF 554.7 million in the reporting year, which represents an increase of 9.7% compared to the previous year (CHF 505.5 million). After adjustment for currency and acquisition effects, the division's revenue increased organically by 2.5%, despite the regionally varying economic slowdown. Encouragingly, not only established product groups such as radiators and fan coils contributed to this growth but also in particular the newer product ranges in the ventilation, surface heating and heat pump segments. EBITDA without one-time effects was CHF 59.0 million and was thus 7.7% over the previous year (CHF 54.8 million), while EBIT without one-time effects was 2.9% below the previous year's figure (CHF 33.1 million) at CHF 32.1 million. EBITDA with one-time effects was CHF 51.6 million, which represents an increase of 9.9% over the previous year (CHF 46.9 million). EBIT with one-time effects closed at CHF 22.7 million, 0.4% slightly below the previous year's figure of CHF 22.8 million.

Despite temporary, additional organisational and double burdens due to various start-up processes, such as the new radiator plant in Stupino (RUS), new half-shell presses in Plattling (D) and a new paint shop in Corbetta (I), the first positive effects were seen as planned. These will sustainably strengthen the division's competitiveness in the future.

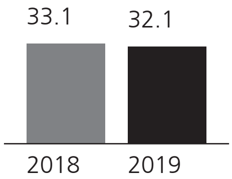
In some of the division's core markets, mainly Germany and Switzerland, the demand for residential construction remained at a high level, boosted by attractive financing terms, a largely secure labour market and the promotion of CO_2-reducing and energy-saving products. However, the lack of skilled workers in the craft trades is slowing down possible stronger growth in this area, both in new construction and, in particular, in renovation. In addition, economic uncertainty caused by international trade disputes and a current cooling down of demand in the mechanical engineering sector on the one hand and political factors relating to specific countries on the other have led to a noticeable reluctance to invest in the commercial and industrial sectors.
In 2019, the industry was characterised in some product segments by strongly increasing pressure from competi-



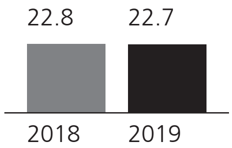
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

tors with production facilities in countries with currency advantages, such as Turkey. The collapse of the sales market in Great Britain caused by the impending Brexit also led to a substantial erosion of margins in some countries on the European mainland, and several radiator manufacturers fell victim to this in the course of the year due to insolvency. It is therefore all the more gratifying that the division was able not only to continue to grow in its markets but also to increase its market shares thanks to its investment-related increased competitiveness. With its product portfolio, its expanded market presence on the Iberian Peninsula and, in particular, its new production plant in Russia, the division is in a position to take advantage of opportunities in the future.

Products, technology and innovation

The HVAC Division is consistently pursuing its strategy of consolidation and process optimisation, expansion of its market presence and ongoing innovations, as in the reporting year as well. In this context, a radiator plant in Zedelgem (BE) was closed and its production volume transferred to the production plants in Plattling (D) and Tubbergen (NL). At the Dilsen site (BE), production processes were optimised through restructuring and major replacement investments from previous years were largely completed at the division's other production sites.

In addition, expansion investments in the production of underfloor heating pipes at the Dilsen production plant (BE) underpinned and expanded the market presence as a manufacturer in the area of surface heating systems that was achieved through the Vasco acquisition. A key milestone for future growth, particularly in Russia, was the completion of the new radiator plant in Stupino (RUS), which at around EUR 30 million was the division's largest single investment for many years. The production plant was commissioned with an official opening ceremony in October 2019. The local manufacturing not only provides access to public projects but also significantly improves competitiveness through faster delivery times, shorter transport routes and flexible responsiveness.

The cornerstone for future growth in the HVAC Division lies in the product groups of underfloor heating, heat pumps and residential ventilation. In the reporting year, the division continued to focus on expanding these businesses, thereby continuing to pursue its strategy as a system provider. The division plans to expand its integrated heating system with solutions ranging from efficient heat generation and storage to energy-conscious heat transfer.

Numerous product innovations, presented at the world's leading trade fair ISH in Frankfurt (D) in March 2019, enable the company to address new customer segments and deepen established customer relationships. For example, the new product range of current-based heat exchangers can address the electrical wholesale trade with its customer group of electricians for the first time. The substantially expanded product range in the field of residential ventilation with a unique selling point in the compact segment not only aroused keen interest among trade partners, installers and specialist planners but already led to several major project orders in the reporting year. Overall, the division demonstrated its comprehensive expertise as a supplier of innovative, energy-efficient individual components in the field of heat transfer and integrated HVAC systems for all types of buildings and applications with the first joint trade fair presentation of its Kermi, Arbonia and Vasco brands, which won the “German Design Award”.

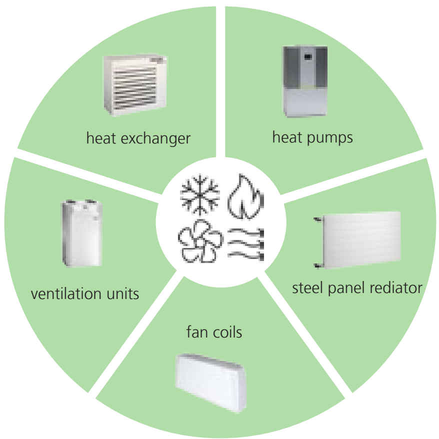
New products in almost all product groups underscore the division's innovative strength and thus form an important cornerstone for future growth. In this context, the new "Jumbo" ceiling cassette from Sabiana with a cooling capacity of up to 15 kW currently represents an unrivalled offer in the market, which will result in considerable project cost savings for customers. Overall, the division is making a significant contribution to achieving political climate targets with its product innovations to increase energy efficiency, and the awards it has received for Kermi and Vasco prove that design and energy efficiency are not mutually exclusive.

Sustainability
To support global climate targets, the division has made climate protection a priority goal through both sustainable product and production efficiency. This extends across the entire portfolio – from energy-saving radiators to electrostatic air filters and heat pumps to smart control technology. Efficiency and energy saving are elementary goals in research and product development as well as in the entire manufacturing process, certified according to ISO 9001 / 14001 / 50001 (Quality / Environment / Energy).

In this context, the entire lighting in the production halls in Plattling (D) has been converted to LED lamps, the power supply for the production site in Dilsen (BE) is provided by installed photovoltaic systems and wind energy, and in the Italian production plants, 80% of the annual power requirement is generated by the company's own photovoltaic systems, saving up to 1.2 million tonnes of CO_2 every year. In addition, the use of digital technologies helps to drastically reduce paper consumption.

In 2020 the products of the HVAC Division that were sold between 2010 and 2019 together with their above-mentioned resource-saving energy generation, will save around 700 000 000 kg of CO_2 per year. This corresponds to the CO_2 absorption of a forest of approx. 700 km² (1.3x of the size of Lake Constance or about half the size of London). The energy-efficient products of heat pumps, "Therm-x2" steel panel radiators, fan coils and filters, ventilation units and heat exchangers were included in this list.

Products of the HVAC Division



save
2020 ⟶

700'000'000 kg
CO_2 per year

this
corresponds ⟶

Half the size of London
(wooded)

Outlook

The HVAC Division expects the economic environment to remain stable in some of its core markets in 2020. There are no signs of a significant deterioration in the German market, particularly in residential construction, while the commercial and industrial sector is expected to see a decline in investment activity. Although the planned political decisions to curb climate change, such as the climate package in Germany, represent a temporary risk in the short term until the publication of specific subsidy conditions, they offer considerable growth opportunities for the division in the medium and long term.

However, significant cost increases are already emerging for 2020, both in Germany in general in the transport sector, through the expansion of the HGV tolling and specifically in Eastern Europe in the energy sector. Further, disproportionately high future salary increases must also be expected due to the shortage of skilled workers there. It is therefore all the more important to consistently pursue the strategy of consolidation and process optimisation by investing in production sites, entering new markets and establishing new distribution channels, as well as the ongoing development of new, energy-efficient products to maintain competitiveness.

New Sabiana showroom

In May of 2019 the new showroom of Sabiana in Corbetta (I) was officially opened. With its architectural design and the provision of the latest technologies, the 1'300 m² area is an ideal platform for welcoming customers. Two training rooms complete the entry into the wellness world of Sabiana.

The world's leading trade fair ISH

For the first time, the brands of the HVAC Division were located with their exhibition stands in the newly built Hall 12 at the world's leading trade fair ISH in Frankfurt (D). The three brands Kermi, Arbonia and Vasco with approx. 1'200 m² formed an optimal market place to present themselves to the visitors. The event was rounded off by winning the “German Design Award 2020” for the design of the exhibition stands.

SABIANA IL CLIMA AMICO

KERMI
arbonia
VASCO

Worldwide investments

The HVAC Division invested in numerous locations during the financial year. In Dietlikon (CH), a new sales location was created for Prolux. In Dilsen (BE) a completely new logistics centre for Superia radiators was opened in August. The largest investment was the new Kermi steel panel radiator production plant in Stupino (RUS), which cost around EUR 30 million. The official opening ceremony took place in October.

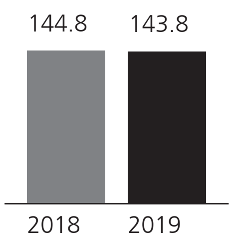
Radiators with an award-winning design

The fact that the products of the HVAC Division are convincing with their design has always been proven by the award of various design prizes. In 2019, the bathroom and design radiators "Elveo" from Kermi and "Beams Mono" from Vasco were once again able to impress and received the "iF Design Award". "Beams Mono" was also well received in the Italian market and the radiator was awarded the "Archiproduct Award".

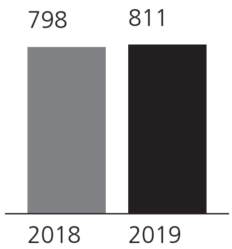
KERMI
VASCO

Sanitary Equipment Division

The Sanitary Equipment Division is the specialist for shower enclosures, shower trays and shower area applications and offers convincing shower solutions for all generations, lifestyles and types of residences. As the European market leader, its Kermi, Koralle and Baduscho brands are widely known in the sanitary industry. The integrated production site in Germany and a locally oriented manufacturing in Switzerland focus on both customer proximity and production efficiency. The division is also active with distribution companies in Austria, Poland, the Czech Republic, Russia and China.



Net revenue
in CHF million



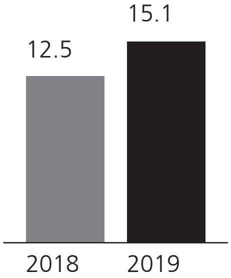
Average headcount
full-time equivalent

Market trends

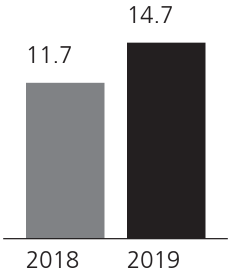
The Sanitary Equipment Division achieved a total revenue of CHF 143.8 million in the reporting year, which represents a decline in revenue of 0.7% compared with the previous year (CHF 144.8 million). However, when adjusted for currency effects, this resulted in revenue growth of 2.2%. This result was primarily sustained by successful business in Switzerland and a slightly positive development in Germany, which was based on the stable development of the construction industry and a steady high demand for customised shower solutions. The earnings situation also improved with an EBITDA without one-time effects of CHF 15.1 million (previous year CHF 12.5 million), which corresponds to an increase of 21.5%. EBIT without one-time effects of CHF 9.5 million is 16.1% above the previous year's level of CHF 8.2 million. EBITDA with one-time effects closed with CHF 14.7 million (previous year CHF 11.7 million). This corresponds to an increase of 25.3%. EBIT with one-time effects closed with CHF 9.0 million, 25.8% over the figure for the previous year of CHF 7.2 million.

The construction industry in the division's main markets, Germany, Austria and Switzerland, remains stable. However, the continuing insufficient capacities of skilled installers limit potential revenue for the division. The high price pressure and the buying power of wholesalers in the sector of sanitary and heating products still make the general conditions challenging. The division was able to achieve growth in export markets due to new product placements and additive marketing initiatives.

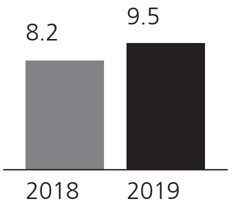
Successes in the project and key account business and a continued expansion of the service offering also had an impact on development. In addition, increase in productivity and the positive effects of the investments made in conjunction with strict cost discipline contributed to the improvement in earnings. Further optimisation of the overarching service processes in 2019 also led to improvements and, above all, to good conditions for 2020.



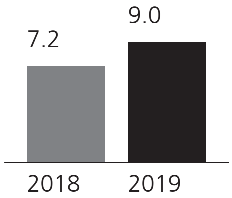
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

Products, technology and innovation
Major investments were initiated at the two production sites in 2019. In September, the ground-breaking ceremony was held by the company Bekon-Koralle in Dagmersellen (CH) for the construction of a new office building. An important part is the new, spacious and customer-friendly exhibition including training rooms on the ground floor. The production areas in Dagmersellen have also been optimised and the production facilities further modernised. At the Plattling site (D), further investments were made in the automation and process optimisation of production and additional customer-oriented training and exhibition space was created.

In the Service area Germany, the organisation was revised and processes optimised in order to be able to respond even faster and better to customer requirements in future. By reorganising the research and development (R&D) area, the forces were bundled and the prerequisites for further intensification of R&D activities were created. In addition, strategic purchasing partnerships were expanded, combined with a further professionalisation of data links with suppliers. Important progress was also made in the area of digitisation through new digital tools and data. Thanks to successful project work, an order tracking system went live at the end of the year.

The highlight of the reporting year was the ISH 2019 in Frankfurt (D), where Kermi and Koralle presented numerous product innovations to an international audience. Koralle presented itself in an elegant black and white look with the claim ”Something special every day“. Kermi Duschdesign invited visitors to experience the motto “UNLIMITED // GRENZENLOS” at its stand. Kermi Duschdesign and Koralle then presented the ISH innovations at the numerous in-house exhibitions of the wholesale trade.

Kermi Duschdesign presented new functional variants of the “LIGA” series at the ISH. The project partnership Pflegebad 2030 (Care bathroom 2030) of the VDS / ZVSHK (Association of the German Sanitary Industry / Central Federation for Sanitation, Heating and Climate Control) led to an intensive discussion of the narrowest bathrooms and the development of a universal pendulum-folding U-shape in the “LIGA” series. This is suitable for all narrow bathroom situations up to care homes. The “LIGA” swinging doors and the “LIGA” sliding doors have been extended by new variants. To follow the “black” trend in the bathroom, Kermi has developed the new “Dark Edition”. This comprises five programmes, whose standard items appear in a new, elegant black soft-look.

Koralle successfully launched the two new volume series ”TwiggyPlus” and “SL410” at the ISH. The months following the ISH were marked by the market launch and the stocking of the German wholesale trade.

Future-oriented innovations have also been established in the Bekon-Koralle product range. These include the ”X88 Free GT“, which, like the “X88 Free” series, is free-standing and completely without mechanical mounting. Likewise the series “S707/S700Plus”: A central role is played by the various possibilities of fixings. A suitable product variant can thus be found and implemented for every room situation. The “S606Plus room-high” represents a convincing system solution for today's bathroom architecture. Extending over the entire height of the room, frameless and with gently closing sliding doors, it allows room sections to be separated.

Kermi and Koralle received positive feedback from the multiple awards of renowned design prizes.

Sustainability
The Sanitary Equipment Division also addressed the issue of environmental and climate protection in the 2019 reporting year. The division has introduced a number of new measures aimed at making a long-term contribution to greater sustainability within the company. The new Bekon-Koralle building was designed with the latest environmental considerations in mind. A heat pump will be installed for heating in winter and cooling on hot days. In addition, a photovoltaic system will be installed on the roof and the most modern and energy-saving products of the Arbonia Group will be used for all the equipment.

The division worked on a new concept for film-free packaging during the reporting year. This will be applied to large parts of the product range in future. The progressive use of digital media will also greatly reduce paper consumption for printed documents.

Outlook

For 2020, the Sanitary Equipment Division expects a stable revenue and profit development. Although political uncertainties and a slowdown in economic momentum mean that little impetus can be expected, the Sanitary Equipment Division's performance will be driven by the much more stable renovation business. The shortage of installer capacities will continue to be a limiting factor in the future, and it is to be feared that this situation will worsen when major heating subsidy programmes are implemented to protect the climate.

In addition to targeted investments, the division has made important organisational and personnel changes in recent years to ensure that it is optimally positioned in the areas of production and development, but also sales and services. Thanks to this starting position, the Sanitary Equipment Division is very well equipped to generate sustainable growth and profit in the future.

Kermi products are used in niu hotels

Kermi equips the bathrooms of the niu hotels in Lübeck (D) and Halle/Saale (D) with the series "FILIA", "FILIA XP" and "RAYA". The hotels are a brand of Novum Hospitality.
(Photo: NOVUM Hospitality)

Koralle equips the Precise Resort on Rügen (D)

A total of 136 shower stalls of the "sanibel 1001" series from Koralle were installed in the Precise Resort in Sagard on Rügen (D).

Products from Baduscho in the "Sonnenpark" burnout centre

The series "6000" from Baduscho was used in the standard rooms of the burnout centre "Sonnenpark" in Rust am Neusiedlersee (AT). The "Spirit" series was installed in the barrier-free rooms.
(Photo: pro mente rehab)

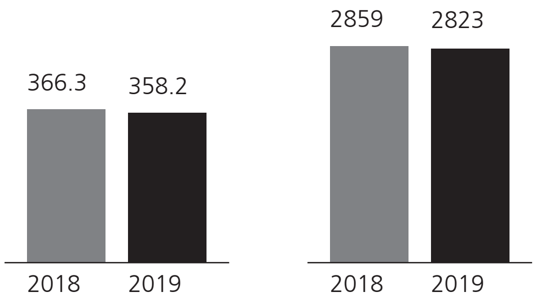
Participation in a number of trade fairs

The companies of the Sanitary Equipment Division showcased their portfolios at the renowned industry trade fairs in Frankfurt (D), Wels (AT) and Zurich (CH). 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

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 and exterior door 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 as well as shade solutions. The products are manufactured 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

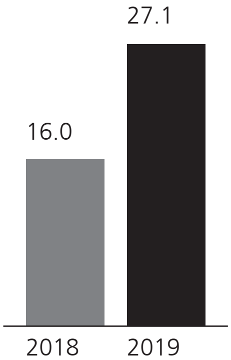
Average headcount
full-time equivalent

Market trends

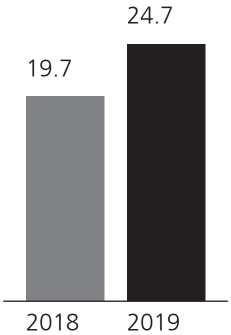
In the reporting year, the Windows Division achieved a net revenue of CHF 358.2 million, which represents a decrease of 2.2% in comparison to the previous year (CHF 366.3 million). When adjusted for currency effects, this resulted in a decrease of 0.5%. Without one-time effects, EBITDA grew by 69.3% from CHF 16.0 million in the previous year to CHF 27.1 million. EBITDA with one-time effects improved by 24.9% from CHF 19.7 million in the previous year to CHF 24.7 million. EBIT without one-time effects changed from CHF –2.5 million in the previous year to CHF 3.2 million. With one-time effects, EBIT slightly decreased from CHF 1.5 million in the previous year to CHF –0.4 million.

This positive earnings development on the EBITDA level is mainly due to the following three factors: In the Swiss market, especially in direct customer business with large customers, the quality of earnings was significantly optimised at the expense of revenue. In the Polish market, both the product mix and the quality of earnings were further improved. In addition, the wood/aluminium competence centre in Langenwetzendorf (D) was able to significantly increase output and productivity. Compared to the previous year, total capacity was increased by over 90%. In light of the constant high demand for wood/aluminium windows, the capacities must be boosted significantly again in the coming year as well.

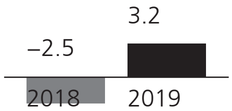
In Switzerland, in a still challenging market environment, EgoKiefer was able to significantly increase its volume of incoming orders in the reporting year. In direct customer business, the company significantly improved the quality of earnings thanks to a more differentiated market development and an optimisation of the operational completion of large-scale construction projects. EgoKiefer also continued to grow in the specialist trade partner business, not least because of its completely renewed product range, and selectively expanded its distribution network in various regions of Switzerland with new specialist partners.



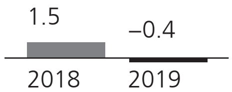
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

The German company Wertbau made a significant contribution to the successful 2019 financial year with an increase in production volume in the wood/aluminium segment. In order to improve the volume output, the production processes were continuously optimised and the workforce was selectively supplemented with specialists.

The Slovakian company Slovaktual took further important steps in the reporting year to supply all the divisions companies with products from its own production competence centre. The production plant currently produces all vinyl windows for the Slovakian, Czech, Austrian and Swiss markets. In addition, 80% of the total insulating glass requirement of the Pravenec production plant (SK), as well as the construction and architectural glass required for Switzerland, which is mounted to the frame directly on the construction site, are now produced in the company's own insulating glass production. In addition, the production for lift-and-slide doors has been expanded so that the Polish market can also be served with products from Slovakia. With a further expansion of production capacity in the insulating glass segment and the commissioning of an additional laminated safety glass (LSG) plant in the first quarter of 2020, the wood/aluminium production plant in Langenwetzendorf (D) will also be supplied with insulating glass from Pravenec (SK) from next year onwards.

A further improvement in profitability was achieved in the Polish market with Dobroplast. Over the past three years, the brand has been consistently repositioned as a quality supplier in the medium price segment. In particular, sales of the premium product “P-Line”, which is equipped with system provider profiles, again increased significantly. In addition, production was further strengthened with investments in insulating glass production as well as frame and wing production and is now one of the largest and most modern production lines in Eastern Europe.

Products, technology and innovation
To best serve the needs of customers in the target markets, the division's product portfolio was continuously adapted and expanded during the reporting year. For example, the new wood/aluminium window generation was expanded to include fire protection windows, and in the vinyl window segment, new profile geometries were developed in cooperation with our profile system providers, which set the division's products apart from the competition and meet the specific needs of customers in the target markets.

The three production competence centres of the Windows Division are characterised by a high degree of automation and vertical integration. All production plants have been modernised with targeted investments over the past four years, thereby improving competitiveness. Following the high investment requirements of previous years, the investment volume is to be reduced to targeted additions in the coming years. In 2020, for example, a new plant for laminated safety glass (LSG) will be installed in Slovakia and another, fully automatic CNC profiling plant will be commissioned in Langenwetzendorf (D) in order to be able to meet the rapidly increasing demand for wood/aluminium windows in the DACH markets.

Digitisation remains an important focus of the Windows Division. The division aims to exploit the possibilities offered by new technologies and digitisation along the entire value-added chain. For example, modern RFID technologies are used in production today, which make it possible to track an order in production in real time. In Poland, the Windows Division was the first industrial window manufacturer to launch a window configurator in 2019, which enables end customers to easily and conveniently configure and order a window online from home and have it installed by a certified installation partner.

In Switzerland, all EgoKiefer fitters are now equipped with mobile end devices, which has significantly improved employee productivity. In addition, the division has developed a new logistics concept that allows delivery to the construction site to be tracked in real time.

Sustainability
Today most of the ancillary costs in a house are due to energy consumption. About two thirds of the energy of an average single-family house is used for heating and hot water production. The modernisation of the building envelope plays a decisive role in reducing this energy requirement and achieving the defined sustainability goals.

With its modern product range and outstanding technical properties of all window constructions, the Windows Division makes a decisive contribution to the careful use of resources. Energy-efficient renovation of facades and building envelopes plays an important role in improving the CO_2 balance and will continue to gain in importance in the coming years, especially against the background of the still very high need for renovation.

The Windows Division is also continuously investing in production technologies and processes that are as energy-saving as possible. At the production site in Poland, for example, around 70% of the production plant was equipped with energy-saving and daylight-controlled LED light strips.

In addition, the division also pays attention to the careful use of natural resources when choosing its suppliers. The vinyl profile of the main supplier, for example, contains no plasticisers whatsoever. In addition, additives such as toxic heavy metals are avoided and only environmentally friendly vinyl stabilisers are used. The proportion of regenerated PVC profiles is approximately 70%.

There is an almost complete recycling cycle in vinyl window production. Profile scrap that is created during production is ground and added back to the dry blend (dry mix of vinyl powder). In addition, recycling materials are consistently used alongside fresh vinyl. The production sites of our suppliers are certified in accordance with pro-K "zero granulate loss" and are members of Rewindo GmbH (recycling initiative of the German plastic profile manufacturers for removed vinyl windows, roller shutters and doors).

Outlook

After a four-year restructuring phase, the Windows Division returned to a sustainable, healthy level of profitability in the reporting year. Thanks to a high level of vertical integration, state-of-the-art manufacturing technologies and production competence centres at competitive locations in Eastern Europe, the division is well positioned to gain market share in the new decade and further improve its profitability. The most important levers for continuously increasing profitability are in particular the further improvement in productivity at the wood competence centre in Langenwetzendorf (D), the increase in output volumes in the division's own insulating glass production in Slovakia and an optimisation of margin and pricing policies in all core markets.

On the market side, the Windows Division expects a consolidation of demand – especially in the new building segment – and a slight decline compared to previous years. However, due to the highly diversified and broad-based network of specialist trade partners and the still very high demand for renovation in all core markets, the division still expects a robust market environment in the 2020 financial year.

Big specialist trade partner day in Baden (CH)

In November 2019 EgoKiefer held a major information event in Baden (CH) for all EgoKiefer contract partners. More than 120 partners from all over Switzerland attended the event, at which there was not only a presentation of the new range of entrance doors and a discussion on the strategic and operational orientation of the company, but also room for informal exchanges.

Expansion of the painting plant in Langenwetzendorf (D)

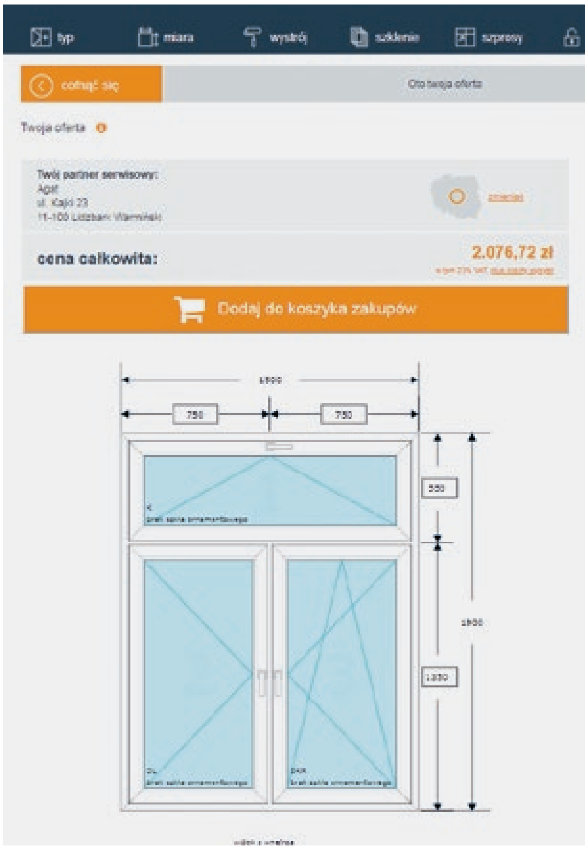
Targeted supplementary investments were made to further improve the performance of the Langenwetzendorf (D) production plant. For example, a second painting robot was commissioned in 2019, further increasing flexibility for individual glazes and top coats. This allows the various colour constellations to be better served and reduces set-up times. All in all, this investment has doubled the painting capacity.

EgoKiefer
Fenster und Türen

WERTBAU®
Mehr Licht zum Leben

Construction and architectural glass from Slovakia since 2019

Since the summer of 2019, large insulating glass panes for the construction and architectural glass used in Switzerland, which is installed directly on site, have also been manufactured in the company's own insulating glass production in Slovakia. In addition to cost savings through in-house production, this will also result in improvements in processes and procedures on construction sites.



Launch of the window configurator

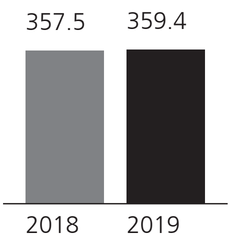
In spring 2019, Dobroplast was the first industrial window manufacturer in Poland to launch a window configurator for private customers. It enables private customers to configure and order a window online from the comfort of their own home and have it professionally installed by a certified Dobroplast installation partner.

Fenster & Türen
Slovaktual®

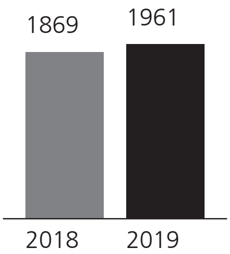
dobroplast®

Doors Division

Consisting of the companies Prüm, Garant, Invado and RWD Schlatter, the Doors Division is one of Europe's leading providers of interior wooden doors and timber frames. The division has four production sites: two in Germany, one in Switzerland, and one in Poland. In total, more than 1'900 employees work at these four sites. In all three domestic markets (Switzerland, Germany and Poland) the Doors Division offers its customers a comprehensive range of products from standard doors to complex functional doors.



Net revenue
in CHF million



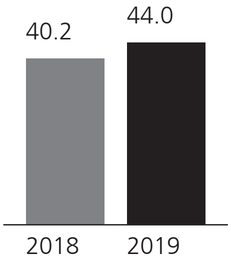
Average headcount
full-time equivalent

Market trends
During the reporting year, the Doors Division achieved a revenue of CHF 359.4 million (previous year: CHF 357.5 million), which represents growth of 0.5%. When adjusted for currency effects, the revenue increased by 3.7%. EBITDA without one-time effects grew from CHF 40.2 million in the previous year to CHF 44.0 million (+9.2%). There were no one-time effects at EBITDA level in the reporting year. EBITDA with one-time effects amounted to CHF 39.6 million in the previous year. Adjusted for one-time effects, EBIT of CHF 19.6 million was 1.5% higher than the previous year (CHF 19.3 million). EBIT with one-time effects resulted in a 4.3% higher result of CHF 19.5 million (previous year CHF 18.7 million).

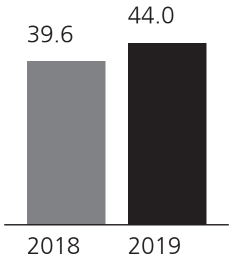
The year 2019 was also marked by a fundamentally promising market environment for the Doors Division. With approximately 60% share of total revenue, Germany is the division's most important market by far, followed by Switzerland and Poland.

In 2019, the two German door manufacturers of the Arbonia Group, Prüm and Garant, were able to record strong growth and expand their market share in Germany in terms of quantity to over 20%. The two German companies are primarily focused on the residential construction segment, which accounts for almost 75% of the market volume. In 2019, this segment was characterised by solid growth, driven by the housing shortage in large German cities and the fact that interest rates remain attractive. In addition to residential construction, Prüm and Garant also address the hotel market. In this new target segment, they were able to expand their market share, which was still small, in the reporting year.

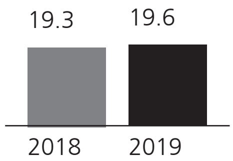
The Swiss real estate market continued to perform well. The current financing environment remains attractive with record low mortgage interest rates. Public authorities are renovating hospitals, nursing homes and schools. At the same time, however, the doors business in the Swiss market remains highly competitive, and rising imports are further increasing the pressure on prices. In this market environment, RWD Schlatter was able to positively develop incoming orders, while focusing



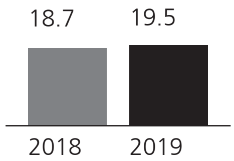
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

on large and complex properties. A lack of resources in the construction industry led to delays in very many large-scale projects currently being implemented, which will continue into 2020, thus slowing down the sales situation. In western Switzerland, RWD Schlatter withdrew from the direct contractor business and closed the Vevey site (CH). The French-speaking market is now being developed via the specialist trade.

The Polish residential market continued to benefit from the strong economic growth in the country. The number of apartments completed in 2019 increased by 3.5% 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 2020 even though economic growth is anticipated to decline somewhat. Polish residential construction developed dynamically as a consequence of further increasing urbanisation and the general demand for housing. The stable economy encourages investments and, thanks to low interest rates, the cost of financing investments is low. This generally positive environment also enabled Invado to significantly increase its revenue compared to the previous year. This rather export-oriented company is represented in Poland with a market share of <5%.

In the Czech Republic, the demand for residential space in larger cities remains intact and is driving prices. An important growth driver here was the increasing demand for high-quality residential space. In principle, it can be assumed that the completion of apartments and houses will stagnate at the current level in the coming years. With Invado and Prüm, the division is the fourth largest provider in the Czech door market.

In Slovakia, the volume of building construction grew only slightly in 2019. Especially uncertainties in the automotive sector had a negative impact on the local residential construction segment as well. Invado is one of the three largest door suppliers in the local Slovakian market.

Products, technology and innovation
In anticipation of the leading international trade fair BAU in January 2019, the Doors Division launched a whole host of new products on the market. The highlights include the new premium edge, which protects doors and frames from heavy wear and tear with its high impact and shock resistance, as well as the "SmartDOORS", which were developed in cooperation with the Berlin-based property technology company KIWI.KI. "SmartDOORS" enable residential property management companies to manage access to all types of widely distributed doors via a cloud solution, thus drastically simplifying key management. An important new development from RWD Schlatter is the new apartment entrance door "FORAS S-68", which can also be used as a pergola entrance door. With its excellent technical properties, especially in terms of sound insulation, this door clearly stands out from the competition – even Europe-wide.

In addition to product innovations, the Doors Division is implementing a multi-year investment programme to increase productivity and improve delivery performance.

The investments in the two new door leaf premium edge systems for Prüm in Weinsheim (D) and Garant in Ichtershausen (D) are nearing completion. At the same time, a new frame jamb line was installed at the production plant in Weinsheim (D). At the production plant in Ichtershausen (D), a new special frame production line will be delivered in the first quarter of 2020. The planned start of production for this is in the course of the last quarter of 2020. The capacity in the special doors segment will be significantly expanded with the investments in one new double machining centre each at both German production plants. In addition to the capacity expansion, these investments will already contribute significantly to reducing delivery times for technical doors in 2020. The production plant in Weinsheim (D) also focuses on expanding logistics. The modernisation of the second high-bay warehouse is currently in the project planning phase. Construction is scheduled to begin in spring 2020.

With an investment volume of approx. EUR 30 million until the end of 2020, a new frame production facility will be built at the Weinsheim (D) site, which will enable an even more efficient production in the future. The new hall will be built on a plot of land of around 40'000 m^2 purchased in 2019. The building permit has already been issued. Construction is scheduled to begin in the first half of 2020, and at the end of the construction work, an operationally optimised door production facility and a separate frame production facility will be in place.

Similar to the requirements of the German market, the ability and flexibility to meet customer wishes and thus increase competitiveness and capacity will continue to be the focus in Poland as well. In 2019, Invado made pioneering investments for this at its site in Ciasna (PL), on the one hand in a new edging system installed in a new production hall and on the other in a new frame production line. These two key investments are not only important for increasing efficiency and capacity but also enable a significant increase in the quality of the product portfolio and thus a better coverage of the growing demands of consumers in Poland, the Czech Republic and Slovakia.

In order to maintain competitiveness, RWD Schlatter launched an investment programme of CHF 8 million this year. In July, a ground-breaking ceremony took place at the Roggwil (CH) site for the extension of the production hall by an additional 1000 m^2. The extension creates space for a new, innovative and highly flexible paint shop and for an additional modern door processing centre, which will be commissioned in 2020. These investments will enable RWD Schlatter to serve its customers more flexibly in terms of schedules and product variety.

In addition to the investment programmes, the division also focused on the topic of digitisation this year. For this purpose, it has drawn up a digitisation roadmap along which it will substantially renew the existing IT landscape over the next few years, including the introduction of SAP S4/Hana. The division also worked intensively together with ARBONIA DIGITAL on the development of new software in the reporting year. The software is intended to enable the dealers of Prüm and Garant to configure, calculate and order doors more quickly and also simplify internal work steps.

Sustainability
Sustainability in all its three dimensions is a key issue for the Doors Division. Firstly, there is the economic dimension, which particularly concerns the future viability of our business model and was explained in detail in the previous section. Secondly, there is the social dimension, which relates in particular to the issues of occupational safety and the training of the employees and is therefore a focus of the divisional management in this form. And thirdly, there is the ecological dimension. An example of this is the investment in a new incineration plant, which will lead to a significant reduction in emissions at Invado in Poland starting in 2020. Furthermore, the Doors Division selected the Ciasna (PL) site for an extensive project to optimise the required packaging materials, which will enable a first step towards reducing or eliminating packaging made of film and polystyrene.

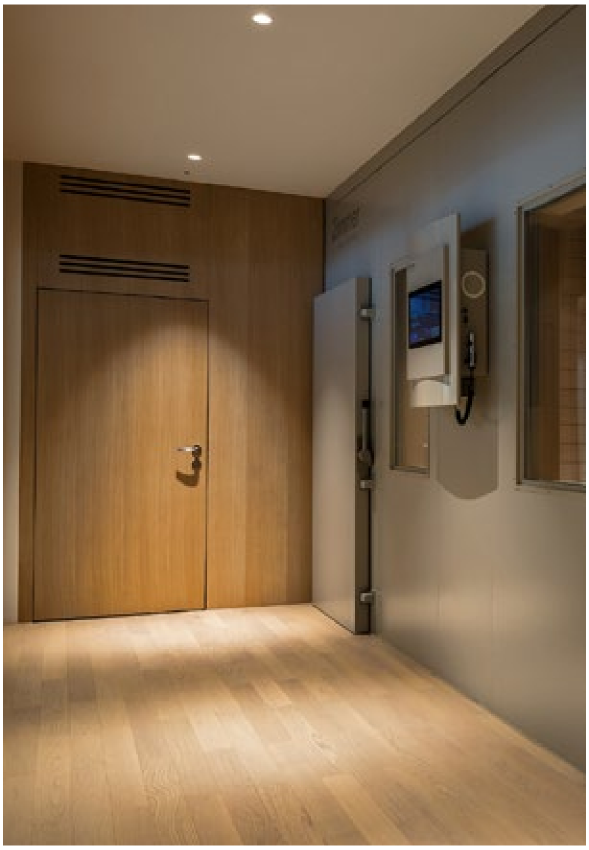
Outlook

The four companies of the Doors Division expect to see a continued positive if slightly more cautious economic climate in their domestic markets in 2020 due to the general economic uncertainty in the European core markets. For 2020 and 2021, market studies assume that the already high market volume in Germany will still increase slightly, remain flat in Switzerland and continue to grow significantly in Poland, the Czech Republic and Slovakia. The limited numbers of tradespeople in the construction industry are still curbing the potential for growth though.

The division is tackling this tough environment by continuing to improve its competitiveness. In addition to investments in state-of-the-art production capacities to increase efficiency and optimise processes, the topic of digitisation is also being advanced at a great pace.

Numerous apartments equipped with KIWI

By the end of 2019, 10'000 properties with approx. 100'000 - 120'000 apartments were already equipped with the digital KIWI access system, which offers users convenience and maximum security. Digital access points are significantly more secure than conventional keys, since they can be locked remotely.



Doors from RWD Schlatter for the Bürgenstock Hotel

The Bürgenstock Hotel & Alpine Spa offers modern architecture and contemporary design with a unique view over Lake Lucerne (CH). For the hotel in the woods, the choice was made for the high-quality doors from RWD Schlatter (fire-protection elements for the public area and veneered elements with skylights for the Healthy Living Spa).
(Photo: Buergenstock Hotels AG)

RWDSchlatter
Objekttüren nach Mass

New edge technology for Prüm, Garant and Invado

The new edge processing technology allows the division to respond specifically to the constantly changing needs of its markets: The premium edge from Prüm and Garant for the German, Austrian and Swiss markets and the soft-forming edge from Invado for the markets in Poland, the Czech Republic and Slovakia.

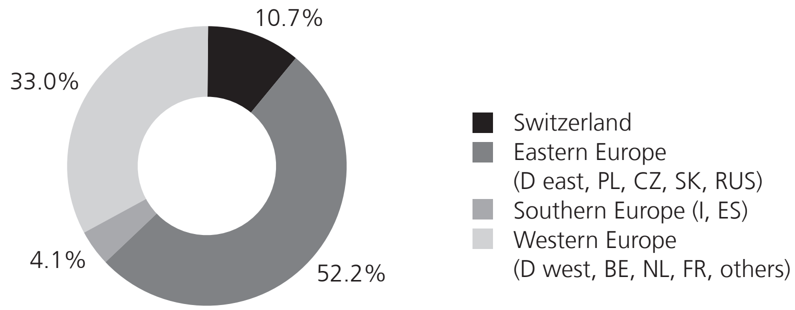
PRÜM
Türen die zu Ihnen passen

GARANT
Türen für Ihr Zuhause

INVADO

Human Resources

The corporate success of the Arbonia Group is highly dependent on the work of skilled and highly motivated employees that take an interest in the company and demonstrate long-term loyalty to it. In an environment characterised by a shortage of skilled workers and the resulting intense competition, the Arbonia Group must position itself even more as an attractive employer. In addition to a fair compensation policy, it 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.

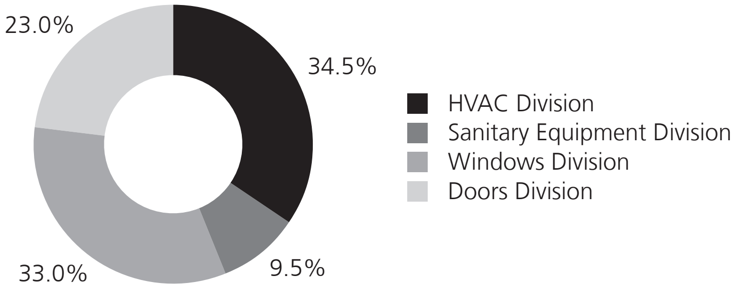


Average headcount
full-time equivalent 2019

Workforce development
As of 31 December 2019, the Arbonia Group had 7'955.5 full-time equivalents, representing an increase of around 1.0% compared with the previous year. There were changes especially in the HVAC Division, as employees were laid off in Belgium due to the consolidation of the production volume of steel panel radiators in the highly automated sites and the associated closure of a production site. In Russia, on the other hand, new employees began work following the commissioning of the new production plant. The Doors Division also hired additional employees in Germany and Poland as a result of capacity expansions. The number of employees of the Windows Division increased in Poland and Slovakia but decreased in Switzerland as the relocations were completed.

Company health management scheme
Safety and health at work are of great importance to Arbonia and are ensured by various measures. The "FITGSUND" (fit-healthy) label established in 2018 was continued in the Swiss companies in the reporting year. This allowed employees, for example, to have flu vaccinations administered by their family doctor reimbursed by their employer. Outside Switzerland, investments were also made in employee health management in order to ensure knowledge of occupational health and safety.

Vocational and further training
Group-wide, Arbonia currently has around 160 trainees (mostly in Germany at Kermi, Prüm and Garant) in a variety of occupations. The following training courses are among those offered: commercial clerks, foreign language industrial clerks, electronics technicians, computer scientists, IT specialists for system integration or application development, industrial mechanics, wood mechanics, technical product designers, machine and plant operators and mechatronics technicians.



Average headcount
full-time equivalent 2019

One of the objectives is to counteract the shortage of skilled workers and to cover the demand for new employees in the future. In addition, Arbonia also invests in further training measures for current employees. Specialist training ensures that employees are optimally prepared for the constantly changing requirements and technical innovations. For example, technical training for employees is held on the Kermi Campus of the HVAC and Sanitary Equipment Divisions. The opportunity to learn about products during operation has proven to be particularly helpful not only for the technical departments but also for sales.

The relocation and automation of manufacturing to and within Eastern Europe also required a comprehensive transfer of knowledge and expertise between the sites. Project management was also used and expanded across brands and divisions in the reporting year, so that the continuously increasing number of projects can be processed as efficiently as possible.

“Arbonia Academy”
The existing management development programmes at the Swiss companies were expanded in 2019 and also implemented in Germany for the first time. The objective of these programmes is to give managers within the Arbonia Group the same management basics. The new “Arbonia Academy” was designed and approved by the Group Management and the Nomination and Compensation Committee. The “Arbonia Academy” represents the entirety of all training measures managed by the Group to achieve a uniform understanding of leadership within Arbonia and to increase the quality of leadership. The “Arbonia Academy” will also be used in the future to pursue internal employee development programmes. The preparations for this have been made and will be implemented for the first time in 2020.

Employee satisfaction
With the objective of promoting employee satisfaction, individual actions will also be carried out in the companies in addition to the Group-wide HR development measures. At Kermi in Germany and the Czech Republic, idea management is a tool that has been established for many years. Here, suggestions for improvement and input from employees are rewarded with attractive bonuses and, if implemented, also with appropriate compensation. Regular departmental rounds with a targeted exchange of information have proven to be a useful way of observing the opinions and mood of the workforce. In addition, events (e.g. hikes) or lectures outside of working hours provide a platform for getting to know each other and cooperating better. It is becoming increasingly apparent that employee satisfaction is more dependent on the ability to influence individual working hours. We want to meet this requirement – where possible – through flexible working hours, the possibility of part-time employment and mobile working.

In Eastern Europe, where there is still a shortage of skilled workers and nearly full employment, the salary policy of the companies is regularly reviewed on the basis of market value and political requirements and adjusted where necessary. Employees in production, for example, can achieve significantly higher salaries than the market value would suggest through individual, targeted further development opportunities and skills enhancements.

Corporate Governance

This report complies with the Corporate Governance Directive (CGD) of the SIX Exchange Regulation dated 20 June 2019. Unless otherwise indicated, the disclosures apply as of 31 December 2019.

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

Dr Carsten Voigtländer

Group Management

Alexander von Witzleben
Delegate of the Board of Directors and interim CEO

Daniel Wüest
CFO

Ulrich Bornkessel
Head of the Heating, Ventilation and Air Conditioning Division

Knut Bartsch
Head of the Sanitary Equipment Division

Harald Pichler
Head of the Windows Division

Peter Spirig
Head of the Doors Division

1.1.1. Operational Group structure

As of 31 December 2019, the operational group structure at Arbonia AG comprises (1) 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 15). Together with the Finance/Controlling/Reporting area, the four divisions form the Group's operational structure as of 31 December 2019.

As of 31 December 2019, 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 2019 can be found on pages 16–47.

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 153 (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 181. 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

	31/12/2019		31/12/2018
	Voting and capital shares	Shareholding notification	Voting and capital shares
	In %		In %
Artemis Beteiligungen I AG	22.07	17/12/2016	22.07
Looser family shareholders	< 3.0	16/04/2019	14.53
Leo Looser	3.03	17/04/2019	

On 17 December 2016, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 20.02% (www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html). As of 31 December 2019, the shareholding of Artemis Beteiligungen I AG amounts to 22.07%.

On 16 April 2019, the former family shareholders (hereinafter "family shareholders") of the former Looser Holding AG (hereinafter "Looser Group"), which was taken over by Arbonia in 2016 as part of a share purchase agreement and public purchase and exchange offer, reported the dissolution of a group. This group was related to the share purchase agreement signed by the family shareholders on 14 September 2016 for the acquisition of the Looser Group by Arbonia and the related obligations. The last of these obligations ceased to apply at the time of the Annual General Meeting of 12 April 2019, which resulted in the dissolution of the group (cf. for this also the group reports of 19 September 2017, 20 December 2016 and 22 September 2016 at www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html).

As a result, on 17 April 2019, Leo Looser reported a 3.03% shareholding as an individual (www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html).

On 4 February 2020, Morgan Stanley reported a 5.06% shareholding (securities lending) and on 13 February 2020 a 0.0005% shareholding (www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html).

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 2019, 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 48 of the notes to the consolidated financial statements on page 140.

	Quantity	Nominal value	Share capital
Registered shares 31/12/2018	69 473 243	4.20	291 787 620.60
Registered shares 31/12/2019	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 2019 (see 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 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 (2017–2019), share capital has increased twice as a result of using authorised capital.

On 28 June 2017, the Board of Directors resolved to increase the ordinary share capital, based on Art. 3a of the Articles of Association (www.arbonia.com/en/company/corporate-governance), with 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 with 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 the former Article 3c of the Articles of Association (www.arbonia.com/en/company/corporate-governance). 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.

As of 31 December 2019, the share capital of Arbonia 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 components 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 2019, 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 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 Fundamenta Group Holding AG, Zug ZG; member of the Supervisory Board of Fundamenta Group (Deutschland) AG, Munich (D).

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. Peter E. Bodmer 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: 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-Chairman of the Board of Directors 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; president of the Foundation Board of Zurich innovation park, Zurich ZH; president of the Foundation Board of Profond Pension Fund, Zurich ZH; member of the Foundation Board of the 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; member of the Board of Directors of Songwon Industrial Co. Ltd., Ulsan, South Korea; 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 management 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); 2012–2018 Executive Vice-President of The Dow Chemical Company, President Dow Europe, Middle East, Africa & India (EMEAI). 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: 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; chairman of the Board of Directors of GETEC PARK.SWISS AG, Muttenz BL.

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 Arbonia subsidiaries (see pages 151/152).

Other activities and vested interests: member of the Board of Directors of Franke Holding AG, Aarburg AG; member of the Board of Directors of BERGOS BERENBERG AG, Zurich ZH; Vice-Chairman 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, member of the Board of Directors of Reppisch-Werke AG, Dietikon 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).

Dr Carsten Voigtländer

1963, German citizen, resident in Mühbrook (D), graduate in mechanical engineering, Dr. Ing. process engineering, INSEAD Advanced Management Programme, non-executive member of the Board of Directors since 12 April 2019. 1989–1994 research assistant at the Institut für Thermodynamik of the Technische Universität Braunschweig (D), 1994–2002 various management positions at Neumag GmbH, Neumünster (D): 1994–1996 development engineer, 1996–1998 Head of the Engineering and Project Management Department, 1998–2000 Managing Director Technology, 2000–2002 spokesman of the management board for Technology, Service, commercial areas; 2002–2006 CEO and member of the management board at Saurer GmbH & Co. KG, Neumünster (D); 2006–2009 CEO and member of expanded Group Management OC Oerlikon AG and chairman of the management board of Oerlikon Textile GmbH & Co. KG, Remscheid (D); 2009–2018 various management positions at Vaillant GmbH, Remscheid (D): 2009–2010 CTO and Managing Director, 2011–2018 CEO and chairman of the management board and director of the Sales, Marketing and Service areas (2011–2015). Since 2018 various consultancy, administration and supervisory board mandates as well as owner of Voigtländer Board Advisory, Mühbrook (D). Dr Carsten Voigtländer has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Further activities and vested interests: Vice-Chairman of the Board of Directors of Saurer Intelligent Technology Co. Ltd., Shanghai (CN); member of the Board of Directors of Behr Bircher Cellpack BBC AG, Villmergen AG; member of the advisory board of INNIO Jenbacher GmbH & Co. OG, Jenbach (AT); member of the Board of Directors of Electrolux Professional AB, Ljungby (SE); member of the Board of Directors of Friedhelm Loh Stiftung & Co. KG, Haiger (D); member of the advisory board of STAR Deutschland GmbH, Sindelfingen (D); active as an advisor for various companies, whereby his activity as an advisor does not present any conflict of interest with the Arbonia Group.

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	2020
Peter Barandun, Vice-Chairman	1964	2014	2020
Peter E. Bodmer	1964	2013	2020
Markus Oppliger	1959	2013	2020
Heinz Haller	1955	2014	2020
Michael Pieper	1946	2015	2020
Thomas Lozser	1961	13/12/2016*	2020
Dr Carsten Voigtländer	1963	2019	2020

* 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 independent. 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 four times during the reporting year. The interim CEO, the CFO, the external auditors and Internal Audit were present at three meetings; one meeting was attended by only the interim CEO and the CFO in addition to the committee members. 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 and a quarter 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.

3.4.2.2. Nomination and Compensation Committee
The members of the Compensation Committee were elected by the General Meeting on 12 April 2019. 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. 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. In the reporting year, the Nomination and Compensation Committee dealt with, among other things, HR development in the Group, particularly with regard to selected key functions. The Nomination and Compensation Committee also dealt with a new or respectively revised set of rules, which includes the by-laws of Arbonia AG, the Rules of Procedure for the Group Management of Arbonia AG, the regulation of powers for the Board of Directors and Group Management and the regulation of powers for Group Management, CEO, CFO, divisional managers and heads of the corporate functions.

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 twice during the reporting year. The interim CEO and CFO attended both 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. 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. In the reporting year, one of the five ordinary meetings lasted half a day. The interim CEO and CFO attended all meetings. All members of the Group Management also attended all meetings. Managers 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 subsidiaries;
- 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 (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).

In the reporting year, the Board of Directors passed, at the request of the Nomination and Compensation Committee, a new or revised set of rules, which includes the by-laws of Arbonia AG, the Rules of Procedure for the Group Management of Arbonia AG, the regulation of powers for the Board of Directors and Group Management and the regulation of powers for Group Management, CEO, CFO, divisional managers and heads of the corporate functions. The main innovation is the practice already in place whereby all proposals to be submitted to the Board of Directors for approval must first be approved by the Group Management, whose role and importance is thus enhanced.

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. During the reporting year, the Internal Audit provided the members of the Board of Directors with 13 audit reports, of which two reports were drawn up by external auditors. 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 internal control system (ICS).

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

The Audit Committee is also informed about incoming whistleblowing reports. Three internal reporting offices are available for reports of this kind. All Arbonia employees are requested to report any violations of the Code of Conduct of which they become aware (www.arbonia.com/de/unternehmen/corporate-governance/#tab-code-of-conduct).

4. Group Management

4.1. Members of Group Management

At the General Meeting on 12 April 2019, Felix Bodmer stepped down from his role as Chief Financial Officer. Since 15 April 2019, Daniel Wüest has been the new Chief Financial Officer. As of 31 December 2019, 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)

Daniel Wüest

1970, Swiss citizen, Master of Arts (lic. oec. publ.) in economics with specialisation in Finance and Banking, Chief Financial Officer (CFO) since 2019; 2014–2019 Head of Mid-Market Advisory Switzerland, UBS Switzerland AG, Zurich; 1997–2014 various positions at UBS Investment Bank Zurich: most recently from 2009–2014 as Managing Director Investment Banking.

Other activities and vested interests: Daniel Wüest has no other material activities or vested interests.

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 since 2013, deputy chairman of the CCI expert committee Industry of the Chamber of Commerce and Industry for Lower Bavaria since 2019.

Harald Pichler

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

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; 2013–2016 Franke Group, member of Group Management and President of Franke Asia; 2009–2013 President of Franke Foodservice Systems Asia; 2004–2009 Chief Executive Officer Holcim (Lanka) Ltd; 2002–2004 Assistant to Executive Committee Member Holcim Group; 1999–2000 project manager Ernst Basler + Partner AG.

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 73–80.

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 consolidated financial statement 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 2019, the various auditors billed a total of CHF 1 235 000 (previous year: CHF 1 230 000) 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 1 047 000 (previous year: CHF 1 068 000) in 2019.

8.3. Additional fees

In 2019, the statutory auditor KPMG AG and other auditors of Group companies billed CHF 369 000 (previous year: CHF 548 000) for additional services, CHF 341 000 of which (previous year: CHF 508 000) was attributable to KPMG AG. Of the additional services performed by KPMG AG in 2019, CHF 316 000 was for tax advice and CHF 25 000 was for other services.

8.4. Informational instruments of the external auditors

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 statement, the consolidated financial statement and the 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 auditor, 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 73. 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. During the reporting year, Arbonia published nine 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:

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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 www.arbonia.com/en/media/press-releases.

The calendar of events is provided on page 188 of the Annual Report and on the Arbonia website 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 2019 (chapter B). The compensation report complies with current corporate governance standards and has been compiled in accordance with the Ordinance against Excessive Remuneration 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 81.

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 (https://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. Members of the Board of Directors not on the committee receive 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 twice 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 24 April 2020, a decision shall be made retrospectively on the total compensation for the members of the Board of Directors for the year of office 2019/2020 which shall also end on the same day. On 24 April 2020, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 963 000 for the year of office 2019/2020.

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 a fixed compensation for all their work for the Board of Directors. This remained unchanged in the year of office 2019/2020. 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 2019.

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 24 April 2020, a decision shall be made retrospectively on the total compensation for the members of Group Management for the 2019 financial year. On 24 April 2020, the Board of Directors shall submit an application for the retrospective approval of Group Management's total compensation of CHF 5 468 000 for the 2019 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 2018, 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 role evaluation. 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.

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 and interim CEO was made up of a cash element amounting to CHF 280 000 as well as 60 000 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 112.51% 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 EBITDA margin, the free cash flow, the cash flow from operations, the group result, the holding costs, the return on capital employed and the growth were determined for the members of Group Management.

In the reporting year, one member of Group Management received higher variable compensation than provided for in the bonus programme due to extraordinary performance that resulted in a significant overachievement of financial targets.

4.3. Allowances and in-kind benefits

Some members of Group Management receive lump-sum allowances of CHF 21 600 per year. The lump-sum allowances of the delegate of the Board of Directors and interim CEO are CHF 6 600 per 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 2019.

4.7. Contract term

The contracts of the members of Group Management have, with one exeption, been concluded for an unlimited term with a notice period of six months. One member of Group Management has a contract that has a notice period of 12 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 according to the Arbonia pension scheme regulations and according to 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 853 200 (as of 1 January 2019, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 642 560 (as of 1 January 2019). The employer contribution is the same for all three available plans and amounts to 25% of the insured salary (as of 1 January 2019). The delegate of the Board of Directors and interim CEO is 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 2019

5. Board of Directors

5.1. Changes in the Board of Directors

At the General Meeting on 12 April 2019, Dr. Carsten Voigtländer was elected as a new member of the Board of Directors for the year of office 2019/2020. This increased the size of the Board of Directors to eight 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.

Compared to the 2018 financial year, the total fee of the Board of Directors has decreased despite the increase in the number of directors by one new member in the 2019 financial year, which is due to an extraordinary payment to one of the members of the Board of Directors in the 2018 financial year (see table showing the compensation of the Board of Directors in 2018, footnote 5, p. 79).

5.2. Table

						2019
	Functions exercised in 2019	**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[5] Member of the NCC[6]	120	150	15	15	300
Peter Barandun	Vice-Chairman Chairman of the NCC	20	100	6	6	132
Peter E. Bodmer[4]	Member Member of the AC	14	70	0	6	90
Markus Oppliger	Member Chairman of the AC	40	50	5	6	101
Heinz Haller	Member Member of the NCC	14	70	5	6	95
Michael Pieper	Member	12	60	2	6	80
Thomas Lozser	Member	60	0	4	12	76
Carsten Voigtländer	Member as of 12 April 2019	20	25	2	8	55
Total compensation to members of the Board of Directors		**300**	**525**	**39**	**65**	**929**

1 Employer contributions to social insurance policies
2 Lump-sum allowances
3 The compensation for Alexander von Witzleben in 2019 as Chairman of the Board of Directors is included in this table. The compensation as interim CEO of a total of CHF 1 122 278 is included in the compensation of Group Management in chapter 6.2.
4 The compensation for Peter E. Bodmer for the period of office 2019/2020 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.
5 AC = audit committee
6 NCC = Nomination and Compensation Committee

	Functions exercised in 2018	Fee in cash	Fee in shares	Pension expenses[1]	Other compensa-tion[2]	Total
						2018
		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[6] Member of the NCC[7]	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 April 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 for Alexander von Witzleben in 2018 as Chairman of the Board of Directors is included in this table. The compensation as interim CEO of a total of CHF 1 369 275 is included in the compensation of 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.
6 AC = audit committee
7 NCC = Nomination and Compensation Committee

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.

The total compensation of the members of Group Management has increased compared to the previous year. This is due to the fact that the total compensation includes the compensation of the former CFO until 30 June 2019 and the compensation of the current CFO from 1 April 2019. In addition, the variable compensation of the members of Group Management increased due to the higher level of target achievement compared to the previous year.

6.2. Table

			2019		2018
	Group-Management[3]	thereof to Harald Pichler	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	in 1 000 CHF
Annual salary (cash)	2 293	450	280	2 187	280
Annual salary (shares)	699		699	1 000	1 000
Variable compensation (bonus in cash)	713	253		410	
Variable compensation (bonus in shares)	742	253		512	
Pension expenses[1]	891	186	136	757	83
Other compensation[2]	130	28	7	118	7
Total	**5 468**	**1 170**	**1 122**	**4 984**	**1 370**
Number of members	7[4]			6	

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 exchange rate used is 1.11 for 2019 and 1.15 for 2018.
4 Includes former CFO until 30 June 2019 and new CFO as of 1 April 2019

KPMG

Report of the Statutory Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 73 to 80) of Arbonia AG for the year ended 31 December 2019. 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 2019 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 2020

KPMG AG, Bogenstrasse 7, PO Box 1142, CH-9001 St. Gallen

Consolidated financial statements of the Arbonia Group

Financial statements of Arbonia AG

Financial commentary of Daniel Wüest (CFO)

Revenue development and general market environment
In the 2019 financial year, Arbonia Group achieved a net revenue of CHF 1 416.0 million, which represents a growth of 3.1% compared to the previous year (CHF 1 374.0 million). Adjusted for acquisition and currency effects, growth amounted to 2.0% (organic growth), meaning that Arbonia's organic revenue was slightly below the target of around 3% set at the beginning of the year. The Windows Division was largely responsible for the lower organic growth. Due to a change in the product mix and the more selective acceptance of orders in favour of better profitability, the Windows Division accepted a slightly negative organic growth at the divisional level in the 2019 financial year. In contrast, the three other divisions, HVAC, Sanitary Equipment and Doors, showed significant organic growth, with the Doors Division showing the highest organic growth of 3.7%. On a positive note, organic growth accelerated at the Group level in the second half of 2019, after having stood at 1.4% at mid-year. The increase in organic growth was based on a continued positive environment in residential construction in Arbonia's core markets. In addition to the continuing high level of construction activity in the conurbations of Germany, Switzerland, the Benelux countries and Eastern Europe, which is also supported by the continuing low interest rate environment, numerous Arbonia products are increasingly benefiting from the social and regulatory trend towards energy-efficient and CO_2-efficient construction or renovation of buildings.

The achieved growth of over 3% (2% organic) took place in an economically, cyclically and geopolitically challenging environment, in which private and public new construction and, to a lesser extent, renovation activity in Arbonia's core markets (Germany, Switzerland, Eastern Europe, the Benelux countries, Italy and Spain) remained intact, but in which industrial construction activity showed the first signs of an economic slow-down. The geopolitical trade conflicts between the USA and China, the trade sanctions against Russia, the discussions about Brexit and its effects on European trade, as well as the slowdown in the automotive sector contributed to a challenging environment for companies including Arbonia in the 2019 financial year and prevented higher revenue growth.

Arbonia assumes that the market environment will remain challenging in 2020 but that Arbonia is well positioned with its products, its geographical presence and the high productivity of its manufacturing plants. In the 2019 financial year, Arbonia did not make any notable acquisitions/participationsor or divestments.

Continued increase in earnings
At CHF 26.2 million, the Group result for net profit in the 2019 financial year was less than the previous year (CHF 38.7 million), although the previous year's result was positively influenced by an extraordinary profit of CHF 25.7 million due to the sale of real estate not required for business operations. Excluding one-time effects in both financial years, the Group result increased by over 50% to CHF 36.5 million, compared to CHF 23.8 million in the previous year. The one-time effects in the 2019 financial year amounted to CHF 9.5 million net at the level of operating income before depreciation and amortisation (EBITDA), the main items being restructuring costs in connection with the closure and relocation of sites as part of the integration of the Vasco Group, additional restructuring costs in connection with the production relocation at EgoKiefer, closure costs at Wertbau Elemente and the commissioning of the new steel panel radiator factory in Russia. As an offsetting item, a profit of CHF 1.1 million from the sale of real estate (mainly refund of property gains tax) could be recorded. At the level of operating result after depreciation and amortisation (EBIT), one-time effects to the amount of CHF 3.2 million were incurred, which were mainly due to impairments of no longer needed equipment in the HVAC and Windows Divisions.

In the income statement for 2019, slightly decreasing raw material prices in combination with a weaker euro led to a lower material ratio. With and without one-time effects, the personnel ratio increased slightly compared to the previous year, which is due on the one hand to ongoing salary increases, especially in Eastern Europe, the relocations at Vasco (HVAC Division) and EgoKiefer to Wertbau (Windows Division) and the ramp-up of the new factory in Russia. The other expenses decreased slightly as a percentage of net revenue compared with the previous year. Overall, however, the salary increases were offset by price and, to a lesser extent, volume increases as well as a higher productivity in the 2019 financial year.

Due to the operational improvements, which resulted in a higher productivity, EBITDA without one-time effects increased to CHF 134.8 million in the 2019 financial year (previous year CHF 115.1 million). As a result, the EBITDA margin increased from 8.4% to 9.5%. Due to the first-time application of IFRS 16 (accounting for lease liabilities), additional EBITDA of around CHF 13 million was incurred in 2019. Taking one-time effects into account, EBITDA was slightly less at CHF 125.4 million in the 2019 financial year than in the previous year (CHF 130.5 million). All divisions contributed to the margin improvement to 9.5% (excluding one-time effects), with the Windows Division making the relatively highest contribution (increase in EBITDA margin from 4.4% to 7.6%). The Doors Division and Sanitary Equipment Division were also able to increase their margins compared to the previous year, while the HVAC Division had to accept a slight percentage decrease, mainly due to currency effects. The EBITDA margin was well above 10% in all three divisions, except for the Windows Division.

Higher depreciation and amortisation and the missing contribution from properties sales (CHF 25.7 million in the previous year) meant that the EBIT of CHF 39.7 million for the 2019 financial year turned out to be lower (previous year CHF 61.0 million). Without one-time effects, Arbonia achieved an encouraging increase in EBIT to CHF 52.3 million (previous year CHF 47.8 million), while the EBIT margin increased to 3.7% compared to the previous year (3.5%).

The net financial expense figure substantially decreased in 2019 from CHF 11.2 million to CHF 5.4 million, which is due on the one hand to lower interest costs and the absence of currency losses on intercompany loans not denominated in CHF. The continued low interest rates combined with Arbonia's moderate level of debt had a positive impact on the interest expense as an element of the financial expense in the 2019 financial year.

Income tax expense decreased slightly to CHF 8.1 million (previous year CHF 11.1 million) due to the lower consolidated earnings before taxes (EBT) in the 2019 financial year. The effective tax rate of 23.6% (previous year 22.3%) increased slightly, which was due to the fact that a higher proportion of profits was generated in "high-tax countries" in 2019.

Significant increase in cash flow underscores operational progress and performance

The free cash flow (cash flow from operating and investing activities) amounted to CHF 8.4 million in the financial year (previous year CHF –53.8 million). The positive development is due to a highly gratifying, sustained increase in cash flow from operating activities, which rose by more than 60% to CHF 111.8 million (previous year CHF 69.6 million) in the reporting year. In addition, investments decreased from CHF 134.7 million in the previous year to CHF 113.0 million in 2019, which also had a positive effect on the free cash flow. In the 2020 financial year, investments will be in the order of CHF 100 million, with the objective of reducing the investment ratio (maintenance investments) to a maximum of 4% in relation to revenues, starting in the 2020 financial year.

Continuing high equity ratio and low net debt and continuous dividend payment

The total assets of Arbonia as of 31 December 2019 increased only negligibly to CHF 1 534.4 million compared to the previous year (CHF 1 511.9 million). The shareholders' equity also remained virtually unchanged at CHF 873.3 million (previous year CHF 887.7 million). The slight decrease in shareholders' equity is due to the first-time payment of a dividend from capital contribution reserves for the 2018 financial year and currency translation differences resulting from the depreciation of the euro against the Swiss franc on the balance sheet date. In addition, the first-time application of IFRS 16 resulted in an increase in total assets. As a consequence, the equity ratio as of the end of the 2019 financial year decreased slightly from a high level of 58.7% to 56.9%.

The net debt increased slightly by CHF –11.2 million to CHF –128.0 million as of 31 December 2019 (previous year CHF –116.8 million) or CHF –180.6 million taking into account CHF –52.6 million due to IFRS 16. The net debt ratio (net debt / EBITDA) increased to –1.1x (previous year –0.9x), which is still a very good figure and provides Arbonia with sufficient strategic and financial scope. This means that all key financial figures of the credit agreement clauses have also been met. In addition, Arbonia intends to refinance the syndicated loan of CHF 350 million due in 2021 ahead of schedule in the 2020 financial year.

The solid balance sheet structure as well as the increasing profitability allowed Arbonia to pay out a cash dividend of CHF 0.20 per registered share from capital contribution reserves for the 2018 financial year to shareholders for the first time in many years. Due to the further increase in profitability in the 2019 financial year, the Board of Directors will propose to the Annual General Meeting that a 10% higher dividend of CHF 0.22 per Arbonia registered share be paid for the 2019 financial year.

Consolidated Financial Statements Arbonia Group

Consolidated Income Statement

	Note	2019		2018	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Continuing operations					
Net revenues	31	**1 415 967**	**100.0**	**1 374 007**	**100.0**
Other operating income		17 460	1.2	42 379	3.1
Capitalised own services		7 596	0.5	5 857	0.4
Changes in inventories of semi-finished and finished goods		3 470	0.2	–1 833	–0.1
Cost of material and goods		–638 284	–45.1	–633 737	–46.1
Personnel expenses		–480 075	–33.9	–454 654	–33.1
Other operating expenses		–200 783	–14.2	–201 519	–14.7
EBITDA	31	**125 351**	**8.9**	**130 500**	**9.5**
Depreciation, amortisation and impairments	37-40	–67 005	–4.7	–50 695	–3.7
Amortisation of intangible assets from acquisitions	40	–18 642	–1.3	–18 827	–1.4
EBIT	31	**39 704**	**2.8**	**60 978**	**4.4**
Financial income	51	2 308	0.2	2 889	0.2
Financial expenses	51	–7 718	–0.5	–14 058	–1.0
Group result before income tax		**34 294**	**2.4**	**49 809**	**3.6**
Income tax expense	52	–8 087	–0.6	–11 122	–0.8
Group result from continuing operations		**26 207**	**1.9**	**38 687**	**2.8**
Group result from discontinued operations after taxes	36			**7 339**	**0.5**
Group result		**26 207**	**1.9**	**46 025**	**3.3**
Attributable to:					
Shareholders of Arbonia AG		26 207		46 025	
Earnings per share from continuing operations in CHF	48	0.38		0.56	
Earnings per share from discontinued operations in CHF	48			0.11	
Earnings per share in CHF	48	0.38		0.67	

Basic and diluted earnings are identical.

The notes on pages 95 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	2019 in 1 000 CHF	2018 in 1 000 CHF
Group result	**26 207**	**46 025**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	−7 440	3 780
Deferred tax effect	2 494	−973
Total items that will not be reclassified to income statement	**−4 947**	**2 807**
Items that may be subsequently reclassified to income statement		
Currency translation differences	−24 966	−28 642
Cumulative currency translation differences transferred to the income statement	111	69
Total items that may be subsequently reclassified to income statement	**−24 855**	**−28 573**
Other comprehensive income after taxes	**−29 802**	**−25 766**
Total comprehensive income	**−3 595**	**20 259**
Attributable to:		
Shareholders of Arbonia AG	−3 595	20 259
Total comprehensive income from continuing operations	−3 595	19 158
Total comprehensive income from discontinued operations		1 101

The notes on pages 95 to 154 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

		31/12/2019		31/12/2018	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Assets					
Cash and cash equivalents	32	58 354		70 877	
Accounts receivable	33	124 964		135 490	
Other current assets		30 159		34 198	
Inventories	34	168 938		168 424	
Contract assets	33	25 603		27 968	
Deferred expenses		5 396		6 679	
Current income tax receivables		2 013		2 714	
Financial assets	35	1 629		10 047	
Assets held for sale	36	9 823		237	
Current assets		**426 879**	**27.8**	**456 634**	**30.2**
Property, plant and equipment	37	578 169		577 990	
Right-of-use assets[1]	38	81 113			
Investment property	39	4 134		6 815	
Intangible assets	40	187 305		209 559	
Goodwill	40	197 338		204 068	
Deferred income tax assets	46	8 537		5 664	
Capitalised pension surplus	47	44 683		44 631	
Financial assets	35	6 257		6 487	
Non-current assets		**1 107 536**	**72.2**	**1 055 214**	**69.8**
Total assets		**1 534 415**	**100.0**	**1 511 848**	**100.0**

		31/12/2019		31/12/2018	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable		125 844		127 913	
Contract liabilities	33	8 446		6 701	
Other liabilities		29 293		34 200	
Financial debts	42	31 352		23 066	
Lease liabilities[1]	38	13 581		2 617	
Accruals and deferred income		79 955		80 747	
Current income tax liabilities		13 952		12 888	
Provisions	45	17 749		24 864	
Liabilities associated with assets held for sale	36			371	
Current liabilities		**320 172**	**20.9**	**313 367**	**20.7**
Financial debts	42	145 151		151 725	
Lease liabilities[1]	38	48 863		10 540	
Other liabilities		15 577		15 245	
Provisions	45	12 041		12 543	
Deferred income tax liabilities	46	63 420		70 957	
Employee benefit obligations	47	55 941		49 744	
Non-current liabilities		**340 993**	**22.2**	**310 754**	**20.6**
Total liabilities		**661 165**	**43.1**	**624 121**	**41.3**
Share capital	48	291 787		291 787	
Share premium		512 583		526 319	
Treasury shares	49	−4 426		−7 101	
Other reserves	50	−83 187		−58 332	
Retained earnings		156 493		135 054	
Shareholders' equity		**873 250**	**56.9**	**887 727**	**58.7**
Total liabilities and shareholders' equity		**1 534 415**	**100.0**	**1 511 848**	**100.0**

[1] see note 2 "First time adoption of IFRS 16"

The notes on pages 95 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2019 in 1 000 CHF	2018 restated [1] in 1 000 CHF
Group result		**26 207**	**46 025**
Depreciation, amortisation and impairments	37–40	85 647	69 522
Profit/loss on disposal of non-current assets and subsidaries	35–38	–1 272	–35 138
Changes in non-cash transactions	55	13 240	15 545
Net interest expense	51	4 664	4 340
Income tax expense	52	8 087	11 122
Changes in working capital	55	9 473	–23 398
Changes in current liabilities	55	–18 854	429
Interest paid		–3 549	–2 522
Interest received		452	78
Income tax paid		–12 296	–16 450
Cash flows from operating activities - net		**111 799**	**69 553**
To investment activities			
Purchases of property, plant and equipment	37	–109 551	–131 627
Purchases of investment properties	39	–61	–8
Purchases of intangible assets	40	–3 361	–3 070
Acquisition of subsidiaries/businesses (net of cash acquired)	41	–1 113	–66 147
Issuance of financial assets	35	–1 782	–14 105
From divestment activities			
Proceeds from sale of property, plant and equipment	37	1 177	22 982
Proceeds from sale of investment properties	39	923	23 205
Proceeds from sale of intangible assets		78	8
Disposal of subsidiaries (net of cash disposed)	36		38 985
Repayment of financial assets		10 263	6 446
Cash flows from investing activities - net		**–103 427**	**–123 331**

	Note	2019 in 1 000 CHF	2018 restated[1] in 1 000 CHF
From financing activities			
Proceeds from financial debts	42/55	78 082	233 672
To financing activities			
Repayments of financial debts	42/55	– 70 763	– 193 087
Lease liability payments (2018: Finance lease liability payments)	55	– 14 436	– 2 508
Distribution from capital contribution reserves		– 13 736	
Cash flows from financing activities - net		**– 20 853**	**38 077**
Effects of translation differences on cash and cash equivalents		– 279	– 2 348
Change in cash and cash equivalents		**– 12 760**	**– 18 049**
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	70 877	82 703
Cash and cash equivalents as of 01/01 discontinued operations		237	6 460
Cash and cash equivalents as of 31/12 continuing operations	32	58 354	70 877
Cash and cash equivalents as of 31/12 discontinued operations			237
Change in cash and cash equivalents		**– 12 760**	**– 18 049**

[1] see note 2 “Changes in presentation – Consolidated Statement of Cash Flows”

The notes on pages 95 to 154 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	Total share-holders' 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
Balance at 01/01/2018		**291 787**	**526 319**	**–8 265**	**–29 759**	**84 270**	**864 352**
Group result						46 025	46 025
Other comprehensive income after taxes	50				–28 573	2 807	–25 766
Total comprehensive income					**–28 573**	**48 832**	**20 259**
Changes in treasury shares	49					1 220	1 220
Share based payments	56			1 164		732	1 896
Total transactions with owners				**1 164**		**1 952**	**3 116**
Balance at 31/12/2018		**291 787**	**526 319**	**–7 101**	**–58 332**	**135 054**	**887 727**
Group result						26 207	26 207
Other comprehensive income after taxes	50				–24 855	–4 947	–29 802
Total comprehensive income					**–24 855**	**21 260**	**–3 595**
Distribution from capital contribution reserves			–13 736				–13 736
Share based payments	56			2 675		179	2 854
Total transactions with owners			**–13 736**	**2 675**		**179**	**–10 882**
Balance at 31/12/2019		**291 787**	**512 583**	**–4 426**	**–83 187**	**156 493**	**873 250**

The notes on pages 95 to 154 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 components 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, Russia, 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 2020 and require approval from the Annual General Meeting on 24 April 2020. The publication of the consolidated financial statements occurred on 25 February 2020 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.

Amendments to significant published standards
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 2018, except for the adoption of the following new standard, which Arbonia has implemented in 2019:
– IFRS 16 "Leases"

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

First time adoption of IFRS 16
Arbonia has initially adopted IFRS 16 "Leases" for the 2019 financial year. IFRS 16 replaces IAS 17 and sets out the principles governing the recognition, measurement and disclosure of leases. The modified retrospective method was applied for the transition, with the previous year's figures not being restated. The disclosure requirements under IFRS 16 were also not applied to the previous year's figures.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). Payments under operating leases were recognised in the income statement in the other operating expenses as rental expenses on a straight-line basis over the lease term.

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 in the balance sheet. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Arbonia uses the optional exemption not to recognise short-term and low-value leases in the balance sheet, but to recognise the corresponding lease payments as an expense on a straight-line basis over the lease term.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. The carrying amount of the right-of-use asset and the lease liability as of 1 January 2019 for leases classified as finance leases in accordance with IAS 17 was determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

On adoption of IFRS 16, Arbonia recognises leases in the balance sheet which had previously been classified as operating leases under the principles of IAS 17. The new leases recognised as of 1 January 2019 amounted to CHF 55.0 million. The weighted average incremental borrowing rate applied to the lease liabilities initially recognised on 1 January 2019 was 2.0%. The operating lease commitments disclosed as of 31 December 2018, discounted at the incremental borrowing rates, are reconciled as follows to the lease liabilities initially recognised in the balance sheet as of 1 January 2019:

	in 1 000 CHF
Operating leases at 31/12/2018	58 986
Operating leases at 31/12/2018, discounted	54 875
– Short-term leases	–2 641
– Low-value leases	–377
– Different lease term (incl. renewal options)	11 263
– Different lease rate (incl. service rates)	–8 001
– Others	–139
Additional lease liabilities due to first-time adoption of IFRS 16 at 01/01/2019	**54 980**
Finance leases at 31/12/2018	13 157
Total lease liabilities at 01/01/2019	**68 137**

The right-of-use assets were recognised at the amount of the lease liability, which is why the transition to IFRS 16 had no effect on equity.

As a result of the transition to IFRS 16, the lease payments of previous operating leases are no longer charged to the income statement via rental expenses in the other operating expenses, but via depreciation and via interest expenses. In the reporting period, Arbonia recognised depreciation of CHF 11.9 million and interest expenses of CHF 1.0 million from these newly recognised leases.

Published standards that are not yet effective nor adopted early
The published but as of the balance sheet date not yet effective significant new or amended standards will not have a material impact on the Group's financial statements.

Changes in presentation – Consolidated Statement of Cash Flows
Arbonia has made changes to the presentation of the Statement of Cash Flows. Net interest expense, interest paid and received, income tax expense and income tax paid are now shown separately under cash flows from operating activities. As a consequence of this change, differences in assets and liabilities and non-cash items relating to interest activities and taxes have been removed from the items "changes in non-cash transactions", "changes in working capital" and "changes in current liabilities". The comparative figures for 2018 have been adjusted accordingly.

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:

There were no changes in the scope of consolidation in 2019.

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 41).
- As of 24 September 2018, Arbonia acquired 100% of Tecnologia de Aislamientos y climatizacion S.L., ES-Algete (see note 41).

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 unless the consideration is an equity instrument. 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. Investments in associated companies are measured at cost at the time of acquisition and subsequently at the proportionate share of equity.

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	2019		2018	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.0857	1.1127	1.1270	1.1547
GBP	1	1.2773	1.2694	1.2542	1.3055
USD	1	0.9687	0.9938	0.9849	0.9780
CZK	100	4.2728	4.3355	4.3810	4.5050
PLN	100	25.4951	25.8979	26.1858	27.1184
CNY	100	13.8918	14.3962	14.3616	14.8067
RUB	100	1.5658	1.5365	1.4183	1.5622

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. Accounts receivable and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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 (2), Other financial assets (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.

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 (debt securities) 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), 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.

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, value adjustments are also made for expected losses on 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, an active search for a buyer is taking place 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.

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 not used for more than for minor operational purposes. 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, 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

For the transition to IFRS 16, the modified retrospective method was applied with the previous year's figures not being restated and still disclosed in accordance with IAS 17.

Policy applicable from 1 January 2019
An assessment is made at the beginning of the contract as to whether an agreement constitutes or contains a lease. A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Arbonia uses the optional exemption not to recognise short-term and low-value leases in the balance sheet, but to recognise the corresponding lease payments as an expense on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of future lease payments during the non-cancellable period of the lease. Arbonia uses incremental borrowing rates as discount rates. On initial measurement, the right-of-use asset corresponds to the lease liability plus any dismantling costs, initial direct costs and advance payments. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life and the lease term. If it is intended to exercise a purchase option at the end of the contract period, the asset is depreciated over its useful life. The right-of-use asset is subject to an impairment test if there are indications of impairment.

If the expected lease payments change, e.g. in the case of payments based on an index or due to new estimates regarding contractual options, the lease liability is remeasured. The remeasurement to the lease liability is generally recognised as an adjustment to the related right-of-use asset without affecting the income statement.

Policy applicable until 31 December 2018
Until 31 December 2018, leases of property, plant and equipment where Arbonia has substantially all the risk and rewards of ownership have been classified as finance leases. Finance leases were 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, have been included in finance lease liabilities. Property, plant and equipment acquired under finance leases was depreciated over the shorter of the assets' useful lives and the lease term unless there was reasonable certainty that ownership will be obtained by the end of the lease term.

Payments made under operating leases were 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. The variable considerations can be reliably measured at the time the performance obligation is fulfilled and are taken into account as sales deductions. 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 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. The variable considerations can be reliably measured at the time the performance obligation is fulfilled and are taken into account as sales deductions. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component.

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. The allocation of the transaction price to separate performance obligations is not required because of the existence of only one performance obligation in the project business. 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.
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.

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.

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.

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, minority share from associated companies, 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, 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
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 provision
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 2019, the carrying amount of inventory was at CHF 168.9 million. Therein a provision for inventories of CHF 21.6 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 2019, the carrying amount of property, plant and equipment totalled CHF 578.2 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 anticipa-

ted. 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 2019, the carrying amount of goodwill was at CHF 197.3 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 40.

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 2019, the carrying amount of intangible assets acquired in a business combination amounted to CHF 175.3 million. For further information on such acquired intangible assets, see note 40.

Provisions
Provisions are recognised based on the criteria as set out under note 22. As of 31 December 2019, the carrying amount of the provisions totalled CHF 29.8 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 45.

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 2019, the underfunding amounted to CHF 11.3 million, thereof CHF 44.6 million recorded in the balance sheet as capitalised pension surplus and CHF 55.9 million as employee benefit obligation. For further information on employee benefit obligation, see note 47.

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 2019, the carrying amount of deferred tax assets before offsetting totalled CHF 34.6 million. For further information on income taxes, see notes 46 and 52.

C Explanation to certain positions of the consolidated financial statements

31. Segment information

Arbonia is organised into the divisions or segments HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. 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	2019 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 at point in time	554 685	143 779	235 840	299 086	1 233 390			1 233 390
Sales with third parties over time			122 295	60 282	182 577			182 577
Sales with other segments			58		58		–58	
Net revenues	**554 685**	**143 779**	**358 193**	**359 368**	**1 416 025**		**–58**	**1 415 967**
Segment results I (EBITDA)	**51 565**	**14 669**	**24 653**	**43 954**	**134 841**	**–9 472**	**–18**	**125 351**
in % of net revenues	*9.3*	*10.2*	*6.9*	*12.2*	*9.5*			*8.9*
Depreciation and amortisation	–23 078	–3 846	–20 772	–14 477	–62 173	–1 659		–63 832
Reversal of impairment on property, plant and equipment			74		74			74
Impairment property, plant and equipment/ right-of-use assets	–1 973		–1 174	–100	–3 247			–3 247
Segment results II (EBITA)	**26 514**	**10 823**	**2 781**	**29 377**	**69 495**	**–11 131**	**–18**	**58 346**
in % of net revenues	*4.8*	*7.5*	*0.8*	*8.2*	*4.9*			*4.1*
Amortisation of intangible assets from acquisitions	–3 794	–1 798	–3 148	–9 901	–18 642			–18 642
Segment results III (EBIT)	**22 720**	**9 025**	**–367**	**19 476**	**50 853**	**–11 131**	**–18**	**39 704**
in % of net revenues	*4.1*	*6.3*	*–0.1*	*5.4*	*3.6*			*2.8*
Interest income	225	46	327	36	634	9 084	–8 876	842
Interest expenses	–4 212	–283	–2 683	–2 412	–9 590	–4 766	8 851	–5 505
Minority share from associated companies			149		149			149
Other financial result	–2 352	–1 009	–1 447	–1 620	–6 428	9 828	–4 296	–896
Result before income tax	**16 381**	**7 779**	**–4 021**	**15 479**	**35 618**	**3 014**	**–4 338**	**34 294**
Income tax expense	–6 436	–1 637	3 474	–4 966	–9 565	1 478		–8 087
Result after income tax	**9 945**	**6 142**	**–547**	**10 513**	**26 053**	**4 492**	**–4 338**	**26 207**
Average number of employees	**2 947**	**811**	**2 823**	**1 961**	**8 543**	**63**		**8 606**
Total assets	**576 504**	**107 640**	**290 004**	**506 788**	**1 480 936**	**1 039 306**	**–985 827**	**1 534 415**
thereof associated companies			2 492		2 492			2 492
Total liabilities	**329 122**	**53 124**	**189 943**	**221 599**	**793 788**	**256 111**	**–388 734**	**661 165**
Purchases of property, plant and equipment, right-of-use assets, investment properties and intangible assets	**53 034**	**8 187**	**18 087**	**40 713**	**120 021**	**2 226**		**122 247**

In the HVAC Division, impairment property, plant and equipment mainly includes an impairment of machinery, as a specific production process was outsourced and therefore these machines can no longer be used. In the Windows Division, the impairment relates to machinery of the plant in Altstätten resulting from the closure and thus decommissioning of production machinery.

2018	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 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.

Information about geographical areas

				2019
	Switzerland	Germany	Other Countries	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	356 324	555 686	503 957	1 415 967
Property, plant and equipment, right-of-use assets, investment properties, intangible assets and goodwill	130 751	499 688	417 620	1 048 059

				2018
	Switzerland	Germany	Other Countries	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 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

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:

	31/12/2019	31/12/2018
	in 1 000 CHF	in 1 000 CHF
CHF	6 644	26 105
EUR	31 190	27 123
PLN	10 703	7 365
CZK	1 784	2 114
RUB	5 216	5 341
USD	295	196
GBP	105	62
Other currencies	2 417	2 571
Total	**58 354**	**70 877**

The effective interest on bank deposits is 0.0% (2018: 0.0%).

33. Accounts receivable/ contract balances

Accounts receivable

	31/12/2019	31/12/2018
	in 1 000 CHF	in 1 000 CHF
Accounts receivable	141 267	150 933
Allowance for accounts receivable	– 16 303	– 15 443
Total	**124 964**	**135 490**
thereof accounts receivable project business	29 551	30 338

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

The ageing analysis is as follows:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Not yet due	101 714	108 314
Overdue up to 30 days	14 421	16 119
Overdue more than 30, less than 60 days	4 078	4 795
Overdue more than 60, less than 90 days	1 580	1 994
Overdue more than 90, less than 180 days	1 397	2 034
Overdue more than 180, less than 360 days	1 278	1 840
Overdue more than 360 days	496	394
Total accounts receivable, net	**124 964**	**135 490**

Outstanding accounts receivable amounting to CHF 18.5 million (2018: CHF 15.6 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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**–10 230**	**–7 077**
Foreign exchange differences	269	322
Changes in scope of consolidation		–1 279
Additional allowances	–2 194	–3 211
Used during year	843	377
Unused amounts reversed	100	637
Balance at 31/12	**–11 212**	**–10 230**

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 2019 the book value of the transferred receivables amounted to CHF 13.6 million (2018: CHF 14.6 million). Thereof Arbonia already received from the factor CHF 11.9 million (2018: CHF 12.7 million) of cash and the difference of CHF 1.7 million (2018: CHF 1.9 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2018: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2018: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2019 to CHF 0.002 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.02 million.

Contract balances

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Contract assets project business	25 603	27 968
Total contract assets	**25 603**	**27 968**
Contract liabilities project business	4 270	1 451
Other advance payments by customers	4 176	5 250
Total contract liabilities	**8 446**	**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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**27 968**	**15 894**
Reclassification of contract assets existing at the beginning of the period to accounts receivable	−24 517	−14 514
Revenue recognition on projects in progress as of the balance sheet date based on percentage of completion	50 715	48 786
Offset against contract liabilities due to partial payments received	−28 563	−22 197
Balance at 31/12	**25 603**	**27 968**

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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**1 451**	**1 827**
Revenue recognised from amounts included in the contract liabilities at the beginning of the period	−1 192	−1 568
Partial payments received for projects in progress at the balance sheet date	32 574	23 390
Offset against contract assets	−28 563	−22 197
Balance at 31/12	**4 270**	**1 451**

In 2019, 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 1 000 CHF	in 1-2 years in 1 000 CHF	after 2 years in 1 000 CHF
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2019	114 477	6 402	2 604
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

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Raw material and supplies	91 236	94 163
Semi-finished and finished goods	70 226	67 250
Goods purchased for resale	7 343	6 927
Prepayments	133	84
Total	**168 938**	**168 424**

A provision of CHF 21.6 million (2018: CHF 20.2 million) has been provided for obsolete and slow-moving items and is deducted from inventories. 2019 and 2018, there are no inventories written down to the net realisable value and no write-downs to net realisable value were recorded.

35. Financial assets

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Investments < 20%	3 685	3 721
Investments in associated companies > 20% < 50%	2 492	2 672
Other financial assets	80	91
Loans	1 629	10 050
Total	**7 886**	**16 534**
thereof disclosed as current assets	1 629	10 047

As of 12 September 2018, Arbonia had 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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**2 672**	**5 786**
Foreign exchange differences	– 97	– 351
Sale of associated companies		– 2 048
Minority share from associated companies	149	– 715
Dividends received	– 232	
Balance at 31/12	**2 492**	**2 672**

As of 14 August 2018, Arbonia had 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 had 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 in 2018 Gaulhofer is only included up to the date of its disposal.

Associated companies – Balance sheet

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Current assets	1 766	2 666
Non-current assets	1 164	1 162
Total assets	**2 930**	**3 828**
Current liabilities	1 876	1 857
Non-current liabilities	190	264
Shareholders' equity	864	1 707
Total liabilities and shareholders' equity	**2 930**	**3 828**

Associated companies - Income statement

	2019 in 1 000 CHF	2018 in 1 000 CHF
Net revenues	12 202	45 218
Group results after taxes	515	– 2 506

Business transactions with associated companies

Sale of goods and services	3 258	3 436
Purchase of goods and services	24	
Receivables at balance sheet date		88
Liabilities at balance sheet date	21	21

Loans
At the beginning of October 2019, KIWI-KI GmbH, DE-Berlin, was granted an interest-bearing convertible loan of EUR 1.5 million, repayable at the end of February 2020. Repayment or conversion is dependent on the conclusion of a new round of financing for the company. Under certain specified conditions and depending on a successful financing round, the loan can be converted at a specified share value.

In July 2018, Arbonia AG granted Arbonia Vorsorge an interest-bearing, repayable loan of CHF 10 million. The loan was fully repaid in the first half of 2019.

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.

The ageing analysis for loans is as follows:

		31/12/2019
	Gross amount loans	thereof not impaired
	in 1 000 CHF	in 1 000 CHF
Not yet due	1 629	1 629
Overdue more than 360 days	3 000	
Total	**4 629**	**1 629**

		31/12/2018
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**

As of the balance sheet date, Arbonia has no secured loans (2018: CHF 0.0 million).

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

	2019	2018
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**– 3 000**	**– 4 754**
Foreign exchange differences		22
Used during year		231
Unused amounts reversed		1 982
Reclassification to other current assets		– 481
Balance at 31/12	**– 3 000**	**– 3 000**

In the impairment of loans, specific impairments of CHF 3.0 million (2018: CHF 3.0 million) are included. This loan, which has been fully impaired, stems from the sale of the kitchen division in 2014.

36. Non-current assets held for sale and discontinued operations

In 2019, one investment property in Germany and one production property in Belgium with a net book value of CHF 9.8 million were reclassified, as these two properties are expected to be sold in the first half of 2020.

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.

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.

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 in 2017 was paid on time. This cash inflow is contained in the cash flow statement under disposal of subsidiaries.

Result from discontinued operations

	2018 in 1 000 CHF
Net revenues	
Other operating expenses	– 303
EBITDA	**– 303**
Depreciation, amortisation and impairments	
EBIT	**– 303**
Financial result	23
Result from discontinued operations before income tax	**– 280**
Income tax expense	411
Result from discontinued operations	**131**
Gain on disposal of discontinued operations	7 208
Net result from discontinued operations	**7 339**

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.

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 in 1 000 CHF
Cash flows from operating activities	**–1 598**
Cash flows from investing activities	**28**
Cash flows from financing activities	

The cash inflows from the segments sold in 2017 and 2018 are not 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 01/01/2018	**237 300**	**160 395**	**17 812**	**55 546**	**471 053**
Cost					
Balance at 01/01/2018	**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**
Reclassification financial lease from property, plant and equipment to right-of-use assets[1]	–27 460	–7 005	–3 849		–38 314
Balance at 01/01/2019	**355 689**	**441 839**	**56 696**	**108 499**	**962 723**
Foreign exchange differences	–10 676	–12 899	–1 300	133	–24 742
Change in scope of consolidation		–1	–326		–327
Additions	14 341	25 978	4 934	64 298	109 551
Disposals	–448	–26 297	–1 907	–3 530	–32 182
Reclassification to assets held for sale	–8 203				–8 203
Reclassifications	25 429	61 646	–1 300	–89 909	–4 134
Balance at 31/12/2019	**376 132**	**490 266**	**56 797**	**79 491**	**1 002 686**

	Land and buildings in 1 000 CHF	Plant and machinery in 1 000 CHF	Other equipment in 1 000 CHF	Prepayments and assets under construction in 1 000 CHF	Total in 1 000 CHF
Accumulated depreciation					
Balance at 01/01/2018	**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**
Reclassification financial lease from property, plant and equipment to right-of-use assets[1]	–3 989	–1 164	–1 388		–6 541
Balance at 01/01/2019	**103 522**	**258 936**	**39 532**	**14 516**	**416 506**
Foreign exchange differences	–3 357	–7 123	–903	367	–11 016
Change in scope of consolidation		–1	–326		–327
Depreciation	9 495	30 463	5 296	160	45 414
Impairment	156	2 991			3 147
Reversal of impairment		–54	–20		–74
Disposals	–425	–25 951	–1 745	–154	–28 275
Reclassification to assets held for sale	–641				–641
Reclassifications	383	16 714	–2 431	–14 883	–217
Balance at 31/12/2019	**109 133**	**275 975**	**39 403**	**6**	**424 517**
Net book value at 31/12/2018	**275 638**	**188 744**	**19 625**	**93 983**	**577 990**
Net book value at 01/01/2019	**252 167**	**182 903**	**17 164**	**93 983**	**546 217**
Net book value at 31/12/2019	**266 999**	**214 291**	**17 394**	**79 485**	**578 169**

[1] see note 2 "First time adoption of IFRS 16"

In addition to other smaller disposals, a property in Switzerland had been 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 had been acquired via finance lease. In 2018, assets under construction included CHF 0.8 million of capitalised borrowing costs. Borrowing costs of CHF 2.0 million capitalised in 2019 are included in land and buildings and plant and machinery.

Capital commitments
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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Property, plant and equipment	19 783	27 162
Intangible assets	489	238
Total	**20 272**	**27 400**

Land and buildings amounting to CHF 51.0 million (2018: CHF 53.0 million) are pledged to secure mortgages.

38. Leasing

Arbonia leases various assets, including buildings, machinery, vehicles, tools and IT equipment. The lease conditions are negotiated individually and contain a variety of different conditions. The rights-of-use assets in connection with these leases are as follows:

	Right-of-use buildings in 1 000 CHF	Right-of-use plant and machinery in 1 000 CHF	Right-of-use other equipment in 1 000 CHF	Total in 1 000 CHF
Cost				
Balance at 31/12/2018				
Reclassification financial lease from property, plant and equipment to right-of-use assets [1]	27 460	7 005	3 849	38 314
Additional right-of-use assets due to first time adoption of IFRS 16 [1]	45 480	969	8 532	54 980
Balance at 01/01/2019	**72 940**	**7 973**	**12 381**	**93 294**
Foreign exchange differences	– 867	– 662	– 462	– 1 991
Additions	2 320	1 073	5 881	9 274
Disposals	– 446	– 37	– 456	– 939
Remeasurement	917	– 2	– 120	795
Balance at 31/12/2019	**74 864**	**8 345**	**17 224**	**100 433**
Accumulated depreciation				
Balance at 31/12/2018				
Reclassification financial lease from property, plant and equipment to right-of-use assets [1]	3 989	1 164	1 388	6 541
Balance at 01/01/2019	**3 989**	**1 164**	**1 388**	**6 541**
Foreign exchange differences	– 82	– 203	– 198	– 483
Depreciation	7 622	1 154	5 000	13 776
Impairment	100			100
Disposals	– 270	– 4	– 340	– 614
Balance at 31/12/2019	**11 359**	**2 111**	**5 850**	**19 320**
Net book value at 31/12/2018				
Net book value at 01/01/2019	**68 950**	**6 810**	**10 993**	**86 753**
Net book value at 31/12/2019	**63 505**	**6 234**	**11 374**	**81 113**

[1] see note 2 "First time adoption of IFRS 16"

Other operating expenses include the following expenses in connection with leases:

	2019 in 1 000 CHF
Expenses relating to short-term leases	3 652
Expenses relating to leases of low-value assets (excluding short-term leases)	612
Expenses for variable lease payments	682
Total	**4 946**

In 2018, the income statement contained expenses for operating leases of CHF 20.0 million.

Total cash outflows for leases amounted to CHF 21.0 million in 2019.

Some of Arbonia's rental leases include renewal options. The determination of the lease term of these leases requires judgement. The assessment of whether it is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. In its assessment, Arbonia considers the facts and circumstances that create an economic incentive to exercise such options. The assessment is reviewed if a significant event or a significant change in circumstances occurs. As of 31 December 2019, possible future cash outflows of CHF 1.8 million were not included in the lease liability as it is not reasonably certain that the lease agreements will be renewed.

In 2018, Arbonia had the following future minimum lease payments under non-cancellable leases:

			31/12/2018
	Operating leases in 1 000 CHF	Finance leases in 1 000 CHF	Total 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**	

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

In 2018, the maturities of the net present value from finance leases had been as follows:

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

39. Investment property

	Investment property – land in 1 000 CHF	Investment property – buildings in 1 000 CHF	Total in 1 000 CHF
Net book value at 01/01/2018	**10 784**	**2 723**	**13 507**
Cost			
Balance at 01/01/2018	**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**
Foreign exchange differences	– 6	– 27	– 33
Additions		61	61
Reclassification to assets held for sale	– 445	– 2 294	– 2 739
Balance at 31/12/2019	**4 389**	**25 705**	**30 094**
Accumulated depreciation			
Balance at 01/01/2018	**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**
Depreciation		203	203
Reclassification to assets held for sale		– 233	– 233
Balance at 31/12/2019	**499**	**25 461**	**25 960**
Net book value at 31/12/2018	**4 341**	**2 474**	**6 815**
Net book value at 31/12/2019	**3 890**	**244**	**4 134**
Fair values of investment properties at 31/12/2018			**14 006**
Fair values of investment properties at 31/12/2019			**11 302**

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 1.6 million (2018: CHF 2.8 million) and is included in other operating income. Related direct operating expenses were CHF 0.3 million (2018: CHF 0.7 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.

40. Intangible assets

	Intangible assets from business combinations in 1 000 CHF	Other intangible assets in 1 000 CHF	Total in 1 000 CHF	Goodwill in 1 000 CHF
Net book value at 01/01/2018	**201 515**	**7 463**	**208 978**	**212 118**
Cost				
Balance at 01/01/2018	**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**
Foreign exchange differences	– 8 511	– 623	– 9 134	– 6 730
Change in scope of consolidation		– 33	– 33	
Additions		3 361	3 361	
Disposals		– 2 159	– 2 159	
Reclassifications		3 917	3 917	
Balance at 31/12/2019	**291 583**	**46 344**	**337 927**	**278 054**
Accumulated amortisation				
Balance at 01/01/2018	**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**
Foreign exchange differences	– 2 265	– 413	– 2 678	
Change in scope of consolidation		– 33	– 33	
Amortisation	18 642	4 437	23 079	
Disposals		– 2 162	– 2 162	
Balance at 31/12/2019	**116 267**	**34 355**	**150 622**	**80 716**
Net book value at 31/12/2018	**200 204**	**9 355**	**209 559**	**204 068**
Net book value at 31/12/2019	**175 316**	**11 989**	**187 305**	**197 338**

Of the intangible assets from business combinations, CHF 88.8 million (2018: CHF 102.9 million) relates to customer relationships, CHF 68.5 million (2018: CHF 77.4 million) to brands and CHF 14.5 million (2018: CHF 15.8 million) to technologies.

Expenses for research and development in the amount of CHF 15.3 million (2018: CHF 15.2 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. In 2018, the assets under construction of property, plant and equipment included capitalised development costs of CHF 0.9 million. The additions under other intangible assets consist of CHF 0.3 million (2018: CHF 0.8 million) of own development costs and CHF 3.1 million (2018: CHF 2.3 million) of purchased or acquired items.

Goodwill
As of 31 December 2019 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 in 1 000 CHF	Sanitary in 1 000 CHF	Wertbau in 1 000 CHF	Sabiana in 1 000 CHF	Slovaktual in 1 000 CHF	Total in 1 000 CHF
Balance at 31/12/2018	**146 579**	**14 647**	**3 249**	**24 601**	**14 992**	**204 068**
Foreign exchange differences	– 5 162		– 119	– 901	– 548	– 6 730
Balance at 31/12/2019	**141 417**	**14 647**	**3 130**	**23 700**	**14 444**	**197 338**

Goodwill Impairmenttests 2019
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 2019 and were used for the impairment tests.

The value in use calculation for the annual 2019 impairment tests assumed the following key assumptions:

	Doors in %	Sanitary in %	Wertbau in %	Sabiana in %	Slovaktual in %
Budgeted gross margin	56.2	66.7	47.6	41.7	40.7
Growth rate	1.7	1.8	1.5	1.8	1.5
Discount rate	8.6	8.1	9.1	10.1	8.3

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 2019 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 56.2% to 54.2% would result in an impairment of the CGU

Doors amounting to CHF 48.1 million. At a budgeted gross margin of 55.1%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.7% to 1.2% would lead to an impairment of CHF 31.2 million. At a reduction of 7.2% in EBITDA and a simultaneous reduction of eternal growth to 1.4%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2018
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 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 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 have resulted in an impairment of the CGU Doors amounting to CHF 59.1 million. At a budgeted gross margin of 54.3%, the recoverable amount would have been equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.6% to 1.1% would have led 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 would have been equal to their carrying amount.

41. Acquisitions
The following fair value of assets and liabilities had arisen from acquisitions in 2018 as mentioned under note 3:

Acquisitions 2018

Vasco Group

	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 was 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 for the reporting period 2018. This result included 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 were 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 was allocated to the HVAC Division. The purchase price amounted to CHF 11.0 million which included a deferred purchase price payment of CHF 2.3 million. A first tranche of CHF 1.1 million matured and was paid on 30 September 2019, a second tranche of CHF 0.5 million will mature 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 in the reporting period 2018. Had the acquisition taken place on 1 January 2018, net revenues for 2018 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 were included in operating expenses in 2018.

42. Financial debts

On 20 April 2018, Arbonia had 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.

The financial debts are comprised of the following:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Promissory note loan	135 713	140 875
Syndicated loan	30 000	20 000
Mortgages	10 115	11 553
Bank loans	675	2 362
Total	**176 503**	**174 790**

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 2019 and 2018.

The maturities of the financial debts are as follows:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
within 1 year	31 352	23 066
between 1 and 5 years	69 538	72 181
after 5 years	75 613	79 543
Total	**176 503**	**174 790**

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

	31/12/2019	
	CHF	EUR
Financial debts	1.3%	1.7%

	31/12/2018	
	CHF	EUR
Financial debts	1.0%	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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
CHF	30 000	20 000
EUR	146 503	154 791
Total	**176 503**	**174 790**

43. Financial instruments

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

							31/12/2019
	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	125 844	125 844	125 265	579			
Other liabilities (without derivatives)	17 002	22 965	1 826	9	1 103	27	20 000
Lease liabilities	62 444	68 274	7 582	7 131	11 970	23 774	17 817
Accruals and deferred income	46 868	46 868	46 102	766			
Financial debts	176 503	189 587	33 531	1 158	3 316	74 916	76 666
Derivative financial instruments							
Interest rate swaps	1 565						
Cash outflow		1 565	142	136	249	576	462
Forward foreign exchange contracts	189						
Cash outflow		– 23 612	– 23 612				
Cash inflow		23 423	23 423				
Total	**430 415**	**454 914**	**214 259**	**9 779**	**16 638**	**99 293**	**114 945**

							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**

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.

44. Additional disclosures on financial instruments

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 shown in the following table. The table does not contain information on fair value for financial assets and financial liabilities that are not measured at fair value if the carrying amount is a reasonable approximation of fair value. Similarly, no information is required on the fair value of lease liabilities.

							31/12/2019
	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value	Fair value	
						Level 2	Level 3
	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
Cash and cash equivalents		58 354			58 354		
Accounts receivable		124 964			124 964		
Other current assets		3 605			3 605		
Deferred expenses		3 785			3 785		
Investments < 20%	3 685				3 685		3 685
Other financial assets		80			80		
Loans	1 629				1 629		1 629
Assets	**5 314**	**190 788**			**196 102**		
Accounts payable				125 844	125 844		
Derivative financial instruments			1 754		1 754	1 754	
Other liabilities (without derivatives)				17 002	17 002		
Lease liabilities				62 444	62 444		
Accruals and deferred income				46 868	46 868		
Promissory note loan				135 713	135 713	139 086	
Syndicated loan				30 000	30 000		
Loans				675	675		
Mortgages				10 115	10 115	11 680	
Liabilities			**1 754**	**428 661**	**430 415**		

	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value	Fair value Level 2	Fair value Level 3
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	in 1 000 CHF
Cash and cash equivalents		70 877			70 877		
Accounts receivable		135 490			135 490		
Other current assets		6 563			6 563		
Deferred expenses		3 428			3 428		
Investments < 20%	3 721				3 721		3 721
Other financial assets		91			91		
Loans		10 050			10 050		
Assets	**3 721**	**226 499**			**230 220**		
Accounts payable				127 913	127 913		
Derivative financial instruments			1 787		1 787	1 787	
Other liabilities (without derivatives)				28 524	28 524		
Finance lease liabilities				13 157	13 157		
Accruals and deferred income				45 360	45 360		
Promissory note loan				140 875	140 875	143 121	
Syndicated loan				20 000	20 000		
Loans				2 362	2 362		
Mortgages				11 553	11 553	13 261	
Liabilities			**1 787**	**389 744**	**391 530**		

Abbreviations in the header of this table are explained in note 9 "Financial Instruments" on page 98.

The derivative financial instruments measured at fair value through profit or loss relate to interest rate and currency swap transactions. The fair value 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. KIWI-KI GmbH was granted a convertible loan at the beginning of October 2019, which is also measured at fair value through profit or loss. The fair value as at 31 December 2019 corresponds to the original purchase price of CHF 3.7 million or the original loan amount of EUR 1.5 million.

In 2019 and 2018, no gains/losses resulted from level 3 financial instruments. Furthermore, no reclassifications occurred between the levels 1 and 2.

45. Provisions

	Warranty in 1 000 CHF	Personnel in 1 000 CHF	Restructuring in 1 000 CHF	Onerous contracts project business in 1 000 CHF	Other provisions in 1 000 CHF	Total in 1 000 CHF
Balance at 01/01/2018	**13 338**	**8 874**	**4 173**	**239**	**4 212**	**30 836**
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**
Foreign exchange differences	– 350	– 323	– 101		– 53	– 827
Additional provisions	10 126	1 803	4 753	794	1 028	18 504
Used during the year	– 8 852	– 2 189	– 9 399	– 514	– 1 878	– 22 832
Unused amounts reversed	– 523	– 826	– 683	– 33	– 397	– 2 462
Balance at 31/12/2019	**14 464**	**8 531**	**2 464**	**340**	**3 991**	**29 790**
thereof current at 31/12/2018	8 973	3 802	7 894	93	4 102	24 864
thereof current at 31/12/2019	9 523	2 537	2 464	340	2 885	17 749

The current provision is expected to be fully utilised during 2020. The non-current provision is expected to be utilised as follows:

	Warranty in 1 000 CHF	Personnel in 1 000 CHF	Restructuring in 1 000 CHF	Onerous contracts project business in 1 000 CHF	Other provisions in 1 000 CHF	Total in 1 000 CHF
between 1 and 5 years	4 934	4 477			158	**9 569**
after 5 years	8	1 516			948	**2 472**

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 2018, the restructuring provision still comprised costs amounting to CHF 7.9 million in connection with the restructuring programme announced on 3 March 2015 for the windows business in Switzerland and the relocation of production and closure of a site in Belgium announced by the HVAC Division at the end of November 2018. On 20 March 2019, the HVAC Division announced a further reorganisation of areas of production at the Dilsen (BE) site. In the reporting period, costs of CHF 9.4 million incurred for these restructuring measures were booked against the provision and CHF 0.7 million were released to income as a result of voluntary staff departures and risk reduction measures. It is assumed that the restructuring of the HVAC businesses will be completed by summer 2020 and that of the window business by the end of 2020.

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

46. 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:

	31/12/2019		31/12/2018	
	Deferred tax assets in 1 000 CHF	Deferred tax liabilities in 1 000 CHF	Deferred tax assets in 1 000 CHF	Deferred tax liabilities in 1 000 CHF
Assets				
Cash and cash equivalents				1
Accounts receivable	1 170	196	905	188
Other current assets	1	226	348	824
Inventories	2 179		2 634	
Contract assets project business			181	
Non-current assets held for sale		2 456		
Property, plant and equipment and right-of-use assets	269	28 525	44	25 333
Investment property	498		64	201
Intangible assets	396	45 033	47	51 656
Capitalised pension surplus and financial assets		8 311	18	9 279
Liabilities				
Current liabilities	6 448	3 076	6 877	3 154
Non-current liabilities	5 684	1 239	10	854
Current and non-current provisions	1 284	395	1 154	470
Employee benefit obligations	8 864		7 064	5
Deferred taxes from timing differences	**26 793**	**89 457**	**19 346**	**91 965**
Deferred tax assets derived from tax loss carryforwards	15 640		18 789	
Valuation allowance	– 7 859		– 11 463	
Net deferred taxes from timing differences	**34 574**	**89 457**	**26 672**	**91 965**
Offset of deferred tax assets and liabilities	– 26 037	– 26 037	– 21 008	– 21 008
Total deferred taxes	**8 537**	**63 420**	**5 664**	**70 957**

From the capitalised pension surplus and employee benefit obligations, CHF 2.5 million (2018: CHF 1.0 million) of deferred taxes were recorded in comprehensive income. All other changes of assets and liabilities were recorded through the income statement.

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

There are temporary differences totalling CHF 63.5 million (2018: CHF 80.4 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 0.2 million (2018: CHF 1.2 million) on which no deferred tax assets have been recognised.

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**65 293**	**59 838**
Change in scope of consolidation		10 538
Changes to other comprehensive income	– 2 495	982
Changes to the income statement	– 6 155	– 3 632
Foreign exchange differences	– 1 760	– 2 433
Balance at 31/12	**54 883**	**65 293**

Unrecognised tax loss carryforwards	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Tax loss carryforwards	125 146	173 905
thereof recognised as deferred taxes	–50 758	–48 925
Unrecognised tax loss carryforwards	**74 388**	**124 980**
Portion expiring:		
within 1 year	150	599
between 1 and 5 years	61 061	112 084
after 5 years	13 177	12 297
Total	**74 388**	**124 980**

Tax effect on unrecognised tax loss carryforwards	**7 860**	**11 462**
thereof pertaining to tax rates below 15%	4 911	8 788
thereof pertaining to tax rates between 15% and 20%		1 629
thereof pertaining to tax rates between 21% and 25%	97	65
thereof pertaining to tax rates between 26% and 30%	2 852	980

47. 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 participated in a multi-employer plan until the end of 2018 and bought into the semi-autonomous pension plan at the beginning of 2019. 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 could 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. The pension assets in the multi-employer plan were invested and managed by the insurance companies.

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 had to be carried out. The staff reductions in the Swiss windows business 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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Present value of funded obligations	308 231	294 327
Fair value of plan assets	351 394	338 579
Overfunding	**–43 163**	**–44 251**
Present value of unfunded obligations	54 421	49 364
Liability (net) recognised in the balance sheet	**11 258**	**5 113**
thereof recorded as employee benefit obligations	55 941	49 744
thereof recorded as capitalised pension surplus	–44 683	–44 631

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**343 692**	**352 041**
Changes in scope of consolidation		6 621
Interest cost	3 408	3 280
Current service cost	8 734	8 676
Past service cost	106	–8 109
Contributions by plan participants	4 759	4 498
Benefits paid	–12 124	–24 134
Actuarial losses arising from changes in demographic assumptions		396
Actuarial losses/gains arising from changes in financial assumptions	26 891	–373
Actuarial gains/losses arising from experience adjustements	–5 096	2 050
Settlements/partial liquidation	–5 773	–6 493
Administration cost	141	166
Reclassification from liabilities associated with assets held for sale		7 368
Foreign exchange differences	–2 086	–2 294
Balance at 31/12	**362 652**	**343 692**
thereof for active members	218 815	206 576
thereof for pensioners	137 582	134 136
thereof for deferred members	6 255	2 981

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**338 579**	**329 885**
Changes in scope of consolidation		5 918
Interest income	2 739	2 561
Return on plan assets excl. interest income	14 354	−385
Contributions by the employer	7 761	10 531
Contributions by plan participants	4 759	4 498
Benefits paid	−12 101	−24 129
Settlements/partial liquidation	−4 485	−5 253
Reclassification from assets held for sale		15 301
Foreign exchange differences	−211	−349
Balance at 31/12	**351 394**	**338 579**

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Actuarial losses	21 795	2 073
Actuarial gains from discontinued operations		−6 239
Return on plan assets excl. interest income	−14 355	385
Remeasurements of employee benefit obligations	**7 440**	**−3 780**

The amounts recognised in the income statement are as follows:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Current service cost	8 734	8 676
Past service cost	106	–8 109
Net interest result	669	718
Administration cost	141	166
Settlements/partial liquidation	–1 288	–1 240
Net charges for defined benefit plans	**8 362**	**211**
thereof recorded under personnel expenses	7 693	–507
thereof recorded under financial expenses	669	718

The principal actuarial assumptions used were as follows:

Weighted average		2019	2018
Discount rate at 31/12		0.4%	1.0%
Future salary increases		1.1%	1.1%
Future pension increases		0.3%	0.2%
Mortality tables	Switzerland	BVG 2015 GT	BVG 2015 GT
	Germany	HB 2018 GT	HB 2018 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	2019	2018
Discount rate	–0.25%	14 354	12 985
	+0.25%	–13 385	–12 127
Salary increases	–0.25%	–1 418	–1 167
	+0.25%	1 431	1 180
Life expectancy	+1 year	10 469	9 013
	–1 year	–10 552	–9 146
Service cost 2020 with discount rate	+0.25%	–646	–547

The weighted average duration of employee benefit obligations is 15.6 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	31/12/2019 Total	quoted	unquoted	31/12/2018 Total
Cash and cash equivalents		25 883	25 883		13 689	13 689
Equity instruments	95 980		95 980	81 711		81 711
Debt instruments	58 505		58 505	63 398		63 398
Real estate	6 388	134 534	140 922	5 763	128 760	134 523
Others	24 629	5 475	30 104	30 070	15 188	45 258
Total plan assets	**185 502**	**165 892**	**351 394**	**180 942**	**157 637**	**338 579**

Plan assets invested in Swiss multi-employer plans were allocated to the category "Others" in 2018. 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 in 1 000 CHF	between 1 and 2 years in 1 000 CHF	between 2 and 5 years in 1 000 CHF	next 5 years in 1 000 CHF
Benefit payments	1 296	1 449	4 971	10 036

Expected contributions to pension plans for the year 2020 amount to CHF 11.9 million (2019: CHF 11.6 million), of which CHF 7.3 million (2019: CHF 7.1 million) are attributable to the employer.

48. Share capital

The capital structure is as follows:

			31/12/2019			31/12/2018
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 2019 financial year amounts to CHF 0.22 (2018: CHF 0.20).

On 20 April 2018, the Annual General Meeting of Arbonia AG had 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.

Earnings per share	2019 in 1 000 CHF	2018 in 1 000 CHF
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	26 207	38 686
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)		7 339
Group earnings for the year (in 1 000 CHF)	26 207	46 025

	2019	2018
Outstanding shares (average)	69 473 243	69 473 243
Less treasury shares (average)	−638 438	−881 053
Average number of shares outstanding for the calculation	**68 834 805**	**68 592 190**

There were no dilutive effects impacting the calculation.

49. Treasury shares

			2019			2018
	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**	**854 054**	**7 101**	**8.31**	**994 148**	**8 265**
Transfer for share based payments	8.31	−321 674	−2 674	8.31	−140 094	−1 164
Balance at 31/12	**8.31**	**532 380**	**4 426**	**8.31**	**854 054**	**7 101**

50. 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 31/12/2019	Other reserves	Retained earnings	Total other comprehensive income 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
Remeasurements of employee benefit obligations		−7 440	−7 440		3 780	3 780
Deferred tax effect		2 494	2 494		−973	−973
Total items that will not be reclassified to income statement		**−4 947**	**−4 947**		**2 807**	**2 807**
Currency translation differences	−24 966		−24 966	−28 642		−28 642
Cumulative currency translation differences transferred to the income statement	111		111	69		69
Total items that may be subsequently reclassified to income statement	**−24 855**		**−24 855**	**−28 573**		**−28 573**
Other comprehensive income after taxes	**−24 855**	**−4 947**	**−29 802**	**−28 573**	**2 807**	**−25 766**

Other reserves

	Currency translation in 1 000 CHF	Total in 1 000 CHF
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**
Currency translation differences	−24 855	−24 855
Balance at 31/12/2019	**−83 187**	**−83 187**

51. Financial results

	2019 in 1 000 CHF	2018 in 1 000 CHF
Financial income		
Bank and other interest	480	242
Interest on net pension surplus	362	317
Total interest income	**842**	**559**
Impact of exchange rate fluctuations	1 202	
Income from securities	2	1
Gains derivative financial instruments	1	150
Minority share from associated companies	149	
Foreign currency exchange gain from sale/liquidation of subsidiaries	112	
Foreign currency exchange gain from sale of associates		185
Other financial income		1 994
Total other financial income	**1 466**	**2 330**
Total financial income	**2 308**	**2 889**
Financial expenses		
Bank and other interest	688	428
Interest on leases (2018: Interest on finance leases)	1 657	600
Interest on non-current financial debts and syndicated loan	1 263	1 939
Interest on net employee benefit obligations	1 032	1 035
Compounding of liabilities	865	897
Total interest expenses	**5 505**	**4 899**
Impact of exchange rate fluctuations		4 955
Losses derivative financial instruments	31	224
Minority share from associated companies		715
Impairment on loans/ financial assets	31	290
Bank charges and other financial expenses	2 151	2 975
Total other financial expenses	**2 213**	**9 159**
Total financial expenses	**7 718**	**14 058**
Total net financial results	**–5 410**	**–11 169**

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Total interest income from financial assets measured at amortised cost (FA AC)	480	242
Total interest expenses from financial liabilities measured at amortised cost (FL AC)	4 473	3 864
Net gain from financial assets/ liabilities measured at fair value through profit or loss (FA/ FL FVTPL)	−28	−73
Impairment expenses recognised in financial expenses from financial assets measured at amortised cost (FA AC)	31	
Finance costs recognised in financial expenses from financial assets/ liabilities measured at amortised cost (FA/ FL AC)	2 112	2 837

52. Income taxes

	2019 in 1 000 CHF	2018 in 1 000 CHF
Current income taxes	14 242	14 754
Changes in deferred income taxes	−6 155	−3 632
Total	**8 087**	**11 122**

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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Earnings before income tax	**34 294**	**49 809**
Weighted average tax rate in %	23.7	22.4
Expected tax expense	**8 144**	**11 141**
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	−2 747	−691
Effect of not capitalised losses for the year	1 989	83
Effect of non-tax-deductible expenses and non-taxable income	2 328	258
Effect of income and expenses taxed at special rates	−39	1 293
Effect of tax charges related to prior years	−140	496
Effect of tax rate changes	−773	−207
Change in unrecognised deferred tax assets	−619	−1 156
Other items	−56	−95
Effective tax expense	**8 087**	**11 122**
Effective tax rate in %	23.6	22.3

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 increased slightly compared to previous year. There were no significant changes in local tax rates compared to 2018.

Swiss Tax Reform
The Swiss public voted on 19 May 2019 to adopt the Federal Act on Tax Reform. The Federal Act enters into force on 1 January 2020. The cantons implement the reform autonomously according to their needs. In the canton of St. Gallen, the cantonal tax submission has already been passed during the reporting period and enters into force on 1 January 2020. The tax submission includes, among other things, a reduction in income tax rate from 17.4% to 14.5%. This reduction was already taken into account in the reporting period for the Arbonia companies domiciled in the canton of St. Gallen, but the effects were insignificant.

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, damage to reputation 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 the Divisions.

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 relates to financial assets (see note 44) as well as to contract assets (see note 33).

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 as of the balance sheet date accounted for a share of 31.3% (2018: 26.7%) of existing trade receivables. The 10 largest customers generated 18.4% (2018: 18.8%) 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 61%/9%/7% of total liquid funds as of the balance sheet date (2018: 36%/21%/15%).

The maximum credit risk corresponds to the book values or fair values reported in note 44 for the financial asset categories "at fair value through profit and loss" (FA FVTPL) and "at amortised cost" (FA AC). If applicable, 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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Cash and cash equivalents	58 354	71 114
+ undrawn credit facilities	332 093	342 108
Total available liquidity	**390 447**	**413 222**

The syndicated loan includes covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2019 and 2018, 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 43.

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 that are not settled in the functional currency of the Group companies. The standard policy is that subsidiaries must hedge 80% 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 (2018: 5%), a 5% increase (decrease) of the CZK against the CHF (2018: 5%) or a 5% increase (decrease) of the PLN against the CHF (2018: 5%) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

			31/12/2019
	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	2 029	671	561
Impact of a decrease on group earnings	– 2 029	– 671	– 561

			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

(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 with the prior approval of the Group CFO. 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 by group treasury and only upon consultation with or according to the instruction of Group CFO.

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 (2018: 50 basis points) or by 50 basis points for EUR interest rates (2018: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

		31/12/2019
	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	– 108	143
Impact of a decrease on group earnings	108	– 143
Interest rate swaps		
Impact of an increase on group earnings		204
Impact of a decrease on group earnings		– 204

	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

(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 corresponds to an equity ratio of 56.9% as of the balance sheet date (2018: 58.7%). The slight decrease in the equity ratio compared to the previous year is due to higher total assets as a result of the first-time adoption of IFRS 16 "Leases". Furthermore, currency translation differences due to the stronger CHF and the distribution to shareholders had a reducing effect on equity.

With regard to the maximum amount still available for the creation of new share capital through a conditional and/or authorised capital increase, see note 48.

The syndicated loan includes covenants. One of these covenants prescribes a minimum equity ratio (see also note 42). 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:

	31/12/2019	31/12/2018
	in 1 000 CHF	in 1 000 CHF
Liabilities		
Interest rate swaps without hedges	1 565	1 575
Forward foreign exchange contracts without hedges	189	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

	2019 in 1 000 CHF	2018 restated[1] in 1 000 CHF
Changes in non-cash transactions		
Additional/reversed provisions	15 655	16 120
Changes in capitalised pension surplus/employee benefit obligations	31	– 12 724
Share based payments	2 854	3 115
Impairment on financial assets	34	– 180
Minority share from associated companies	– 149	715
Other non-cash effects	– 5 185	8 500
Total changes in non-cash transactions	**13 240**	**15 545**
Changes in working capital		
Changes in accounts receivable	7 990	6 782
Changes in inventories	– 5 862	– 13 041
Changes in contract assets project business	2 366	– 12 306
Changes in other working capital items	4 979	– 4 833
Total changes in working capital	**9 473**	**– 23 398**
Changes in liabilities		
Changes in accounts payable	4 375	10 638
Changes in contract liabilities	1 818	– 2 361
Used provisions	– 22 832	– 11 928
Changes in other current liabilities	– 2 215	4 080
Total changes in liabilities	**– 18 854**	**429**

[1] see note 2 “Changes in presentation – Consolidated Statement of Cash Flows”

	Current and non-current financial debts in 1 000 CHF
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**
Foreign exchange differences	– 445
Proceeds from financial debts	78 082
Repayments of financial debts	– 70 763
Non-cash foreign exchange effects	– 5 161
Balance at 31/12/2019	**176 503**

	Lease liabilities (2018: Finance lease liabilities) in 1 000 CHF
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**
Additional leases due to first time adoption of IFRS 16[1]	54 980
Foreign exchange differences	– 1 035
Lease additions	9 274
Lease liability payments	– 14 436
Lease disposals	– 291
Lease remeasurement	795
Balance at 31/12/2019	**62 444**

[1] see note 2 “First time adoption of IFRS 16”

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% (2018: 50%) and the other employees between 20% and 35% (2018: between 20% and 35%) 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 2019, Group Management and certain other employees received for their work in the year 2018 a total of 101 296 (2018: 55 537 shares) allotted shares at a fair value of CHF 1.1 million (2018: CHF 1.0 million) and CHF 10.55 per share respectively (2018: CHF 17.22). The CEO received a larger portion of his base compensation for his employment 2019 in shares. He was allocated 60 000 shares (2018: 60 000) at a fair value of CHF 0.7 million (2018: CHF 1.0 million) and CHF 11.66 per share respectively (2018: CHF 16.66). The members of the Board of Directors received for their work from 21 April 2018 up to the Annual General Meeting on 12 April 2019 a total of 47 379 shares (2018: 24 557 shares) at a fair value of CHF 0.5 million (2018: CHF 0.4 million) and CHF 10.55 per share respectively (2018: CHF 17.22).

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 became due on 1 July 2019, as these persons were still in an employment relationship with Sabiana at that time.

Personnel expenses in 2019 for share based payments totalled CHF 2.9 million (2018: CHF 3.0 million).

57. Related party transactions

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Salaries and other short-term employee benefits	3 501	3 204
Share based payments	1 966	1 980
Pension and social security contributions	930	793
Total	**6 397**	**5 977**

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 78 to 80.

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
			2019		at 31/12/2019
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel		7			
Other related parties	38	4 807	184	667	29
Total	**38**	**4 814**	**184**	**667**	**29**

	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2018		at 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**

Goods sold in 2019 are almost exclusively Arbonia products acquired at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors) and companies in which a non-executive member of the Board of Directors is a director. 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 related 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 purchase of goods in 2018 related 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 35.

Major shareholders as of 31 December 2019 are disclosed in the notes to the 2019 financial statements of Arbonia AG on page 167.

58. Contingencies

There were no contingencies.

59. Events after the balance sheet date

The Swiss public voted on 19 May 2019 to adopt the Federal Act on Tax Reform. The Federal Act enters into force on 1 January 2020. The cantons implement the reform autonomously according to their needs. In the canton of Thurgau, the cantonal tax submission was accepted in the public voting of 9 February 2020. The amended cantonal tax law will come into force retroactively as of 1 January 2020 and includes a reduction in income tax rates of approximately 3 – 4%. Based on this change, there will be a revaluation of deferred tax positions in the reporting year 2020 for the Arbonia companies domiciled in the canton of Thurgau. The reduction of the affected net deferred tax liabilities will result in a deferred tax income of CHF 0.4 – 0.8 million in 2020.

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2019 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%	▲				
Kermi s.r.o.	Stribro, CZ	195.000 CZK	100%	▲	▲			
PZP Heating a.s.	Dobre, CZ	7.200 EUR	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%	■				
Vasco Group Sarl	Nogent-sur-Marne, FR	2.000 EUR	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 BV	Tubbergen, NL	4.000 EUR	100%	▲				
Vasco Group BV	Tubbergen, NL	9.518 EUR	100%	■				
Vasco Group ApS	Kolding, DK	0.500 DKK	100%	■				
Brugman Fabryka Grzejnikow Sp.z o.o.	Legnica, PL	20.000 PLN	100%	▲				
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100%	■	■			
Vasco Group Sp.z o.o.	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	Vlotho, 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.	Ciasna, PL	20.000 PLN	100%				▲	
Coatings								
FLH Holding AG	Arbon, CH	0.650 CHF	100%					●
Schekolin US LLC	Charlotte, US	0.020 USD	100%					
Corporte Services								
Arbonia AG	Arbon, CH	291.787 CHF						●
AFG International AG	Arbon, CH	1.000 CHF	100%					●
Arbonia 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%					●
Arbonia Digital GmbH	Berlin, DE	0.025 EUR	100%					●
Arbonia Deutschland GmbH	Plattling, DE	0.511 EUR	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 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 88 to 154) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Valuation of goodwill and intangible assets

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

Key Audit Matter

As at 31 December 2019, the carrying amount of the balance sheet line item “Goodwill” amounts to CHF 197.3 million.

Management assesses the valuation of goodwill based on projected results for the relevant cash generating units.

The impairment tests for this item requires 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 101

— Note 20 „Impairment of assets“, page 101

— Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, page 106

— Note 40 „Intangible assets“, page 122

KPMG

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.

- 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 2020

Financial Statements
Arbonia AG

Income Statement

	Note	2019		2018	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Dividend income		30 000		20 000	
Financial income	2.7	12 687		29 122	
Other operating income		8		15	
Total income		**42 695**	**100.0**	**49 137**	**100.0**
Financial expenses	2.8	–13 131	–30.8	–25 531	–52.0
Personnel expenses		–960	–2.2	–890	–1.8
Other operating expenses	2.9	–4 803	–11.2	–5 372	–10.9
Total expenses		**–18 894**	**–44.3**	**–31 793**	**–64.7**
Net profit		**23 801**	**55.7**	**17 344**	**35.3**

The notes on pages 164 to 167 are an integral part of these financial statements.

Balance sheet

	Note	31/12/2019		31/12/2018	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Assets					
Cash and cash equivalents		35 628		43 625	
Other receivables					
Third parties		129		105	
Shareholdings		273 379		223 147	
Deferred expenses		27		28	
Financial assets				10 000	
Current assets		**309 163**	**22.9**	**276 905**	**20.9**
Loans to shareholdings		250 171		257 048	
Investments	2.1	788 812		788 812	
Non-current assets		**1 038 984**	**77.1**	**1 045 860**	**79.1**
Total assets		**1 348 146**	**100.0**	**1 322 765**	**100.0**

	Note	31/12/2019		31/12/2018	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable					
Third parties		58		13	
Shareholdings		17		493	
Interest bearing liabilities -	2.2				
Bank loans		30 000		20 000	
Shareholdings		157 115		154 898	
Other liabilities					
Third parties		214		232	
Shareholdings		20		48	
Accruals and deferred income		2 320		2 373	
Current liabilities		**189 745**	**14.1**	**178 058**	**13.5**
Interest bearing liabilities	2.3				
Promissory note loan		146 975		146 975	
Non-current liabilities		**146 975**	**10.9**	**146 975**	**11.1**
Total liabilities		**336 720**	**25.0**	**325 033**	**24.6**
Share capital	2.4	291 788		291 788	
Legal capital reserves					
Capital contribution reserve	2.5	469 402		483 138	
Other capital reserves		42 812		42 812	
Voluntary reserves -					
Free reserves		17 266		19 137	
Retained earnings		175 458		158 114	
Net profit		23 801		17 344	
Treasury shares	2.6	–9 102		–14 601	
Shareholders' equity		**1 011 426**	**75.0**	**997 732**	**75.4**
Total liabilities and shareholders' equity		**1 348 146**	**100.0**	**1 322 765**	**100.0**

The notes on pages 164 to 167 are an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1. General information

These financial statements 2019 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

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

Company	31/12/2019 Share capital in 1 000 CHF	31/12/2019 Capital and voting interest in %	31/12/2018 Share capital in 1 000 CHF	31/12/2018 Capital and voting interest in %
Arbonia 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%

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

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Bank loans – syndicated loan	30 000	20 000
Loans to shareholdings	157 115	154 898
Total	**187 115**	**174 898**

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 CHF 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.

2.3. Non-current interest bearing liabilities

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Promissory note loan	146 975	146 975
Total	**146 975**	**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

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Within 5 years	70 548	70 548
Over 5 years	76 427	76 427
Total	**146 975**	**146 975**

2.4. Share capital

Refer to note 48 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 2018) as capital contribution within the meaning of article 5 para. 1bis VStG.

2.6. Treasury shares

			2019			2018
	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	**17**	**854 054**	**14 601**	**16**	**994 148**	**15 765**
Transfer for share based payments	11	−321 674	−3 629	17	−140 094	−2 384
Gain (+)/loss (−)			−1 870			1 220
Balance at 31/12	**17**	**532 380**	**9 102**	**17**	**854 054**	**14 601**

2.7. Financial income

Financial income totals CHF 12.7 million (2018: CHF 29.1 million) and consists mainly of interest income on loans to shareholdings and foreign currency exchange gains.

2.8. Financial expenses

Financial expenses totals CHF 13.1 million (2018: CHF 25.5 million) and consists mainly of bank interest and foreign currency exchange losses.

2.9. Other operating expenses

	2019	2018
	in 1 000 CHF	in 1 000 CHF
Administrative costs	4 584	4 925
Consultancy and audit fees	184	287
Other operating expenses	35	159
Total	**4 803**	**5 372**

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:

		31/12/2019	31/12/2018
UBS AG			
in favour of AFG Immobilien AG	in 1 000 CHF	3 455	3 465
in favour of Prolux Solutions AG	in 1 000 CHF	25	
St. Galler Kantonalbank			
in favour of EgoKiefer AG	in 1 000 CHF	340	340
UniCredit Bank			
in favour of Kermi GmbH	in 1 000 EUR	659	648
in favour of Wertbau GmbH	in 1 000 EUR	1 755	2 163
in favour of Dobroplast Fabryka Okien sp. z o.o.	in 1 000 EUR	15	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

	31/12/2019 Voting and capital interest	31/12/2018 Voting and capital interest
Artemis Beteiligungen I AG	22.07 %	22.07 %

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:

	31/12/2019 Number of registered shares	31/12/2018 Number of registered shares
Alexander von Witzleben (Chairman of the BoD and Group Management)	359 864	275 651
Peter Barandun (Member of the BoD)	36 888	27 412
Peter E. Bodmer (Member of the BoD)	21 974	15 341
Markus Oppliger (Member of the BoD)	25 184	20 446
Heinz Haller (Member of the BoD)	106 633	100 000
Michael Pieper (Member of the BoD)	15 335 202	15 329 516
Thomas Lozser (Member of the BoD)	366 074	366 074
Daniel Wüest (Group Management from 01/04/2019)	10 000	
Knut Bartsch (Group Management)	54 713	45 127
Harald Pichler (Group Management)	35 224	22 195
Peter Spirig (Group Management)	15 301	8 194
Ulrich Bornkessel (Group Management)	20 659	9 724
Felix Bodmer (Group Management until 30/06/2019)		74 187
Total	**16 387 716**	**16 293 867**

Proposal of the Board of Directors

The Board of Directors will propose at the Annual General Meeting of the shareholders on 24 April 2020 the following:

Appropriation of Retained Earnings

	2019 in 1 000 CHF	2018 in 1 000 CHF
Retained earnings carried forward from previous year	175 458	158 114
Net profit for the year	23 801	17 344
Retained earnings	**199 259**	**175 458**
Distribution of a dividend [1]	–7 642	
Retained earnings carried forward	**191 617**	**175 458**

Appropriation of capital contribution reserve

	2019 in 1 000 CHF	2018 in 1 000 CHF
Carry forward from previous year	469 402	483 138
Withholding tax free distribution [1]	–7 642	–13 895
Plus non distribution for treasury shares		159
Capital contribution reserve carried forward	**461 760**	**469 402**

[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 2019, 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 162 to 167) for the year ended 31 December 2019 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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.

Valuation of investments and loans due from shareholdings

Key Audit Matter

The financial statements of Arbonia AG as at 31 December 2019 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 523.6 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 164
— Note 1.3 „Financial assets/non-current loans", page 164
— Note 2.1 „Investments", page 165

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.

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 2020

KPMG AG, Bogenstrasse 7, PO Box 1142, CH-9001 St. Gallen

Alternative Performance Measures

Arbonia uses alternative performance measures (APM) as guidance measures for both internal reporting to management and external reporting to stakeholders. The APM used by Arbonia have not been prepared in accordance with IFRS accounting policies and are discussed in detail below. The APM serve as supplementary information components and should therefore always be read and interpreted in conjunction with the consolidated financial statements prepared in accordance with IFRS. The APM used by Arbonia do not necessarily agree with the same or similar titled measures of other or comparable companies.

EBITDA without one-time effects/adjusted
The elimination of one-time effects provides an adjusted and thus better comparable presentation of the operating result over time. Discontinued operations as defined by IFRS 5 are not included. The following one-time effects are eliminated by Arbonia:
- Costs resulting from creation of provisions or income resulting from reversal of provisions for restructurings and reorganisation as well as closure costs
- Ramp-up costs for new production sites
- Consultancy and integration costs from acquisitions
- Consultancy costs from disposal of subsidiaries
- Gains and losses from sale of properties and associated companies
- Real estate development costs
- Costs in connection with personnel changes / leave of absence in Group and Division management

EBITA without one-time effects/adjusted
- Impairments
- Reversal of impairments

EBIT without one-time effects/adjusted
- Impairments on intangible assets from acquisitions

Group result before income tax without one-time effects/adjusted
- Costs for debt refinancing
- Impairments and reversal of impairments on loans granted

Group result after taxes without one-time effects/adjusted
- Tax effect on one-time effects
- Tax consequences from disposal of subsidiaries

Reconciliation Group and Divisions from IFRS-result to result without one-time effects / Adjusted

												2019
												in 1 000 CHF
		IFRS	%	Gain from sale of properties	Costs for restructurings and reorganisation	Ramp-up costs for new production sites	Consultancy and integration costs from acquisitions	Impairments on machinery and right-of-use assets	Various	Tax effects on one-time effects	**without one-time effects/ adjusted**	%
HVAC	**EBITDA**	**51 565**	**9.3**		4 658	2 359	428				**59 010**	**10.6**
	EBITA	**26 514**	**4.8**					1 973			**35 932**	**6.5**
	EBIT	**22 720**	**4.1**								**32 138**	**5.8**
Sanitary Equipment	**EBITDA**	**14 669**	**10.2**		471						**15 140**	**10.5**
	EBITA	**10 823**	**7.5**								**11 294**	**7.9**
	EBIT	**9 025**	**6.3**								**9 496**	**6.6**
Windows	**EBITDA**	**24 653**	**6.9**		2 470						**27 123**	**7.6**
	EBITA	**2 781**	**0.8**					1 174	–74		**6 351**	**1.8**
	EBIT	**–367**	**–0.1**								**3 203**	**0.9**
Doors	**EBITDA**	**43 954**	**12.2**								**43 954**	**12.2**
	EBITA	**29 377**	**8.2**					100			**29 477**	**8.2**
	EBIT	**19 476**	**5.4**								**19 576**	**5.4**
Corporate Services	**EBITDA**	**–9 490**		–1 070					156		**–10 404**	
	EBITA	**–11 149**									**–12 063**	
	EBIT	**–11 149**									**–12 063**	
Group	**Net revenues**	**1 415 967**	**100.0**								**1 415 967**	**100.0**
	Other operating income	17 460	1.2	–1 070							16 390	1.2
	Capitalised own services	7 596	0.5			–560					7 036	0.5
	Changes in inventories of semi-finished and finished goods	3 470	0.2			–199					3 271	0.2
	Cost of material and goods	–638 284	–45.1		1 056	1 300					–635 928	–44.9
	Personnel expenses	–480 075	–33.9		5 791	1 096	322				–472 866	–33.4
	Other operating expenses	–200 783	–14.2		752	722	106		156		–199 047	–14.1
	EBITDA	**125 351**	**8.9**								**134 823**	**9.5**
	Depreciation, amortisation and impairments	–67 005	–4.7					3 247	–74		–63 832	–4.5
	EBITA	**58 346**	**4.1**								**70 991**	**5.0**
	Amortisation of intangible assets from acquisitions	–18 642	–1.3								–18 642	–1.3
	EBIT	**39 704**	**2.8**								**52 349**	**3.7**
	Financial income	2 308	0.2								2 308	0.2
	Financial expenses	–7 718	–0.5								–7 718	–0.5
	Group result before income tax	**34 294**	**2.4**								**46 939**	**3.3**
	Income tax expense	–8 087	–0.6							–2 382	–10 469	–0.7
	Group result after income taxes from continuing operations	**26 207**	**1.9**								**36 470**	**2.6**

Presentation of the respective one-time effects on the immediate result line without disclosure of the impact on the subsequent line items.

Reconciliation Group and Divisions from IFRS-result to result without one-time effects / Adjusted

																	2018
																	in 1 000 CHF
		IFRS	%	Gain from sale of properties	Costs for restructurings and reorganisation	Ramp-up costs for new production sites	Consultancy and integration costs from acquisitions	Real estate development costs	Impairments and reversal of impairments on property and machinery	Gain from sale of associated companies	Reversal of impairment on loan granted	Costs for debt refinancing	Tax consequences from disposal of subsidiaries	Various	Tax effects on one-time effects	**without one-time effects/ adjusted**	%
HVAC	**EBITDA**	**46 933**	**9.3**		6 453	895	511									**54 792**	**10.8**
	EBITA	**25 938**	**5.1**						2 417							**36 214**	**7.2**
	EBIT	**22 816**	**4.5**													**33 092**	**6.5**
Sanitary Equipment	**EBITDA**	**11 705**	**8.1**		450			310								**12 465**	**8.6**
	EBITA	**8 971**	**6.2**						244							**9 975**	**6.9**
	EBIT	**7 172**	**5.0**													**8 176**	**5.6**
Windows	**EBITDA**	**19 740**	**5.4**	−4 401	260		300							125		**16 024**	**4.4**
	EBITA	**5 162**	**1.4**						−368							**1 078**	**0.3**
	EBIT	**1 547**	**0.4**													**−2 537**	**−0.7**
Doors	**EBITDA**	**39 637**	**11.1**				466							145		**40 248**	**11.3**
	EBITA	**28 966**	**8.1**													**29 577**	**8.3**
	EBIT	**18 676**	**5.2**													**19 287**	**5.4**
Corporate Services	**EBITDA**	**12 485**		−21 353			251	292		−392				245		**−8 472**	
	EBITA	**10 768**														**−10 189**	
	EBIT	**10 768**														**−10 189**	
Group	**Net revenues**	**1 374 007**	**100.0**													**1 374 007**	**100.0**
	Other operating income	42 379	3.1	−25 754						−392						16 233	1.2
	Capitalised own services	5 857	0.4													5 857	0.4
	Changes in inventories of semi-finished and finished goods	-1 833	-0.1													−1 833	−0.1
	Cost of material and goods	-633 737	-46.1													−633 737	−46.1
	Personnel expenses	-454 654	-33.1		6 080	655	12							270		−447 637	−32.6
	Other operating expenses	-201 519	-14.7		1 083	240	1 516	602						245		−197 833	−14.4
	EBITDA	**130 500**	**9.5**													**115 057**	**8.4**
	Depreciation, amortisation and impairments	-50 695	-3.7						2 293							−48 402	−3.5
	EBITA	**79 805**	**5.8**													**66 655**	**4.9**
	Amortisation of intangible assets from acquisitions	-18 827	-1.4													−18 827	−1.4
	EBIT	**60 978**	**4.4**													**47 828**	**3.5**
	Financial income	2 889	0.2							−185	−1 559					1 145	0.1
	Financial expenses	-14 058	-1.0									519				−13 539	−1.0
	Group result before income tax	**49 809**	**3.6**													**35 434**	**2.6**
	Income tax expense	-11 122	-0.8										486		−965	−11 601	−0.8
	Group result after income taxes from continuing operations	**38 687**	**2.8**													**23 833**	**1.7**

Presentation of the respective one-time effects on the immediate result line without disclosure of the impact on the subsequent line items.

Acquisition and currency adjusted growth (organic growth)
Acquisition and currency adjusted growth excludes effects from acquisitions and disposals of companies and currency effects.
In the acquisition adjusted growth, revenues of the acquired companies are eliminated in the year of acquisition. For companies acquired in the previous year, revenues of the current year are included for the same period as in the previous year. Discontinued operations within the meaning of IFRS 5 are eliminated.
In the currency adjusted growth, revenues of the current year in the functional currency of the respective company are translated at the average exchange rates of the same previous year period.

Net debt
Current and non-current financial debts plus current and non-current lease liabilities (including IFRS 16 "Leases") minus cash and cash equivalents

Adjusted net debt
Current and non-current financial debts plus current and non-current lease liabilities (excluding IFRS 16 "Leases" but including existing finance lease contracts under IAS 17 "Leases") minus cash and cash equivalents

Leverage ratio
Net debt divided by EBITDA

Adjusted leverage ratio
Adjusted net debt divided by EBITDA (excluding EBITDA-impact of IFRS 16 "Leases" but including EBITDA-impact of existing finance lease contracts under IAS 17 "Leases")

Free cash flow
Cash flow from operating and investing activities

Operational free cash flow
Cash flow from operating and investing activities without expansion capital expenditures

Capital expenditures
Maintenance and expansion capital expenditures

Supplementary Information for Investors

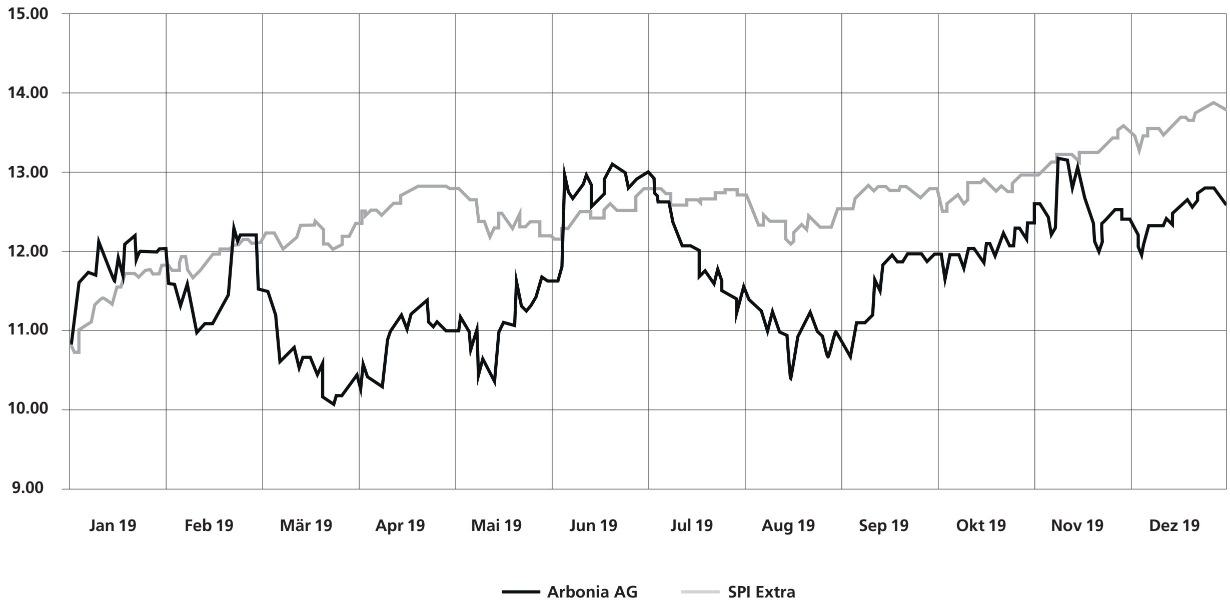
	2019	2018	2017	2016	2015
Number of shares					
Registered par value CHF 4.20	69 473 243	69 473 243	69 473 243	68 485 790	44 557 125
Registered par value CHF 4.20 average number	69 473 243	69 473 243	69 061 804	47 448 515	29 658 846
Stock market prices in CHF					
Highest	13.5	18.3	19.1	17.0	18.6
Lowest	10.0	10.5	15.1	8.8	8.7
31/12	12.6	10.8	16.3	16.4	10.1
Stock market capitalisation in CHF million (31/12)	**875.4**	**750.3**	**1 128.9**	**1 123.2**	**450.0**
Per share data					
Gross dividend in CHF [1]	0.22	0.20	0.00	0.00	0.00
Pay-out ratio (in % of Group earnings)	57.8	29.9	0.0	0.0	0.0
Group earnings in CHF	0.4	0.7	0.7	0.2	–6.1
Cash flow from operating activities in CHF	1.6	1.0	1.0	0.7	1.8
Shareholders' equity in CHF	12.6	12.8	12.4	10.5	7.9
Price/earnings ratio (highest)	35.7	27.6	28.4	106.1	–3.1
Price/earnings ratio (lowest)	26.5	15.8	22.4	54.6	–1.5
Price/earnings ratio (31/12)	33.4	16.3	24.2	102.3	–1.7
Price/cash flow ratio (highest)	8.4	18.3	19.1	25.2	10.1
Price/cash flow ratio (lowest)	6.2	10.4	15.1	13.0	4.8
Price/cash flow ratio (31/12)	7.8	10.8	16.3	24.3	5.5

[1] 2020 proposal to the Annual General Meeting

Capital Market Information

For investors the year 2019 was a year of political influences. But another contributing fac-tor for the strong markets was a correction of the markets sharp decline in the fourth quar-ter of 2018. During the course of the year though, more and more political issues that had impeded European economies were resolved. For example, at the end of the year fears about an escalation of the Trade War between the USA and China were alleviated. Similarly, the period of uncertainty ended when Boris Johnson achieved a stable majority in parlia-ment and got his Brexit plan approved. In line with foreign markets, Swiss stocks soared to new heights and the SPI Extra, as the measure of Swiss stocks outside the SMI, closed out the year with a performance of 27.6%.

Arbonias share price increased and decreased with the general optimism and skepticism towards the construction industry and concluded the year with a share price of CHF 12.60. This corresponds to a performance of 16.7%. Another highlight for Arbonia shareholders was the dividend of CHF 0.20 per share, which was paid out again for the first time in 2019.



Further information

ISIN	Valoren number	Bloomberg code	ThomsonReuters code
CH0110240600	11’024’060	ARBN SW	ARBNO.S

Number of shares:	69 473 243	**Nominal value:**	CHF 4.20

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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.

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.

CNC profiling plant CNC machines (Computerized Numerical Control) are machine tools which, through the use of modern control technology, are capable of automatically producing workpieces with high precision even for complex shapes. In this case this technology is used to produce window profiles precisely.

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.

Controlled residential ventilation A mechanical form of ventilation, used for ventilating residences with heat recovery. An integrated heat exchanger is used to transfer heat energy from the exhaust air to the outside air supply. Residential ventilation ensures that air is replaced in the building at a defined rate, creating a hygienic means of air exchange.

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.

Dry-Blend Dry-blend refers to a mixture of a plastic powder with additives, plasticizers or other additives.

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.

IAS 16 (International Accounting Standard 16) Governs the accounting for property, plant and equipment of an entity. The assets must be held by the company for the production of products or services, for rental or for administrative purposes. The assets must continue to be used for more than one year.

IFRS 16 (International Financial Reporting Standard 16) IFRS 16 is an accounting standard issued by the International Accounting Standards Board that requires listed companies that prepare their accounts in accordance with IFRS to include in their balance sheets all leases with a term of more than one year.

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.

Laminated safety glass Consists of two or more glass panes joined together with highly tear-resistant, tough-elastic intermediate layers. In the event of mechanical overloading by impact and shock, the glass breaks, but the fragments adhere to the uninjured intermediate layer. This reduces the risk of injury and the glazing retains a residual stability.

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.

Operating cash flow / Cash flow from operating activities Describes the liquid funds generated by the business activity in a given period. The operating cash flow includes the net income for the year, changes in depreciation, amortization, provisions and current assets.

Pergola entrance door Door that is installed in pergolas (open corridors covered by a roof on residential buildings) as an entrance door and is resistant to weather and other environmental influences.

pro-K Initiative that bundles and represents the interests of manufacturers of semi-finished and consumer products made of vinyl.

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. 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. 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**, Arbonia's takeover of the Looser Group can come to a successful conclusion. Looser's Coatings business is 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 llin 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.

2019 stands for the Arbonia Group's commitment to development and optimization of its business models. The restructuring phase begun in 2015 is completed this year. In January, the company founds ARBONIA DIGITAL. This independently operating subsidiary pursues the goal of working together with the divisions to create digital solutions, services and business models that focus on customers and their needs. Also in January, the Doors Division, together with the Berlin-based PropTech company KIWI GmbH, presents a fully integrated, digital access solution for residential entrance doors for the first time at the BAU trade fair in Munich. In October, Arbonia opens its new production site for panel radiators in Russia, which will enable the HVAC Division to achieve further growth in Eastern European markets, especially in Russia.

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18 August 2020
Publication of first semester results for 2020 financial year

2 March 2021
Financial media information and analysts' conference on the 2020 financial year (annual results incl. revenue results)

23 April 2021
34nd Annual General Meeting