AFG
Building the Difference

ANNUAL REPORT

2015

AFG
Building the Difference

KEY FIGURES

in CHF million	2015	2014	2013	2012	2011
Net revenue[1]	**941.4**	**1 017.4**	**1 004.0**	**919.3**	**1 347.4**
EBITDA[1]	**26.6**	**78.3**	**102.9**	**91.1**	**100.2**
in % of net revenue	2.8	7.7	10.2	9.9	7.4
EBIT[1]	**–158.4**	**33.4**	**61.5**	**43.2**	**–34.3**
in % of net revenue	–16.8	3.3	6.1	4.7	–2.5
Group result[1]	**–177.1**	**11.3**	**33.4**	**–0.4**	**–70.2**
in % of net revenue	–18.8	1.1	3.3	0.0	–5.2
Total assets	**900.5**	**969.5**	**1 020.8**	**1 124.4**	**1 275.0**
Shareholders' equity	**351.8**	**363.0**	**369.0**	**361.2**	**441.5**
in % of total assets	39.1	37.4	36.1	32.1	34.6
Net indebtedness	**21.7**	**222.3**	**150.8**	**130.8**	**167.5**
Cash flow from operating activities	**54.5**	**39.4**	**64.7**	**55.4**	**66.9**
Free cash flow	**16.0**	**–51.9**	**–19.9**	**37.9**	**12.8**
Investments[1]	**21.9**	**47.7**	**39.6**	**34.5**	**69.9**
Average headcount (full-time equivalent)[1]	**6 186**	**6 057**	**6 004**	**4 166**	**6 000**

Breakdown of 2015 in CHF million	**Net revenue**	**EBITDA**	**EBIT**
Building Technology	**462.2**	**45.6**	**4.4**
Building Envelope	**331.4**	**–8.2**	**–122.4**
Building Security	**147.6**	**7.5**	**–17.2**

Information for investors[2]	2015	2014	2013	2012	2011
Share price on 31/12 in CHF	10.1	18.2	23.2	17.0	13.0
Stock market capitalisation in CHF million[3]	450.0	449.3	573.2	421.0	320.8
Earnings per share in CHF	–6.1	0.6	–2.1	–3.0	–2.9
Price/earnings ratio per share[3]	–1.7	22.0	–8.5	–4.3	–3.4
Gross dividend per share in CHF	0.0	0.0	0.3	0.0	0.0

1 Continuing operations for the years 2012–2014.
2 Adjusted for 2015 capital increase.
3 Calculated on the basis of the share price on 31 December.

14 MAIN PRODUCTION SITES

Switzerland · Altstätten · Arbon · Roggwil · Villeneuve **Germany** · Langenwetzendorf · Plattling **Italy** · Corbetta · Magenta · Villafranca Padovana **Czech Republic** · Stříbro **Slovakia** · Pravenec **Poland** · Lublin · Zambrów

941

Net revenue
in CHF million

57

EBITDA without special effects
in CHF million

55

Cash flow from operating activities
in CHF million

6186

Ø-Headcount
(full-time equivalent)

ANNUAL REPORT 2015

REPORT SECTION

FINANCIAL SECTION

LETTER TO THE SHAREHOLDERS

In the 2015 financial year, AFG defined the key strategic actions for repositioning the company and introduced extensive measures to ensure competitiveness is maintained over the long term. Thanks to a capital increase, AFG has a viable financial basis that will put it in a position to achieve its aim for the medium term: becoming the leading European building supplier by 2018.

DEAR SHAREHOLDERS, DEAR LADIES AND GENTLEMEN

The 2015 financial year was characterised by a persistently challenging environment within the Swiss construction sector due to strong import and competitive pressure, as well as the stagnating market as a result of the ongoing strength of the Swiss franc.

As expected, the Group revenue stood at CHF 941.4 million as of 31 December 2015, a 7.5 % decrease – 4.4 % when adjusted for currency and acquisition effects – compared with the previous year (CHF 1 017.4 million). EBITDA fell from CHF 78.3 million to CHF 26.6 million, which was primarily down due to special effects, most notably restructuring provisions. Excluding one-off items, AFG achieved an EBITDA of CHF 56.7 million (previous year CHF 79.7 million). Due to impairments on goodwill, intangible assets and property, plant and equipment of CHF 144.8 million, EBIT with special effects amounted to CHF – 158.4 million (previous year CHF 33.4 million). Excluding one-off items, EBIT shrank from CHF 36.9 million in the previous year to CHF 16.5 million. For the 2015 financial year, AFG is reporting a Group loss of CHF 177.1 million (profit of CHF 15.1 million in the previous year).

CHALLENGING MARKET AND CURRENCY SITUATION

The Swiss building sector was faced with a particularly challenging environment in 2015. While it battled with persistently strong import and competitive pressure, the Swiss National Bank's decision to scrap the minimum euro exchange rate on 15 January 2015 aggravated the demanding conditions further. This left AFG in a particularly difficult competitive situation overall.

After an in-depth analysis, in the summer, the Board of Directors decided to make extensive changes to the production and location strategies and to slim down the holding organisation in light of these unfavourable conditions. We are reducing our manufacturing capacity in Switzerland considerably and relocating to other parts of Europe – a move which affects the Building Envelope Division in particular, but also the Building Technology Division. Strategically, AFG will position itself as a building supplier for Europe and will focus on products which meet the markets need for greater energy efficiency. Our overriding strategy is based on three priority measures:

- Relocation of production footprint
- Focus on divisional strategies
- Establishment of lean industrial holding.

To initiate the restructuring and repositioning measures associated with this and in order to strengthen the capital basis sustainably, we submitted a request during an Extraordinary General Meeting in September to increase the capital of AFG Arbonia-Forster-Holding AG by around CHF 200 million. By increasing the capital, we obtained the financial flexibility necessary to implement our strategy and introduce the defined measures immediately.

STRATEGIES AND AIMS OF THE DIVISIONS

With our three divisions, how do we want to achieve our overriding aim of becoming a leading European building supplier by 2018?

The **Building Technology Division** is currently one of Europes leading suppliers of radiators, fan coils, radiant panels and shower enclosures. The expansion into growing market segments such as underfloor and industrial heating as well as air-conditioning and ventilation technology is continuously promoted. This also includes developing a leading position in the growing residential ventilation market. The integration of Sabiana is increasing revenue from cross-selling activities as Sabiana's product portfolio is distributed by Kermi, Arbonia and Prolux. This is enabling the market position for air-conditioning and ventilation devices to develop sustainably within Switzerland and Germany. On top of this, Kermi and Arbonia products are being sold in Italy via Sabiana. Through targeted investments, it will also be possible for the division to build on its market position in the steel radiators sector in the future.

In order to benefit from economies of scale in the **Building Envelope Division**, which is the second largest window manufacturer in Europe, the former network of individual companies is being converted into a functional organisation with strong local market organisations and production competence centres: following significant investment, the Slovakia location is being developed into the most state-of-the-art and one of the largest European production plants for vinyl windows. The Group has already been manufacturing for the Slovakian, Czech and Swiss markets at this AFG production plant for years. With the acquisition of the eastern German window manufacturer Wertbau, which has already been operating as a supplier of wood windows to the Swiss market since 2011, the division is able to create a competence centre for wood and wood/aluminium windows.

Concentrating vinyl window production at the two eastern European locations in Slovakia and Poland, as well as wood and wood/aluminium window production at the location in eastern Germany, creates fundamental conditions which will make it possible to achieve a market-leading position in central Europe over the medium and long term. In Switzerland, we want to harness the EgoKiefer brand as a means of securing our leading position with products designed, developed and tested in Switzerland.

With Forster, the **Building Security Division** is one of the two leading global companies for steel profile systems and, with RWD Schlatter, it is the Swiss market leader for special wooden doors. Direct sales activities have recently been launched in Germany, Austria, the United Kingdom, Poland, Denmark and Luxembourg, building on Forsters market position. The integration of the Italian company Bloxer, which was acquired in 2015, is ensuring that the position in southern Europe is being reinforced in a sustainable manner. The division wants to build on RWD Schlatters position as the market leader in Switzerland by introducing new products (such as connector-fan-doors and ecological doors). In addition, the company is aiming to internationalise sales, particularly in Germany.

RELIABLE SHAREHOLDERS AND STRONG MANAGEMENT

Continuity at the top level of management as well as reliable shareholders are additional crucial factors in the success of AFG's repositioning. Since December 2014, Artemis Beteiligungen I AG, controlled by industrial investor Michael Pieper, has held a considerable shareholding in the company as an AFG anchor shareholder; at the end of 2015, this amounted to 27.5 %. Michael Pieper is not just involved on a financial level: he is also a member of the Board of Directors of the company, sharing his expertise and dedicating himself to company matters. This is a clear sign that he believes in AFG's potential.

In December 2015, the Board of Directors appointed Harald Pichler as the Head of the Building Envelope Division and as a member of Group Management, with effect from February 2016. By doing so, we have reinforced our top level of management with an internationally experienced expert in the window and door sector. Harald Pichler has an impressive track record in Europe.

OUTLOOK

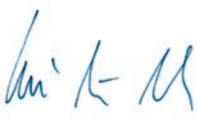
In light of the incredibly volatile market environment, we will announce the expectations for the whole of 2016 together with the first semester financial report in August.

With new prospects for profitable growth and a deeper cost basis, which we will create with the repositioning and restructuring measures that have been initiated, we have set the following financial aims for 2018: The Board of Directors and Group Management expect revenue of over CHF 1 billion and an EBITDA value of over CHF 100 million. We also expect to be able to generate substantial free cash flow. As a result, we expect to restore the ability to pay potential dividends as of 2018. In the medium term, we predict a net debt to equity ratio based on the operating EBITDA of less than 1.5x, while the equity ratio should increase to over 40 %. We assume that we will grow by 3 % on average each year.

ACKNOWLEDGEMENTS

During the 2015 financial year, the employees and managers at AFG were faced with enormous challenges. Given the particularly difficult market and currency conditions, it was important for them to stand up to the challenges and, at the same time, assist in implementing extensive measures and setting the course for ensuring the long-term prosperity of the company. On behalf of the Board of Directors and Group Management, we would like to thank all those involved for their engagement and flexibility. We would also like to thank our customers and most notably you, our dear shareholders, for your trust and your patience.

Arbon, February 2016



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

Felix Bodmer
CFO

HUMAN RESOURCES

As a group of around 6 200 employees, AFG assumes its social responsibility to the best of its abilities. With the aim of establishing a sustainable leadership concept focusing on the long term, 2015 saw the introduction of the very first Group-wide Management Development Programme. The training course imparts a uniform management culture and builds a network of highly skilled managers.

Area-specific education and training options

At the end of 2015, AFG had 118 trainees worldwide, receiving training in more than 25 professions. The Group provides training in areas including business administration, industrial management, international business, IT, mediamatics, metalwork design, design, polymechanics, metalworking, logistics, machine and equipment operation, electronics, industrial mechanics and technical product design. In addition to what it offers trainees, AFG considers important to support the career paths of employees who have demonstrated many years of commitment to the Group. This is why it provides targeted assistance for professional training that enhances expertise and skills, helping meet the requirements that the company has today and will have in the future.

Support for managerial staff

With the aim of establishing a sustainable leadership concept focusing on the long term, 2015 saw the introduction of the very first Group-wide Management Development Programme I (MDP I), involving a total of 23 managers. This training course establishes a uniform management culture and builds a network of highly skilled managers. With those participating becoming aware of their management roles and assuming the areas of management responsibility associated with this. The programme is also designed to promote discussion and cohesiveness across both divisions and companies. The training course has already started its third outing, which commenced in January 2016 to a very warm response.

Further support measures

Employees in Switzerland who were affected by restructuring were also able to turn to sources of support. The redundancy programme developed with the Personnel Commission, plus the package of support measures set out, ensure the successful integration into the job market and aim to make it easier to find a new position. The measures include an advice service, designed to lend employees support in the process of looking for a new post by helping them pinpoint where they stand in their professional life, as well as career counselling and job application coaching. An internal job centre has also been put in place, as have professional education measures for helping employees improve their qualifications.

Healthy and safe work at the highest level

At AFG, employees are the focus, which is why all divisions introduce various measures with the aim of promoting physical and mental well-being and sustaining it over the long term. In 2015, all the departments within the Corporate Centre in Arbon (CH) were kitted out with free water dispensers. As nutrition that is rich in vitamins is just as key to boosting productivity as adequate fluid intake, employees also receive a fruit basket each week. Working in conjunction with authorities and emergency services, Kermi is developing concepts, emergency plans and other measures designed to protect its employees and therefore ensure that health and safety are safeguarded at all times. EgoKiefer, meanwhile, has joined forces with social insurance partners to implement targeted initiatives that promote health and safety both in the workplace and outside it. One example that took place during the year under review was the opportunity that employees were given to purchase cycle helmets at a discounted price. To make conditions safer for employees on construction sites and keep potential long-term health risks to a minimum, EgoKiefer is also systematically carrying out inspections during renovations of buildings erected before 1984 to determine whether the window putty and connecting elements include materials containing asbestos. Where necessary, protective measures are put in place at an early stage. RWD Schlatter has introduced its own health management system with regular health circles that discuss current issues and decide on any measures which need to be put in place.

Cooperation with an external case management partner
With the aim of creating a reduction in both absences due to illness and sick pay insurance premiums over the long term, the Group Management has initiated cooperation with an external case management partner. SIZ Care AG provides employers and employees with support in all areas relating to absence and health management. It also works on a case-by-case basis to provide employees who are unable to work with assistance and support, as well as coordinating the process with all stakeholders. Additionally, accidents are tracked using key figures and support for this is provided in the form of joint measures with our social insurance partners.

Social responsibility
The taxes paid by AFG worldwide, amounting to CHF 7 million in 2015, also make a contribution to public finances and the common good. Since 2012, AFG has been supporting Future Champs Ostschweiz, a network of associations and clubs promoting talented up-and-coming football players in the Eastern Switzerland region. At its production plant in Plattling (D), Kermi lends its support to a daycare centre that in return offers nursery places for the children of its employees. Wertbau provides financial assistance to an organisation in Ukraine that is dedicated to children who suffer from cancer as a result of the long-term effects of the Chernobyl disaster, and are now reliant on medical care.

SUSTAINABILITY

AFG and its subsidiaries are committed to a consistent and comprehensive sustainability policy. This is part of the corporate strategy, and of all operational activities. AFG and its companies strive to set good examples in their dealings with shareholders, lenders, employees, customers, business partners, governments, society and the environment. In 2015, the Swiss canton of Thurgau nominated RWD Schlatter for the International Lake Constance Conference Sustainability Award, in recognition of its sustainable activities.

Increase efficiency by optimising processes

AFG products are produced and distributed in an energy-efficient manner and through optimised transport routes. One example of how AFG has improved systems and optimised processes is the extensive restructuring of Forster Profile Systems' entire logistics facilities – a project that was completed on schedule at the end of December 2015. This move has optimised the flow of materials and upgraded the facilities to reflect the very latest standards. Even with smaller batch sizes being processed, it has been possible to maintain productivity levels and reduce waste by 5 %.

CO_2 management at AFG

AFG is actively engaged in CO_2 management. One example is the RWD Schlatter production plant in Roggwil (CH), the very model of a state-of-the-art, eco-conscious production hall thanks to equipment including a photovoltaic installation that generates a rated output of 400 kilowatts over an area measuring 2 261 square metres. The plant has also worked in conjunction with Energiegenossenschaft Roggwil, an energy cooperative, to install solar collectors on the building. These sustainable activities led the government of the canton of Thurgau (CH) to nominate RWD Schlatter for the International Lake Constance Conference Sustainability Award. In addition to RWD Schlatter, the production plants operated by Sabiana in Corbetta (I) and Magenta (I) are equipped with photovoltaic installations whose total output of 1.36 megawatts covers 85 % of the company's electricity consumption, while Wertbau in Langenwetzendorf (D) also uses a photovoltaic installation to accommodate some of its energy demand.

Dobroplast's expansion of its CO_2 extrusion facilities has made it possible to recycle a significant proportion of vinyl profiles and, as a result, reduce the company's main area of demand for raw materials – crude oil-intensive vinyl.

Sustainability through environmental management systems

The integrated management system according to ISO 9001 / 14001 / 50001 (Quality / Environment / Energy) and the SAP module EH & S (Environment, Health & Safety) form the basis for the continuous improvement of key environmental aspects of the production and development processes.

Kermi has demonstrated examples of deploying state-of-the-art production technology by commissioning a new eco-friendly washing zone in an enamelling line for radiators and modifying the welding process at its production plant in Plattling (D). Efforts of this kind have proven energy management to be a highly useful tool in reducing both energy consumption and CO_2 emissions. A measuring concept for determining consumption levels has been introduced for the purpose of analysing energy demand, and Kermi has also analysed and improved its disposal concepts in cooperation with external consultants, a move which has played a role in optimising its recycling rate.

In collaboration with Empa, the Swiss Federal Laboratories for Materials Testing and Research in St. Gallen (CH), EgoKiefer produced the first life cycle assessment for windows over 20 years ago and has continued to develop it further ever since. In 2015, all the test measurements performed as part of the ISO 14001 environmental certification process showed compliance with the required limit values.

Slovaktual installed filter systems to provide water pollution control in its newly erected hall F, and switched over to energy-saving LED lighting.

Code of Conduct

AFG and its divisions are aware of their economic, environmental and social responsibility towards capital providers, employees, customers, business partners, the state, society and the environment. They hold the strong belief that ethical conduct represents an indispensable part of ensuring that their operating activities remain successful over the long term. AFG lives up to this responsibility by demonstrating ethical conduct in every one of its operating activities.

With this in mind, the Group-wide Code of Conduct was developed and brought into force in 2013. It outlines binding guidelines for the activities of all AFG employees around the world. The Code of Conduct can be viewed on the AFG website: www.afg.ch/en/company/corporate-governance.

DIVISIONS

AFG
Building the Difference

Building Technology			Building Envelope	Building Security	
Heating Technology	Air-Conditioning and Ventilation Technology	Sanitary Equipment	Windows/ Exterior Doors	Profile Systems	Special Doors
KERMI	SABIANA	KERMI	EgoKiefer	forster	RWD Schlatter
arbonia			WERTBAU	BLOXER	
prolux			Slovaktual		
			dobroplast		

BUILDING TECHNOLOGY

Encompassing its companies Kermi GmbH, Arbonia AG, Prolux Solutions AG and Sabiana s.p.a., the Building Technology Division is a leading and highly integrated European provider of the heating, air-conditioning, ventilation and sanitary equipment industry. At its production plants in Germany, the Czech Republic, Italy and Switzerland, it manufactures its diverse product range under the principles of maximum quality, cost efficiency and sustainability. Customer proximity is also ensured outside its home markets thanks to distribution companies in France, the United Kingdom, Poland, Russia, China and the Middle East.

KEY FIGURES	**2015**	2014
Net revenue in CHF million	462.2	490.2
Without special effects		
EBITDA in CHF million	50.7	55.6
EBIT in CHF million	33.5	39.3
EBIT margin in %	7.3	8.0
With special effects		
EBITDA in CHF million	45.6	55.8
EBIT in CHF million	4.4	38.3
EBIT margin in %	0.9	7.8
Average headcount (full-time equivalent)	2 711	2 618

MARKET TRENDS

The division achieved a total revenue of CHF 462.2 million (previous year CHF 490.2 million), which corresponds to a decrease of 5.7 %. When adjusted for currency and acquisition effects, however, the dip in revenue was only 0.7 %. The EBITDA fell from CHF 55.8 million in the previous year to CHF 45.6 million. Without special effects, the EBITDA amounted to CHF 50.7 million. Due to impairments on goodwill and property, plant and equipment, the EBIT shrank from CHF 38.3 million in the previous year to CHF 4.4 million. The division reports an EBIT without special effects of CHF 33.5 million (previous year CHF 39.3 million).

The key figures for the division were influenced by various special effects. Results were negatively affected by the non-recurring expenses arising from the relocation that had been announced for the production of special radiators, from Arbon (CH) to Stříbro (CZ); additionally, there was an impairment to the goodwill position of the Building Technology Division, resulting from a re-evaluation of the initially calculated synergies within the division.

Following years of crisis, the European market environment showed some positive signs, but also presented significant challenges within individual countries. Russia, in particular, suffered extremely difficult market conditions due to a sharp increase in competitive pressure. This trend was rooted in the country’s negative economic development triggered by economic sanctions, low oil prices and radical changes in exchange rate parities. During the year under review, the division was not able to escape this negative course of development. More pleasing was the development in the German domestic market, where a strong construction sector and stable economic growth created momentum, even if this was only reflected to a certain degree in the markets of each individual product segment within the division. Switzerland, on the other hand, felt the effects of a sluggish construction sector as well as high import pressure due to the strong Swiss franc. These factors cast a shadow over the economic situation. The Italian market showed signs of recovery, however, particularly in the commercial and public construction sector, which is crucial to the division.

PRODUCTS, TECHNOLOGY AND INNOVATION

Where Heating Technology was concerned, 2015 saw various products achieve their market launch and go on show to customers at world-leading trade fair ISH in Frankfurt (D). By introducing its ”Line” range of panel radiators as well as four design radiators, and revising the surface heating products it offered, Kermi created a stronger presence in the well-established segment of heat transmission. Kermi's "x-optimized" heating system was also enhanced through the addition of new heat pump, storage and regulation technology products. A highlight of 2015 was the launch of the residential ventilation product segment. The innovations achieved reinforce the focus on private residential construction applications and have been well received by experts. Arbonia expanded its range by introducing new products in the areas of radiant panels, unit heaters and door air curtains, laying the foundations for successful development in both public and private construction. Prolux demonstrated some success in project-based business and introduced its new "Plus" heating panel.

With the current product range – offering heating, air-conditioning and ventilation solutions for the majority of industrial, commercial and public buildings – Sabiana is carving out a leading role within Europe. In 2015, the business unit expanded the product portfolio to include two further "Carisma" fan coil model ranges, which are suitable for buildings with extensive window areas not only because they can be fully installed in walls within domestic applications, but also thanks to their ability to adapt perfectly to any room structure. Other additions to the product range were a fan radiator offering silent operation and precise control of the room air temperature in the home, plus a product family consisting of door air curtains for protecting entrance areas in industrial and commercial buildings. More applications, extending to air treatment units of all varieties and sizes, were opened up for the patented "Crystall" electrostatic filter, designed for improving room air quality with optimised energy efficiency.

In 2015, the Sanitary Equipment Business Unit picked up where it had left off in 2014 by continuing its strategy of establishing itself as a specialist in cross-generational, barrier-free shower solutions for new buildings and renovations. With "unlimited // grenzenlos", its motto at the ISH trade fair, Kermi presented renovation solutions for making shower areas barrier-free. The company has set new standards with its "Liga" floor-level sliding doors and its "Walk-In XB" concept – featuring a panel of mirrored glass – installed on the barrier-free "Line E70" shower system. As Kermi is also a leading industry partner in an interdisciplinary research project on converting existing structures, entitled "Der Raum – Das Bad" and conducted by Technische Universität München, ISH gave the company the opportunity to present the findings and their implications for age-appropriate design solutions in small bathrooms. Some of the real highlights of this year were accolades recognising Kermi's innovations, a grand total of seven prestigious design prizes.

OUTLOOK

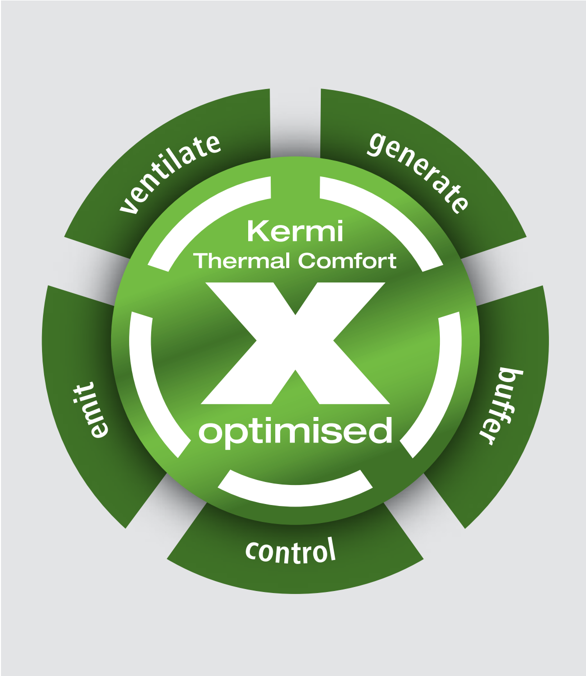
With political and economic uncertainty affecting the relevant markets in which the division operates, it is difficult to conduct any kind of forecasting. It can, however, be assumed that the market conditions which impact on the division will remain challenging for some time to come. In particular, the situation in Russia and its neighbouring countries has raised the need for flexible production capacity adjustments as well as strict control of costs. In addition to the further integration of Sabiana, something which continues to be an important project and is running to schedule, and the increase in cross-selling activities that goes hand in hand with this, one of the key focal points of 2016 will be the relocation of special radiator production from Arbon (CH) to Stříbro (CZ). Where the market is concerned, the division will establish sustainable positions for its many new products and, by also making further targeted investments and putting in place specific measures for boosting productivity and efficiency, is set to reinforce the competitiveness of the division on a lasting basis. The division is increasingly benefiting from the synergies being generated from cooperation in the areas of heating technology, air-conditioning and ventilation technology, putting it in a better position to meet the needs of the HVAC-market (heating, ventilation and air-conditioning). This will ensure the division is well equipped to continue on a profitable course of growth into the future.

Radiant panel production in Italy

Spanning 27 000 square metres, the "Sabiana 1" production plant in Corbetta (I) is where all the company's raw metal working takes place and is also home to the manufacturing processes for its unit heaters, radiant panels and stainless steel flues. Another feature of the site is the company's research and development laboratories. The "Sabiana 2" production plant in Magenta (I) – covering an area of around 15 000 square metres – is where fan coils and air handling units are produced. 85 % of the electricity consumed by Sabiana's production plants is covered by the company's own photovoltaic installations.

“For me, Sabiana is a place where ideas are transformed into reality and help the company achieve success.”

Marika Martire, employee in the fan coil department; with Sabiana since 2003



Kermi – celebrating innovations

At world-leading trade fair ISH, Kermi had the opportunity to present numerous innovations it had developed as part of its "x-optimized" heating system. The major highlight was "x-well", a brand-new product segment for living space ventilation and the perfect way to round off the heating system.

KERMI

Arbonia – enhanced expertise in commercial construction

The product range available in Switzerland is being expanded to include wide-ranging unit heater and door air curtain product segments, while radiant panels are being added to Germany's range as well. Arbonia now offers a full range of heating solutions for public and commercial construction.

arbonia

Prolux – successful results from project business

Thanks to its well-positioned product range, Prolux has recently achieved significant success from project business once again. At butter-making facility Emmi-Butterzentrale in Lucerne (CH), Prolux underfloor convectors create an indoor climate that ensures overall comfort.

prolux

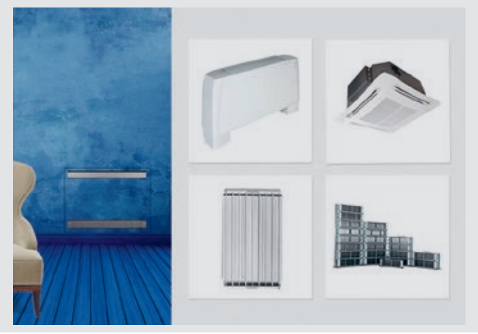
Kermi – crossgenerational showers for everyone

With the "Walk-In XB" glass partition installed on the floor-level "Line E70" shower system, it is possible to create an entirely personal wellness area to suit every generation, in virtually any renovation project where a bath is being replaced with a shower.

KERMI

Sabiana – at home throughout the world

Large-scale contracts across the world were the defining feature of Sabiana's 2015 financial year. The company's efficient, environmentally friendly products were put to use in hotels, office buildings and hospitals alike.



SABIANA
IL CLIMA AMICO

BUILDING ENVELOPE

The division, with the companies EgoKiefer AG, Wertbau GmbH, Slovaktual s.r.o. and Dobroplast Sp. zo. o., is one of the leading European window manufacturers. Production takes place in own plants in Switzerland, Germany, Slovakia and Poland. In its target markets, the division operates its own decentralised sales organisations as well as extensive dealer networks. The four companies offer customised window systems made of wood, wood/aluminium, vinyl, vinyl/aluminium and aluminium for any need. Complementing the extensive range of window products are lift-and-slide doors, exterior doors, ventilation and shade solutions. The products stand out due to their quality, durability and varied design and equipment options. They ensure maximum energy efficiency thanks to their compliance with forward-looking standards for thermal insulation.

KEY FIGURES	**2015**	2014
Net revenue in CHF million	331.4	376.0
Without special effects		
EBITDA in CHF million	6.6	23.9
EBIT in CHF million	–8.0	5.9
EBIT margin in %	–2.4	1.6
With special effects		
EBITDA in CHF million	–8.2	23.9
EBIT in CHF million	–122.4	5.0
EBIT margin in %	–36.9	1.3
Average headcount (full-time equivalent)	2 972	2 940

MARKET TRENDS

In the year under review, the division recorded a revenue of CHF 331.4 million, a substantial decrease of 11.9 %, or 10.5 % when adjusted for currency and acquisition effects, from the previous year's value (CHF 376.0 million). The EBITDA fell from CHF 23.9 million to CHF – 8.2 million; without special effects, the division achieved an EBITDA of CHF 6.6 million. The necessary impairments on goodwill, intangible assets and property, plant and equipment put a strain on the EBIT, which shrank from CHF 5.0 million in the previous year to CHF – 122.4 million. Without special effects, the EBIT amounted to CHF – 8.0 million.

During the year under review, the situation in the Swiss window market remained extremely difficult. Persistently strong import and pricing pressure, plus the new currency reality, forced the division to undertake radical restructuring measures within Switzerland. The new currency reality and the fact that this will lead to significantly lower contributions to results in future prompted EgoKiefer to make an impairment to goodwill and both tangible and intangible assets. To counteract rising cost pressure, the process of relocating vinyl window production from Altstätten (CH) to Pravenec (SK) was completed in June 2015 rather than December 2015, as had been originally planned. Additionally, August saw the division announce its intention to move vinyl window production from Villeneuve (CH) to Pravenec by the end of 2016. The Group has been using this AFG facility for years to produce for the Slovakian, Czech and Swiss markets, and, thanks to significant investment, it will become one of the largest vinyl window production plants in Europe.

With the purchase of the eastern German window manufacturer Wertbau, the division expanded its production network with state-of-the-art and cost-efficient production capacities and received, thanks to the Germany-wide sales network with around 700 sales partners, market access to the largest European window market. The acquisition of Wertbau allows the relocation of the production of wood and wood/aluminium windows from Altstätten (CH) to the Langenwetzendorf (D) location over the next two years. This process will take place step by step to ensure that customers can continue to be assured of deliveries and is expected to come to a conclusion at the end of 2017.

EgoKiefer, with a market organisation encompassing over 500 employees, remains the market leader on the home market of Switzerland. The high-quality windows will continue to be developed, tested and installed in Switzerland. Thanks to the extensive sales network – with ten sites and more than 300 specialist companies – customers throughout Switzerland benefit from professional sales, project management and service. The announcement of the restructuring measures and the initial steps taken in this respect subjected business performance to another source of pressure and led to drops in revenue. While the window market in Slovakia experienced some gains, volumes on the Czech market remained stable. Slovaktual was able to strengthen its market position. Looking towards 2016, revenue is set to rise in the aluminium segment in particular, as well as in large-scale projects. During the year under review, window production in Poland grew thanks to the sharp rise in exports to Western Europe, especially Germany. Dobroplast, which saw a significant rise in its exports to Germany, was therefore able to benefit from this trend too. The market volume remained stable in the Polish domestic market, although prices experienced a decline due to competitive pressure and an increase in capacity. An in-depth analysis at Dobroplast revealed the need for impairment on goodwill and intangible assets.

The Austrian market was once again affected by significant pricing and import pressure. In spite of the tough market environment, the dealer network underwent successful expansion in 2015. This was largely the result of a vinyl and aluminium product portfolio focusing on customers' needs.

PRODUCTS, TECHNOLOGY AND INNOVATION

The Building Envelope Division products are made exclusively to order and to suit individual needs. As well as offering a whole range of designs, dimensions and equipment options, they meet forward-looking standards for thermal protection, reflecting current and future trends and thus ensuring maximum energy efficiency. The division serves the full spectrum of customer needs, from prestigious buildings such as Berlin Palace and sophisticated solutions for new builds and renovations to functional products for the lower price category. The Berlin Palace project in Germany marked the division's involvement in a special comprehensive project. The oak box-type windows, supplied by Wertbau, met the very highest standards of production and quality, and weighed as much as 700 kilograms with widths of up to 2.8 metres and heights of up to 6.6 metres.

The range of products available in Switzerland was extended by aluminium house doors. Customers can now custom-design their vinyl windows using coloured and decorated film. These design options have already seen successful sales in the other markets within the division. Additionally, Aluminium windows enjoy increasing popularity in these markets.

OUTLOOK

Sustained cost and import pressure in Switzerland, plus the commencement of restructuring measures, made 2015 a difficult year for the Building Envelope Division. With these measures continuing and the market environment set to present yet more obstacles, 2016 is expected to be another challenging year. Over the coming years, the division is expected to see moderate market growth in Germany as a result of compact living spaces in congested urban areas, as well as the refugee crisis.

The establishment of an integrated production network encompassing large-scale industrial production facilities at cost-effective sites, plus strong market organisations within target markets, will enable the Building Envelope Division to gain significant market shares in the market over the medium term.

The investment in long-established Austrian company Gaulhofer, announced in January 2016, is set to further strengthen the supplier partnership that is already in place with the company.

Vinyl window production in Slovakia

At the most state-of-the-art production plants in Europe, vinyl, vinyl/aluminium and aluminium windows are being manufactured to customers' individual requirements and dimensions. The Slovaktual hall was brought into operation in 2015 and is used to produce the window systems developed by EgoKiefer for the Swiss market. The high-quality windows satisfy the most stringent energy-efficiency requirements and feature varied design and equipment options.

“Outstanding quality thanks to state-of-the-art technology and hand-crafting – with custom production, we can meet all kinds of customer requirements.”

Marek Michalička, hall F shift supervisor; with Slovaktual since 2015

EgoKiefer

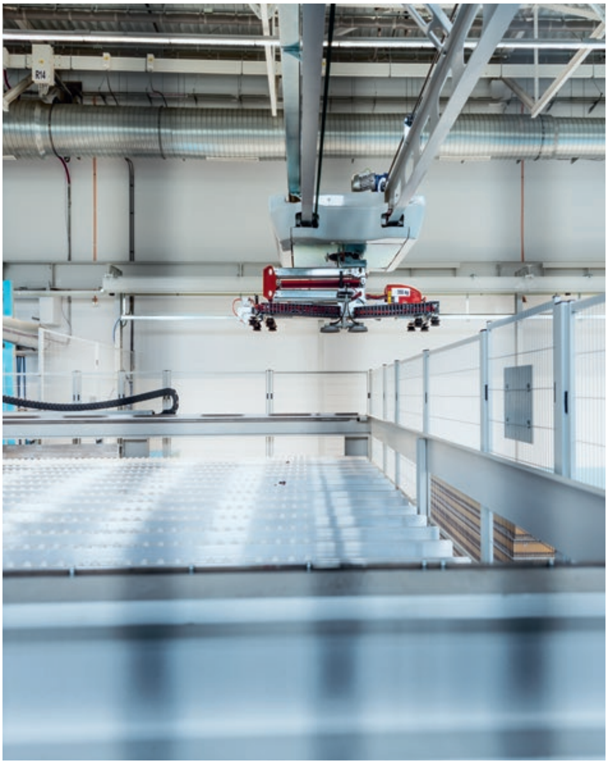
In 2015, EgoKiefer expanded its product range to include aluminium house doors. Thanks to their cutting-edge design and outstanding technical features, they are an appealing addition to the product range available to customers.

EgoKiefer
Fenster und Türen

Wertbau

Acquired in 2015, Wertbau is expanding the division's production network by incorporating cost-effective capacity in modern facilities. In the future, this will serve as the heart of the division's wood and wood/aluminium window production activities.

WERTBAU®
Mehr Licht zum Leben



Slovaktual

Production in hall F commenced as planned in 2015, marking the transfer of vinyl window production from Altstätten (CH), to this site. Together with hall E, erected in 2015, in the future it will produce vinyl windows over an area measuring 400 000 square metres at the Pravenec (SK) site.

Fenster & Türen
Slovaktual®

Dobroplast

Thanks to its 2015 purchase of a second state-of-the-art production line for manufacturing insulating glass, in the future Dobroplast will be able to boost production capacity and optimise process quality at the same time.

Windows & Doors
dobroplast

BUILDING SECURITY

The Building Security Division encompasses the three companies Forster Profile Systems AG, Bloxer Ronchi srl (since 2015) and RWD Schlatter AG. Forster develops and manufactures high-quality steel and stainless steel profile systems for doors, windows and facades, which are used in fire and smoke protection as well as intruder- and bullet-resistant systems. Bloxer specialises in the manufacturing of glazed steel fire protection doors, making it a leader in the Italian market. RWD Schlatter is the leading provider of sustainable wooden doors for security as well as fire and smoke protection, offering products that also meet the very highest environmental standards.

KEY FIGURES	**2015**	2014
Net revenue in CHF million	147.6	149.9
Without special effects		
EBITDA in CHF million	7.5	13.4
EBIT in CHF million	3.5	10.2
EBIT margin in %	2.4	6.8
With special effects		
EBITDA in CHF million	7.5	12.3
EBIT in CHF million	– 17.2	9.2
EBIT margin in %	– 11.6	6.1
Average headcount (full-time equivalent)	425	393

MARKET TRENDS

The overall revenue dipped by 1.6 % from CHF 149.9 million in the previous year to CHF 147.6 million; when adjusted for currency and acquisition effects, the division saw a decrease of 0.8 %. The EBITDA fell from CHF 12.3 million to CHF 7.5 million. Due to impairments on goodwill, intangible assets and property, plant and equipment, the EBIT fell from CHF 9.2 million to CHF – 17.2 million; without these special effects, the EBIT lies at CHF 3.5 million (previous year CHF 10.2 million).

This drop in earnings was directly linked to the continued difficulties in the currency situation, itself exacerbated by the minimum euro exchange rate being removed in January 2015. Not only did the strong Swiss franc have a negative impact on results from the Profile Systems Business Unit, which is heavily focused on exports, but the Swiss domestic market, where the Special Doors Business Unit achieves its revenue, was also exposed to significantly higher pricing pressure. The Special Doors Business Unit also suffered heavily from falling demand for office space and commercial buildings within Switzerland. For RWD Schlatter, the scaled-back future growth plan resulting from the challenging market environment called for an impairment on goodwill and both tangible and intangible assets.

The key sales markets of the Profile Systems Business Unit are Switzerland, Germany and France, followed by other Western and Eastern European markets. In Europe, development within the areas of public and commercial construction – where Forster profile systems are used – was in a stagnating to slightly declining state. The battle for market shares in the non-residential construction sector has intensified significantly in some cases. The Swiss and German markets were particularly affected by this; although the economic situation here was largely stable, competition has increased also because of aluminium systems. In Germany, the Profile Systems Business Unit further expanded its direct sales activities succesfully and in doing so laid the foundations for serving the entirety of the country from 1 January 2016 onwards. In France, where 2015 saw 12 % fewer construction sites newly established as compared with the previous year, it is thought that the construction sector has already reached its lowest point. However, this market is not expected to experience a quick recovery either.

The Special Doors Business Unit gains its revenue almost exclusively from the Swiss market, which in general exhibited slight decline. However, this was offset by a higher success rate in the number of quotations that resulted in orders. Residential construction accounts for a share of just under 50 %, while demand for office and commercial buildings continues to be in sharp decline. Swiss companies continue to exert a high level of competitive pressure. A small number of products – all ecological doors – are exported to China.

PRODUCTS, TECHNOLOGY, INNOVATION

"Forster unico XS", the steel profile featuring unique slimness for thermally insulated windows and glazing, was given a successful market launch in 2015 and awarded a prize for innovation at the Batimat trade fair in Paris (F). Some of this system's unique aspects are the numerous opening variations it offers for windows, such as turn / tilt windows, its RC 2 level of intruder resistance and its outstanding thermal insulation, which makes it suitable for window structures in buildings that fulfil MINERGIE standards. The switch to a new type of surface treatment for the "Forster fuego light" profile system proved highly successful. Instead of GVGC, the system now uses a zinc / magnesium coating that not only offers technical and environmental advantages, but is also beneficial for processing.

Fire protection elements underwent numerous tests ahead of the introduction of the new EN 16034 product standard, which comes into force on 1 September 2016. This new standard harmonises approvals for fire protection elements in Europe, allowing the Special Doors Business Unit to offer its products in European countries outside Switzerland too. During the year under review, the RWD connector-fan-door – launched in 2014 – was successfully deployed in a range of projects. This product enables silent air exchange in buildings, removing the need to install ducts within individual rooms. This offers a significant advantage over conventional ventilation systems, particularly where renovations are concerned. A wireless power system has been developed to supply power to the ventilation units, transmitting electric pulses through the air and making installation much simpler as a result. RWD Schlatter made a significant achievement in 2015 by receiving the Sanitized® label. This represents the very highest possible standard for products used in hygiene applications and creates a significant competitive advantage for buildings in the healthcare sector.

Cooperation between the Profile Systems Business Unit and the Special Doors Business Unit resulted in two new products during the year under review: a wooden fire protection door in a steel frame, and flush wood panels for fire-resistant glazing and doors. Both products are ideal for use in hospitals, care homes, schools and office buildings.

OUTLOOK

It is likely that 2016 will see the Profile Systems Business Unit continue to battle with difficult economic conditions, the strong Swiss franc in particular. In general, it is assumed that Switzerland and Germany will experience a stagnating non-residential construction market, and while a slight upturn is expected in France, it is unlikely that this will be perceptible until the second half of 2016. The business unit will continue to focus on expanding direct sales and successfully launching and establishing product innovations such as "Forster unico XS", the wooden/steel door and all-glass solution.

The Special Doors Business Unit can expect the tough competitive conditions to continue in 2016, with the situation unlikely to ease in the foreseeable future. However, thanks to initiatives such as the Sanitized® label and the development of a hotel door concept together with various partner companies, slight growth is expected. Over the coming year, the main areas of focus will be the marketing of new products and the expansion of international markets, something which the new EN 16034 fire protection standard will aid.

Profile system production in Arbon (CH)

Covering an area of around 14 000 square metres, this Forster plant produces steel and stainless steel profile systems using seven main systems. Converting the entire logistics facilities has made it possible to optimise the flow of materials, storage and working processes with great success. Since 2015, the various sites in the technical facility have been merged within a hall measuring 1200 square metres, which Forster has taken over from Arbonia. The space also includes a new test bench for assessing the effects of heavy rain. The customer workshop has now been made physically separate from the technical facility, and has been extended further.

“Excellent product quality doesn’t just happen. You need passion, care and teamwork to achieve it.”

Roberto Camilleri, RSP machine operator;
with Forster since 2015 and previously employed at AFG

Windows and glazing with extremely slim visible widths

The ”Forster unico XS” profile system, whose slim design makes it a unique product on the market, features sophisticated technology and has a delicate visual appearance. Thanks to its RC 2 intruder resistance and outstanding thermal insulation, windows that use this product are now also suitable for MINERGIE buildings. ”Forster unico XS” was awarded a prize for innovation at the Batimat trade fair in Paris (F). (Image: listed brewery building on the Löwenbräu site in Zurich (CH)

forster

Connector-fan-door from RWD Schlatter

Connector fans represent an inexpensive alternative to conventional ventilation systems. They operate silently and only when the door is closed. This means that they are able to accommodate changing situations in buildings automatically and, at the same time, keep energy consumption to a minimum.

RWD Schlatter
TÜREN

CORPORATE GOVERNANCE

This report complies with the Corporate Governance Directive (CGD) of SIX Exchange Regulation of 1 September 2014. Unless otherwise indicated, the disclosures apply as of 31 December 2015.

1 GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

BOARD OF DIRECTORS

Alexander von Witzleben
Chairman of the Board of Directors

Peter Barandun
Vice-Chairman

Christian Stambach

Peter E. Bodmer

Markus Oppliger

Heinz Haller

Michael Pieper

GROUP MANAGEMENT

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

Felix Bodmer
Chief Financial Officer

Knut Bartsch
Head of the Building Technology Division

Dr. Roman Hänggi (until 30 September 2015)
Harald Pichler (from 1 February 2016)
Head of the Building Envelope Division

Dr. Christoph Schönenberger
Head of the Building Security Division

DIVISION STRUCTURE

BUILDING TECHNOLOGY	BUILDING ENVELOPE	BUILDING SECURITY
Knut Bartsch	**Dr. Roman Hänggi** (until 30 September 2015) **Harald Pichler** (from 1 February 2016)	**Dr. Christoph Schönenberger**
Kermi Heating Technology and Sanitary Equipment	EgoKiefer Windows and Doors	Forster Profile Systems
Arbonia Heating Technology	WERTBAU Windows and Doors	Bloxer Profile Systems
Prolux Heating Technology	Slovaktual Windows and Doors	RWD Schlatter Special Doors
Sabiana Air-Conditioning and Ventilation Technology	Dobroplast Windows and Doors	

1.1.1 *Operational Group structure*

The operational Group structure of AFG as of 31 December 2015 comprises (1) the Building Technology Division with the Heating Technology Business Unit, the Sanitary Equipment Business Unit and the Air-Conditioning and Ventilation Technology Business Unit, (2) the Building Envelope Division with the Windows Business Unit and (3) the Building Security Division with the Profile Systems Business Unit and the Special Doors Business Unit. Together with the Finance/Controlling/Reporting area, the three divisions form the Group's operational structure as of 31 December 2015.

The AFG Group Management comprises the interim CEO, the CFO and the heads of the three divisions Building Technology, Building Envelope and Building Security. 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 can be found on pages 17–41.

1.1.2 *Scope of consolidation*

The scope of consolidation of AFG Arbonia-Forster-Holding AG, headquartered in Arbon TG ("AFG" or the "company") comprises the Group companies listed in the financial report on pages 171 (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. AFG shares are listed at the SIX Swiss Exchange in Zurich under securities number ISIN CH0110240600. Information about market capitalisation can be found in the additional disclosures for investors on page 186. Other than AFG, 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

	31/12/2015		31/12/2014
	Voting and capital shares	Shareholding notification	Voting and capital shares
in %			
Artemis Beteiligungen I AG	27.52	28.1.2015	21.90
Credit Suisse Funds AG	3.24	7.11.2015	
Lombard Odier Asset Management (Switzerland) SA	<3.0	4.6.2015	3.93
UBS Fund Management (Switzerland) AG	<3.0	13.3.2015	3.02

On 28 January 2015, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 25.39 % of the voting rights. As of 31 December 2015, the shareholding of Artemis Beteiligungen I AG amounts to 27.52 %.

On 7 November 2015, Credit Suisse Funds AG reported a shareholding of 3.24 %.

On 13 March 2015, UBS Fund Management (Switzerland) AG reported that it had fallen below the threshold of 3 %. On 4 June 2015, Lombard Odier Asset Management (Switzerland) SA also reported that it had fallen below the threshold of 3 %.

AFG 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 AFG and other companies.

2 CAPITAL STRUCTURE

2.1 Capital

The ordinary capital of AFG is CHF 187 139 925, the conditional capital is CHF 11 883 660.60 and the authorised capital is also CHF 11 883 660.60.

The ordinary capital is detailed in point 47 of the notes to the consolidated financial statements on page 157.

	31/12/2015			31/12/2014		
	Number	Nominal value	Share capital	Number	Nominal value	Share capital
Registered shares	44 557 125	4.20	187 139 925	18 225 603	4.20	76 547 532.60

2.2 Authorised and conditional capital

Authorised capital

The General Meeting of 25 April 2014 authorised the Board of Directors to increase the share capital by a maximum of CHF 15 309 504 at any time before 25 April 2016 by issuing a maximum of 3 645 120 registered shares of a par value of CHF 4.20 each, which shall be fully paid up. On 19 November 2015, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 3 425 843.40 by issuing 815 677 fully paid up registered shares. The authorised capital is therefore reduced to CHF 11 883 660.60. As the authorised and conditional capital are available on an alternative instead of a cumulative basis, the conditional capital decreases by the same amount to CHF 11 883 660.60.

Conditional capital

The share capital may be increased by a maximum of CHF 11 883 660.60 by issuing a maximum of 2 829 443 registered shares of a par value of CHF 4.20 each, which shall be fully paid up. 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 AFG or one of its subsidiaries.

The group of beneficiaries and the terms and conditions for issuing authorised and conditional capital, which is available on an alternative instead of a cumulative basis, are described in Art. 3a and Art. 3b of the AFG Articles of Association (www.afg.ch/en/company/corporate-governance).

2.3 Changes in capital

In the past three years, share capital has increased twice as a result of an ordinary capital increase and an authorised capital increase. On 11 September 2015, the extraordinary General Meeting authorised an increase in the ordinary share capital by issuing 25 515 845 new registered shares of a par value of CHF 4.20 per share, from CHF 76 547 532.60 to CHF 183 714 081.60. On 19 November 2015, the Board of Directors resolved to increase the ordinary share capital, including authorised share capital, by CHF 3 425 843.40 by issuing 815 677 new registered shares of a par value of CHF 4.20 each. As of 31 December 2015, the share capital of AFG is CHF 187 139 925; this is fully paid up and divided into 44 557 125 registered shares of a par value of CHF 4.20 each.

2.4 Shares and participation certificates

The company has issued 44 557 125 registered shares at a par 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 year under review.

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, 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 AFG.

3 BOARD OF DIRECTORS

The Board of Directors of AFG consists of experts who cover the key subject areas of AFG as a building supplier. The Board of Directors attaches due importance to the diversity of the body, reflecting one of AFG'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

On 31 December 2015, the Board of Directors consisted of the following members:

Alexander von Witzleben (1963, German citizen, resident in Weimar (D)), degree in business management, from 17 April 2015 to 30 June 2015 non-executive Chairman of the Board of Directors and since 1 July 2015 executive Chairman and delegate of the Board of Directors. 1990 – 1993 Audit Assistant / Head of Audit 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 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. Since 20 May 2015, Alexander von Witzleben has been a member of the Board of Directors of Artemis Holding AG, which has a shareholding of 27.52 % in AFG and a shareholding of 50.1 % in Feintool

Holding AG, Lyss. Since 1 July 2015, Alexander von Witzleben has been part of the executive management of AFG on an interim basis. Aside from this, he has no material business relationships with AFG or its subsidiaries.

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 of 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 AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.

Christian Stambach (1970, Swiss citizen, resident in Thal SG), lic. iur., attorney-at-law, non-executive member of the Board of Directors since 17 April 2015 (2009 – 2011 non-executive member of the Board of Directors; 2011 – 2015 non-executive Vice-Chairman of the Board of Directors). 2000 – 2002 attorney at Bär & Karrer, Zurich; 2002 – 2003 Group Vice-President, Chief Risk Officer and Chief Legal Counsel, General Secretary, Member of Group Management of Centerpulse Ltd; 2004 – 2006 Group General Counsel at Adecco SA; partner of the law firm Bratschi Wiederkehr & Buob AG, St. Gallen, since 2004. Christian Stambach has never been part of the executive management of AFG or its subsidiaries. In connection with the activity of the law firm Bratschi Wiederkehr & Buob AG on behalf of AFG and its subsidiaries, material business relationships exist with the company (see pages 169 / 170).

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 of GKN Sinter Metals GmbH; 1998 – 2005 COO and CFO of Maag Holding AG; 2005 – 2012 member of the Group Management of 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 AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.

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 AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.

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

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 AFG or its subsidiaries. Michael Pieper controls the largest shareholder in AFG (see 1.2) and, through companies under his ownership, has material business relationships with a subsidiary of AFG (see pages 169/170).

3.2 Other activities and vested interests

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

Christian Stambach, member of the Board of Directors of ABD Holding AG, Rorschacherberg SG; member of the Board of Directors of Les Couleurs Suisse AG, Kloten ZH; member of the Foundation Board of the Sport-Up Foundation, Lausanne VD; member of the Board of Directors of Soplar SA, Altstätten SG; member of the Board of Directors of Namics AG, St. Gallen SG; member of various other boards of directors in Switzerland; active in an advisory capacity as a lawyer for various Swiss and foreign companies.

Peter E. Bodmer, Vice-Chairman of the Board of Directors of Peach Property Group AG, Zurich ZH; member of the Board of Directors of HL Holzwerkstoffe AG, Laufenburg AG; member of the Board of Directors of Brütsch/Rüegger Holding AG, Urdorf ZH; member of the Board of Directors of Vitallife International AG, Baar ZG; Vice-President of Helvetica Property Investors AG, Zurich ZH; delegate of the government council of the canton of Zurich for strategic development planning of the university hospital of Zurich and general coordination of the university district; member of the Board of the Foundation of the innovation park in Dübendorf; active as an advisor for various companies.

Markus Oppliger, Chairman of the Board of Directors of Siga Ausstellung AG, Mels SG; member of the Board of Directors of Pizolbahnen AG, Bad Ragaz SG; active as an advisor for various companies.

Heinz Haller, Chairman of the Board of DowAksa Advanced Composites Holdings B.V., Amsterdam, Netherlands; member of the Board of BioAmber Inc., Montreal, Canada; member of the Board of Directors of South Pole Holding AG, Zurich ZH.

Michael Pieper, Vice-President of the Board of Directors of Franke Holding AG, Aarburg AG; member of the Board of Directors of Berenberg Bank (Schweiz) AG, Zurich ZH; member of the Board of Directors of Hero AG, Lenzburg AG; Vice-President of the Board of Directors of Forbo Holding AG, Baar ZG; Vice-President of the Board of Directors of Adval Tech Holding AG, Niederwangen BE; member of the Board of Directors of Rieter Holding AG, Winterthur ZH; member of the Board of Directors of Autoneum Holding AG, Winterthur ZH.

3.3 Number of permissible mandates pursuant to Art. 12 (1) section 1 of the Ordinance against Excessive Compensation

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 function 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.afg.ch/en/company/corporate-governance).

3.4 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 ordinary General Meeting for a term of office of one year. The members of the Board of Directors may be re-elected.

The Articles of Association of AFG provide for an age limit, according to which persons who have reached the age of 70 cannot be elected or re-elected as members of the Board of Directors.

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	2016
Peter Barandun, Vice-Chairman	1964	2014	2016
Christian Stambach	1970	2009	2016
Peter E. Bodmer	1964	2013	2016
Markus Oppliger	1959	2013	2016
Heinz Haller	1955	2014	2016
Michael Pieper	1946	2015	2016

3.5 Internal organisation

3.5.1 *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. During the year under review, the Board of Directors was also supported by a Special Committee as part of the ordinary capital increase.

3.5.2 *Committees of the Board of Directors*

The duties, responsibilities and working procedures of the committees are laid down in the by-laws (www.afg.ch/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.

3.5.2.1 *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. All three members were non-executive and independent at the time of their election to the Audit Committee. Alexander von Witzleben, member of the Audit Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015, and has been an executive member of the Board of Directors since then. 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 3.7). 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 Audit Committee consists of the following members:

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

The Audit Committee met four times during the year under review. The CEO, interim CEO and CFO were present at each meeting. The external and internal auditors were present at three of the meetings. At the subsequent meeting of the full Board of Directors, the Chairperson reports on the meetings of the Audit Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors. The meetings of the Audit Committee lasted two hours on average. The Chairman of the Audit Committee and the Head of Internal Audit regularly held additional meetings to discuss the findings of Internal Audit and its duties in detail.

The Head of Internal Audit took on a new role within the Group during the year under review. As a result, the Board of Directors reorganised Internal Audit at the request of the Audit Committee. From 1 January 2016, Internal Audit will report to the Head of Group Controlling, with the direct reporting line to the Chairman of the Audit Committee remaining. Head of Treasury will be responsible for Risk Management.

3.5.2.2 *Nomination and Compensation Committee*

The members of the Compensation Committee were elected by the General Meeting on 17 April 2015. The members of the Compensation Committee also take care of the duties of the Nomination Committee. The Nomination and Compensation Committee consisted of three independent members at the time of election. 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, and has been an executive member of the Board of Directors since then.

The Nomination and Compensation Committee is convened by the Chairperson of the committee as often as business requires, but at least three times a year. The Nomination and Compensation Committee gives the Board of Directors recommendations regarding the Group's salary policy and compensation system. For the attention of the General Meeting, it submits requests to the Board of Directors concerning the total amount of the maximum compensation of the members of the Board of Directors, the maximum fixed and variable compensation of the members of Group Management and concerning the determination of the salary of the individual members of Group Management within the limits of the maximum total amount approved by the General Meeting. Moreover, the Nomination and Compensation Committee approves bonus programmes and employee participation schemes as well as pension fund solutions and benefit plans in principle. 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 needed selection procedures. During the year under review, the Nomination and Compensation Committee was concerned with the succession plan for the CEO, who stepped down on 30 June 2015. The Chairman of the Nomination and Compensation Committee also provided support for the process of recruiting the new Head of the Building Envelope Division, who took up his position at the start of February 2016.

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

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

The Nomination and Compensation Committee consists of the following members:

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

The Nomination and Compensation Committee met five times during the year under review. The CEO or interim CEO attended all meetings and the CFO attended one meeting. 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 and a half hours on average.

3.5.2.3 *Special Committee*

During the year under review, the Board of Directors decided to form a Special Committee to conduct preparation work for and monitor the ordinary capital increase.

The Special Committee consisted of three members, namely:

– Alexander von Witzleben, Chairman
– Michael Pieper
– Christian Stambach

The Special Committee met twice, with each meeting lasting three quarters of an hour on average. The Special Committee had no compensation and was disbanded after the capital increase was complete.

3.5.3 *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. In the year under review, the Board of Directors held six ordinary and three extraordinary meetings. A circular resolution was also passed as part of the ordinary capital increase. In the year under review, the Board of Directors performed most of its duties directly. Ordinary meetings of the Board of Directors usually last one day, and extraordinary meetings usually last one hour. In the year under review, the CEO or interim CEO and the CFO attended all ordinary meetings and one extraordinary meeting. All members of Group Management attended three ordinary meetings and individual members of Group Management attended other meetings. Managers as well as representatives of Internal Audit are usually 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. Following their appointment, the members of the Board of Directors who were newly elected in the 2015 financial year were informed about the business operations of AFG by means of a comprehensive introduction programme.

3.6 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 issue of necessary instructions;
- Establishment of the Group's organisational structure;
- Appointment and dismissal of persons entrusted with management;
- Supervision of persons entrusted with company management, specifically with regard to following legislation, Articles of Association, rules and instructions;
- Structuring of the accounting system, financial control and financial planning;
- Preparation of the annual report and the compensation report, as well as preparation for the General Meeting and implementation of its resolutions;

- Preparation of compensation requests for the General Meeting;
- Determination of the capital structure of the company;
- Issue of bonds, participation certificates, convertible bonds and options as well as determination of the terms and conditions;
- Determination of the strategy of the company, the divisions and the Business Units;
- Decisions concerning investments, joint ventures, property 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 and 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.

3.7 Information and control instruments vis-a-vis 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 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. 3.5.2.1). 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 identifies business and operational risks in all three divisions and in Corporate Functions and incorporates the findings of this risk analysis into the audits to be conducted. In dialogue with the external auditors, it exchanges information on risks and coordinates all assurance-related activities throughout the Group. These activities are summarised in an annual audit plan that 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 year under review, Internal Audit provided the members of the Board of Directors with eight audit reports. 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 year under review. The external auditors also have access to all audit reports and the reports from the ongoing monitoring of risks and measures. In addition, Internal Audit informed the Audit Committee and the Board of Directors on the status of the internal control system and risk management in two Assurance Memoranda.

4 Group Management

4.1 Members of Group Management

On 31 December 2015, 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.

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

Knut Bartsch (1968, German citizen), Dipl.-Wirtsch.-Ing., Head of the Building Technology Division since 2015; 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 Group Management since 2015.

Dr. Christoph Schönenberger (1968, Swiss citizen), Ph.D in law, attorney-at-law, LL.M., Head of the Building Security Division and Head of the Profile Systems Business Unit since 2012; 2000–2004 lawyer in Legal Services at UBS AG, Zurich; 2004–2007 lawyer and partner, Probst Rechtsanwälte, Winterthur; 2007–2012 Head of Corporate Services (Secretary General, Legal, Corporate Communications, Human Resources) at AFG.

On 30 September 2015, Dr. Roman Hänggi stepped down as Head of the Building Envelope Division and retired as a member of Group Management. His employment contract ended on 31 January 2016.

On 1 February 2016, Harald Pichler took up the position of Head of the Building Envelope Division and has been part of Group Management since this point.

4.2 Other activities and vested interests

Alexander von Witzleben, (see 3.2)

Felix Bodmer, since June 2012 member of the Board of Directors at the Bernet-Wirona Group, St. Gallen.

Knut Bartsch, member of the CCI plenary meeting and member of the Presidential Council of the Chamber of Commerce and Industry for Lower Bavaria since 2013; member of the Supervisory Board of SorTech AG, Halle an der Saale (D), since 2014.

4.3 Number of permissible mandates pursuant to Art. 12 (1) section 1 of the Ordinance against Excessive Compensation

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.afg.ch/en/company/corporate-governance).

4.4 Management contracts

AFG 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 69 – 81.

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 and/or personal targets. 100 % of the 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 remuneration can be found in Art. 24 of the Articles of Association (www.afg.ch/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.afg.ch/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.afg.ch/en/company/corporate-governance).

5.3 Loans, credit and pension benefits

According to Art. 26 of the Articles of Association, AFG 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 collateral. In future, however, advances against social insurance and tax levies are to become available to members of the Board of Directors and Group Management who are subject to withholding tax. It will be proposed to the General Meeting taking place on 22 April 2016 that the Articles of Association are amended accordingly (see compensation report, page 73, 2.6).

5.4 Rules concerning voting at the General Meeting on compensation

The General Meeting votes at yearly intervals on the maximum compensation of the Board of Directors for the period until the next ordinary General Meeting and on the maximum fixed and variable compensation of Group Management for the next financial year. 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 votes can be found in Art. 23 of the Articles of Association (www.afg.ch/en/company/corporate-governance).

6 SHAREHOLDERS' PARTICIPATION

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.

6.2 Statutory quorums

Under Article 13 (9) and (10) of the Articles of Association, the conversion of registered shares to bearer shares and the cancellation or change of the age limit for members of the Board of Directors are subject to resolution of 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.

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 1000000 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) of the FinfraG) or opting-up clause (Art. 135 (1) of the FinfraG).

7.2 Change-of-control clauses

AFG 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 Group Management and the Board of Directors 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*

PricewaterhouseCoopers AG, St. Gallen, has served as statutory auditor since the financial year 2006. It audits the annual financial statements and the consolidated financial statements of AFG.

8.1.2 *Assumption of office of the lead auditor*

Beat Inauen has held the position of lead auditor since 2013.

8.2 Auditing fees

In 2015, the auditors billed a total of CHF 913 000 (previous year: CHF 1 004 000) for auditing the financial statements and consolidated financial statements of AFG as well as the annual financial statements of the Group companies. Of this amount, the statutory auditor PricewaterhouseCoopers AG accounted for CHF 674 000 (previous year: CHF 696 000).

8.3 Additional fees

In 2015, the statutory auditor PricewaterhouseCoopers AG and other auditors of Group companies billed CHF 348 000 (previous year: CHF 346 000) for additional services, CHF 281 000 of which (previous year: CHF 278 000) was attributable to PricewaterhouseCoopers AG. Of the additional services performed by PricewaterhouseCoopers AG in 2015, CHF 212 000 was for work in conjunction with the capital increase in September and December and CHF 69 000 for tax advice.

8.4 Informational instruments pertaining to the external audit

The external auditors attended three meetings of the Audit Committee in the year under review. 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 year under review, the Audit Committee oversaw the activities of the external auditors by having the reports on the annual financial statements, consolidated financial statements and management letter explained directly by the auditors (see 3.5.2.1). The external auditors and Internal Audit also regularly discuss the methodology and further development of the internal control system (ICS). Three such meetings were held in the year under review. The internal and external auditors closely cooperate in the assessment of the substance of the ICS under Art. 728 a of the Swiss Code of Obligations and the evaluation of the effectiveness and efficiency of the ICS. The following factors are considered in the choice of external auditors: professional expertise, international network (representation in the relevant countries), value for money, industry experience as well as continuity and rapid availability of the audit team.

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

9 INFORMATION POLICY

AFG 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, AFG provides information about business performance, organisation and strategy. The compensation report from page 69 is an integral part of the annual report. AFG's First Semester Financial Report contains the consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement and statement of changes in equity. In the year under review, AFG published 12 press releases. In addition to this, AFG gives comprehensive reports on its business at its annual financial media and analysts' conference and at the General Meeting. AFG also fosters dialogue with investors and the media at special events and roadshows.

AFG's contact details are as follows:
AFG Arbonia-Forster-Holding AG
Amriswilerstrasse 50, P.O. Box 134, 9320 Arbon, Switzerland
T +41 71 447 41 41, F +41 71 447 45 88
info.holding@afg.ch

All company information is available on the website www.afg.ch. Interested parties can subscribe to press releases at www.afg.ch/en/media/subscribe-to-press-releases.html, and AFG publications can be ordered at www.afg.ch/en/media/order-publications.html.

The timetable indicating the dates of publication of the revenue and half-yearly figures, the financial media and analysts' conference, and the General Meeting can be found on page 187 of the annual report and on the AFG website www.afg.ch/en/servicenavigation/calendar/financial-calendar.html.

COMPENSATION REPORT

This compensation report explains the compensation system of AFG (chapter A) and its application in the reporting year 2015 (chapter B). The compensation report complies with current corporate governance standards and has been compiled in accordance with the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (OaEC) and Appendix 1 to the Swiss Code of Best Practice for Corporate Governance. The quantitative disclosures pursuant to Art. 14–16 OaEC are presented in chapter B. These disclosures were audited by the statutory auditor of AFG. The audit confirmation is presented on pages 82/83.

A THE COMPENSATION SYSTEM OF AFG

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. AFG 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

	Fixed compensation	Variable compensation	Pension scheme/ fringe benefits
Board of Directors	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	None	Lump-sum allowances
Group Management	Basic salary including fringe benefits in cash [2)] on the basis of individual classification (function, experience, skills)	Compensation in % of the basic salary depending on the company's financial targets.[3)] One third of the variable compensation in shares restricted for four years[4)]	Lump-sum allowances, company car regulation, retirement planning

1) The Chairman of the Board of Directors waives compensation for his activity on both committees.
2) 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 3.1).
3) During the year under review, the company's financial targets were not the only reference point for determining the variable compensation, due to the specific circumstances (see 3.2).
4) In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 3.2).

2 COMPENSATION OF THE BOARD OF DIRECTORS

The shareholders agreed on the maximum total compensation sum for members of the Board of Directors for the first time at the ordinary General Meeting in 2015. The amount approved by the General Meeting for the 2015/2016 year of office is CHF 1030000.

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

2.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. In the 2014/2015 year of office, the basic fee for the office of Chairman of the Board of Directors was CHF 300000. The current Chairman of the Board of Directors waived CHF 60000 of his fee upon assuming his office on 17 April 2015. This means that the fee for the office of Chairman of the Board of Directors, including the fee for his activity as a member of both committees, amounts to a total of CHF 240000 for the 2015/2016 year of office. The basic fees of the other members of the Board of Directors remain unchanged. The Vice-Chairman receives a fee of CHF 80000, with the other members of the Board of Directors receiving a fee of CHF 60000 each. In addition to this remuneration, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20000 for their activity on the respective committee. Every other committee member is entitled to CHF 10000 per year of office. The Chairman of the Board of Directors waives remuneration for his activity on both committees and considers it to be included in his aforementioned fee of CHF 240000.

The fees paid to members of the Board of Directors are reviewed periodically and were last adjusted in 2013 and 2015 (in relation to the Chairman of the Board of Directors).

The former Chairman of the Board of Directors, who left the Board of Directors on 12 March 2015, received his fee for the entire 2014/2015 year of office, which ended with the ordinary General Meeting on 17 April 2015. As he led all meetings of the Board of Directors that took place during the year of office concerned, was involved in preparations for the General Meeting on 17 April 2015 up to the point of his departure, and remained available up to this date to provide the company with information and perform handover tasks so that the transition to his successor could take place as smoothly as possible, he was entitled to full payment of his fee for the 2014/2015 year of office.

2.2 Variable compensation

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

2.3 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 of CHF 15 000 a year; the other members of the Board of Directors receive lump-sum allowances amounting to CHF 6 000 a year. These allowances cover minor expenses and travel costs within Switzerland. Costs of travels abroad 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.

2.4 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 AFG shares. The remaining 50 % can either be paid out in cash or up to another 30 % in restricted AFG shares. 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 on 1 April 2014, 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 AFG shares. When members of the Board of Directors are domiciled abroad, 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 vesting period. Shares allocated in this way are subject to a vesting period of four years, which can, however, be lifted for those leaving the Board of Directors.

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

2.5 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.

2.6 Loans and credit

During the year under review, no loans or credit were granted to members of the Board of Directors. In future, however, advances against social insurance and tax levies are to become available to members of the Board of Directors and Group Management who are subject to withholding tax. It will be proposed to the General Meeting on 22 April 2016 an amendment to the Articles of Association in this respect.

2.7 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.

2.8 Signing bonus and termination benefits

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

3 COMPENSATION OF GROUP MANAGEMENT

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:

3.1 Fixed compensation

The compensation of the members of Group Management depends on the individual function as well as the qualification and experience of the person that assumes the function. In the financial year 2014, the Group Management functions and about 350 other functions in the AFG Group were assessed with the help of the Hay Group Grading System.

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 year under review, the fixed compensation paid to the delegate of the Board of Directors and interim CEO for the time between his appointment on 1

July 2015 and 31 December 2015 was made up of a cash element amounting to CHF 60000 as well as 30000 in shares. This corresponds to half of his fixed annual salary as delegate of the Board of Directors and interim CEO. The shares are subject to the provisions of the share-based payment programme (see 3.4) and are restricted for four years.

When the former CEO departed on 30 June 2015, the fixed compensation due was paid as a one-off payment in accordance with the employment contract and taking into account the notice period of 12 months.

3.2 Variable compensation

In the year under review, the variable compensation accounted for up to 50 % of the fixed compensation for members of Group Management; it accounted for around 100 % in the case of the former CEO. 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.

The amount of the variable compensation depends on the achievement of targets. According to the bonus regulations applicable in the year under review, the targets to be determined by the Board of Directors include quantitative specifications. In the event of 100 % target achievement, a member of Group Management receives the variable compensation (nominal bonus) laid down in the individual agreement. Quantitative targets are assessed according to the level of target achievement, with the relevant bonus component rising to 150 % at most. Failure to meet at least 40 % of a quantitative target will mean that none of the respective bonus component is paid.

In the year under review, quantitative targets relating to growth, the EBIT margin, free cash flow and ROCE were determined for the members of Group Management. Based on extraordinary challenges in the 2015 financial year and the significant time that the members of Group Management were required to devote to the many ongoing projects concerning implementation of the corporate strategy, the Board of Directors decided, at the request of the Nomination and Compensation Committee, to partially waive the applicability of the bonus regulations for the year under review and consider not only quantitative targets, but also personal engagement and achievement of project targets when determining the variable compensation.

When the former CEO departed on 30 June 2015, his entitlement was paid as a one-off payment in relation to the variable compensation, taking into account the notice period of 12 months. This one-off payment therefore contained the bonus for 2015 and the bonus for 2016 pro rata temporis.

3.3 Allowances and in-kind benefits

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

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

3.4 Shares and options

During the year under review, two thirds of the variable component was paid out in cash and one third 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 vesting period. The restricted shares are subject to a four-year vesting period. The vesting 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.

In accordance with the bonus regulations, due to their departure during the year under review, the former CEO and another member of Group Management who departed from Group Management received the bonus in cash instead of in restricted shares.

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

3.5 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 AFG products.

3.6 Loans and credit

During the year under review, no loans or credit were granted to members of Group Management. Reference is made to 2.6.

3.7 Contract term

The contracts of the members of Group Management have been concluded for an unlimited term with a notice period of six months. The employment contract of the former CEO was concluded for an indefinite term with a notice period of twelve months. A member of Group Management who joined in 2016 has a contract that has been concluded for an unlimited term and also has a notice period of twelve months.

3.8 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.

3.9 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").

3.10 Pension benefits

Group Management members with Swiss employment contracts are insured under the AFG pension scheme and the AFG senior management pension scheme. The AFG senior management pension scheme covers the fixed salary not covered under the basic scheme and 80 % of the contractual nominal bonus against old age, death and incapacity risks. According to the Swiss Occupational Pensions Act (OPA), the maximum salary including bonus to be considered is limited to CHF 846 000 (as of 1 January 2015, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 648 600 (as of 1 January 2015). The employer contribution is the same for all three available plans and amounts to 27.3 % of the insured salary. The delegate of the Board of Directors and interim CEO is not insured under the AFG senior management pension scheme. Knut Bartsch, 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 2015

4 BOARD OF DIRECTORS

4.1 Changes in the Board of Directors

In the year under review, Rudolf Graf and Andreas Gühring left the Board of Directors, and Michael Pieper and Alexander von Witzleben joined the Board of Directors. Alexander von Witzleben was elected Chairman of the Board of Directors and, as delegate of the Board of Directors, assumed the function of CEO on an interim basis on 1 July 2015. Peter Barandun is now the Vice-Chairman of the Board of Directors.

4.2 Table

2015						2015
	Functions exercised in 2015	Fee Cash	Fee Shares	Pension expenses [1]	Other compensation [2]	Total
	in CHF 1 000					
Alexander von Witzleben[3]	Chairman from 17.04.2015 Interim CEO from 01.07.2015 Member of the AC from 17.04.2015 Member of the NCC from 17.04.2015	80	107	10	10	207
Peter Barandun	Vice-Chairman from 17.04.2015 Chairman of the NCC Member of the AC until 17.04.2015	24	94	6	6	130
Christian Stambach[4]	Vice-Chairman until 17.04.2015 Member	34	42	4	6	86
Peter E. Bodmer[5]	Member Member of the AC	35	56	0	6	98
Markus Oppliger	Member Chairman of the AC	41	51	5	6	103
Heinz Haller	Member Member of the NCC	14	72	5	6	96
Michael Pieper	Member from 17.04.2015	9	43	3	4	58
Rudolf Graf	Chairman until 13.03.2015	46	58	11	5	120
Andreas Gühring	Member until 17.04.2015 Member of the NCC until 17.04.2015	8	18	1	4	30
Total compensation to members of the Board of Directors		**290**	**540**	**45**	**53**	**929**

1 Employer contributions to social insurances and to occupational pension schemes in the case of Rudolf Graf
2 Lump-sum allowances
3 The compensation paid to Alexander von Witzleben in 2015 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his services as interim CEO totalling CHF 369 637 is included in the compensation paid to Group Management in chapter 5.2.
4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for AFG at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 169/170.
5 The compensation for Peter E. Bodmer for the period of office 2015/2016 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

2014						2014
	Functions exercised in 2014	Fee Cash	Fee Shares	Pension expenses [1]	Other compensation [2]	Total
	in CHF 1000					
Rudolf Graf[3]	Chairman until 13.03.2015 Interim CEO from 19.02.–31.10.2014 Member of the SC from 21.05.–31.12.2014	123	227	19	7	376
Christian Stambach[4]	Vice-Chairman	33	62	5	6	106
Edgar Oehler	Member until 25.04.2014 Member of the NGC until 25.04.2014	24		1	2	27
Andreas Gühring	Member Chairman of the RC until 25.04.2014 Member of the NCC from 25.04.2014	27	62	5	11	105
Peter E. Bodmer[5]	Member Member of the AC Chairman of the SC from 21.05.–31.12.2014	71	58	2	6	137
Markus Oppliger[6]	Member Chairman of the AC	40	50	5	22	117
Peter Barandun	Member from 25.04.2014 Chairman of the NCC from 25.04.2014 Member of the AC from 25.04.2014	22	51	3	4	80
Heinz Haller	Member from 25.04.2014 Member of the NCC from 25.04.2014	10	48	3	4	65
Total compensation to members of the Board of Directors		**350**	**558**	**43**	**62**	**1 013**

1 Employer contributions to social insurances
2 Lump-sum allowances and services
3 The compensation paid to Rudolf Graf in 2014 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his services as interim CEO totalling CHF 1 140 840 is included in the compensation paid to Group Management in chapter 5.2.
4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for AFG at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 169/170.
5 The compensation for Peter E. Bodmer for the period of office 2014/2015 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.
6 Includes CHF 16 000 under "Other compensation" for services performed by Oppliger Management Consulting by order of the Board of Directors in connection with the coordination, processing and creation of the additional notes to the annual report 2013.

The most significant change as compared with 2014 is based on the fact that the new Chairman of the Board of Directors has reduced the basic fee for his function from CHF 300 000 a year to CHF 240 000 a year. This amount also includes the fee for his activity as a member of the Nomination and Compensation Committee and the Audit Committee. During the year under review – as compared with 2014 – there was also no fee for the Chairman of the Strategy Committee or compensation for services relating to the additional notes to the annual report 2013.

5 GROUP MANAGEMENT

5.1 Changes in Group Management

William J. Christensen, the former CEO, departed from Group Management as of 30 June 2015. On 1 July 2015, Alexander von Witzleben assumed the function of interim CEO as delegate of the Board of Directors. Roman Hänggi, former Head of the Building Envelope Division, departed from Group Management on 30 September 2015. His employment contract ended on 31 January 2016.

5.2 **Table**

in CHF 1 000	Group Management[3] 2015	thereof to Alexander Witzleben, interim CEO[4] 2015	thereof to William J. Christensen, CEO 2015	Group Management 2014	thereof to Daniel Frutig, CEO 2014
Annual salary (cash)	2281	60	904	2987	650
Annual salary (shares)	283	283			
Variable compensation (bonus in cash)	779		540	851	400
Variable compensation (bonus in shares)	135			144	
Fees				45	
Pension expenses[1]	819	23	329	971	267
Other compensation[2]	180	3	77	279	119
Total	**4477**	**369**	**1850**	**5277**	**1436**
Number of members	6			8	

1 Employer contributions to social insurances, occupational pension schemes, accident and health insurance
2 Comprises lump-sum allowances, private use of the company car/car allowance and other services and in-kind benefits
3 The compensation of Knut Bartsch is paid in euros. The underlying translation rate is 1.07.
4 Alexander von Witzleben's compensation as interim CEO has been disclosed for reasons of transparency, even though he was not the highest-earning member of Group Management in 2015.

The most significant change in the year under review as compared with 2014 is based on the fact that Rudolf Graf departed from Group Management on 30 November 2014.

As Alexander von Witzleben is fulfilling a double role as Chairman of the Board of Directors and interim CEO, this has significantly reduced the compensation for these two roles as a result. Compared to the conditions which prevailed at the beginning of the year under review, where the posts of Chairman of the Board of Directors and CEO were held by two different people, compensation fell by around CHF 800000.

REPORT OF THE STATUTORY AUDITORS ON THE COMPENSATION REPORT

**TO THE GENERAL MEETING
AFG ARBONIA-FORSTER-HOLDING AG, ARBON**

St. Gallen, 17 February 2016

We have audited pages 77– 81 of the accompanying compensation report dated 17 February 2016 of AFG Arbonia-Forster-Holding AG for the year ended 31 December 2015.

Board of Directors' responsibility
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 compensation system and defining individual compensation 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 compensation, 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 of AFG Arbonia-Forster-Holding AG for the year ended 31 December 2015 complies with Swiss law and articles 14 – 16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen
Audit expert
Auditor in charge

Martin Knöpfel
Audit expert

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS AFG ARBONIA-FORSTER-GROUP

FINANCIAL STATEMENTS AFG ARBONIA-FORSTER-HOLDING AG

FINANCIAL COMMENTARY BY FELIX BODMER

Following the Group's reporting of a small profit amounting to CHF 15.1 million in the previous year, the 2015 financial year ended with a record loss of CHF 177.1 million. The main reason for this was the Swiss National Bank's decision to scrap the minimum euro exchange rate on 15 January 2015. Consequently, all business units had to undergo a review by the Board of Directors – partially made up of new members – which resulted in the decision to relocate the window production facilities from Altstätten (CH) and Villeneuve (CH) to Slovakia and eastern Germany, as well the special radiator production facilities from Arbon (CH) to Stříbro (CZ). On top of this, significant impairments became necessary, particularly for the window business. However, competitive pressure in the Swiss window market had already been so great before the SNB abolished the minimum euro exchange rate that the decision to relocate would have been made sooner or later.

Even if the one-off items such as impairments, restructuring and so on are ignored, the Group result for 2015 is negative at CHF – 14.5 million (previous year CHF 17.6 million). Through increasing the capital by CHF 198 million net, a process that was successfully finalised at the end of September, it was possible to secure financing for the Group and its reorganisation for the next few years.

ABOLITION OF THE MINIMUM EURO EXCHANGE RATE LEAVES ITS MARK IN THE INCOME STATEMENT

AFG recorded a revenue decrease of 7.5 % to CHF 941.4 million (previous year CHF 1017.4 million) in the 2015 financial year. The positive effects from the acquisition of Sabiana and Wertbau, amounting to 4.7 %, and the negative currency effect of – 7.9 % resulted in organic growth of – 4.4 %. The abolition of the minimum euro exchange rate led to noticeable declines in revenue relating to both price and volume, particularly in the Building Envelope Division and the Special Doors Business Unit.

In the 2015 financial year, material expenses, personnel expenses and other operating expenses developed negatively as a percentage of net revenue, just as in the previous year. This was primarily due to price-related declines in margins, for which it was not possible to compensate immediately by optimising procurement and reducing personnel costs. Pressure on margins was felt with particular force in the Building Envelope Division once again.

In the 2015 financial year, EBITDA only just amounted to 2.8 % of net revenue (previous year 7.7 %) or CHF 26.6 million (previous year CHF 78.3 million). Even discounting one-off items, and particularly restructuring provisions, the EBITDA value of 6.0 % of net revenue represented a noticeable decline compared to the previous year (7.8 %). As a result, EBIT without one-off items halved to an inadequate 1.8 % of net revenue (previous year 3.6 %). Due to impairments on goodwill, intangible assets and property, plant and equipment of CHF 144.8 million, EBIT in absolute terms and with one-off items factored in amounted to CHF – 158.4 million (previous year CHF 33.4 million).

Impairments for two loans are included in the net financial expense of CHF 23.2 million (previous year CHF 22.4 million). Without this currency and acquisition effect, the net financial expense for the 2015 financial year would have remained virtually as high as in the previous year, at CHF 18.7 million (previous year CHF 18.4 million without the currency and acquisition effect). Taking into account the currency losses of around CHF 6 million due to the abolition of the minimum euro exchange rate, the net financial expense would have ended up being considerably lower than in the previous year, which is mostly down to the repayment of the US private placement in November 2014 and the lower interest expenses associated with this. Based on IFRS, the tax income was CHF 4.5 million (previous year CHF 0.3 million), which is primarily attributed to the high losses of the Swiss group companies. For this same reason, the average tax rate of 15.1 % for the 2015 financial year (previous year 25.8 %) is not sustainable. The weighted average tax rate should continue to be around 25 % in the future.

BALANCE SHEET REMAINS SOUND THANKS TO CAPITAL INCREASE

Due to the impairments and the strong Swiss franc, AFG's total assets decreased to CHF 900.5 million (previous year CHF 969.5 million) as of 31 December 2015. If the cash and cash equivalents which arose as a result of the capital increase could have been used entirely to repay the 2010 – 2016 bond, the total assets would have been considerably lower. The successful capital increase was also mostly responsible for the improved equity ratio of 39.1 % (previous year 37.4 %) as of the balance sheet date. After the repayment of the bond in May 2016, the equity ratio should be able to exceed the minimum target figure of 40 %.

Despite the acquisition of Wertbau, the free cash flow (cash flow from operating activities and investing activities) amounted to CHF 16.0 million (previous year CHF – 51.9 million). Due to the abolition of the minimum euro exchange rate, only investments that were absolutely necessary were made in the 2015 financial year. The cash flow from operating activities was able to increase thanks to an improvement in the net current assets compared to the weak previous year.

Following the capital increase of around CHF 198 million net as well as the positive free cash flow, net indebtedness fell to CHF 21.7 million (previous year CHF 222.3 million). The debt ratio (net indebtedness / EBITDA) therefore amounted to – 0.77 (previous year – 2.66). This lays the foundation for returning to a point in the future at which all key financial indicators can be maintained.

CONSOLIDATED FINANCIAL STATEMENTS

AFG ARBONIA-FORSTER-GROUP

CONSOLIDATED INCOME STATEMENT

		2015		2014	
	Note	in 1000 CHF	in %	in 1000 CHF	in %
Continuing operations					
Net revenues	31	**941 424**	**100.0**	**1 017 399**	**100.0**
Other operating income		12 944	1.4	19 703	1.9
Capitalised own services		1 801	0.2	2 419	0.2
Changes in inventories of semi-finished and finished goods		11 316	1.2	−13 243	−1.3
Net operating performance		**967 485**	**102.8**	**1 026 278**	**100.9**
Cost of material and goods		−431 326	−45.8	−450 677	−44.3
Personnel expenses	46	−351 998	−37.4	−344 718	−33.9
Other operating expenses		−157 571	−16.7	−152 560	−15.0
EBITDA		**26 590**	**2.8**	**78 323**	**7.7**
Depreciation, amortisation and impairments	37–39	−185 009	−19.7	−44 918	−4.4
EBIT	31	**−158 419**	**−16.8**	**33 405**	**3.3**
Financial income	50	2 254	0.2	1 721	0.2
Financial expenses	50	−25 404	−2.7	−24 154	−2.4
Group result before income tax		**−181 569**	**−19.3**	**10 972**	**1.1**
Income tax expense	51	4 463	0.5	288	0.0
Group result from continuing operations		**−177 106**	**−18.8**	**11 260**	**1.1**
Group result from discontinued operations after taxes	36			**3 829**	**0.4**
Group result		**−177 106**	**−18.8**	**15 089**	**1.5**
Attributable to:					
Shareholders of AFG Arbonia-Forster-Holding AG		−177 106		15 065	
Non-controlling interests				24	
Earnings per share from continuing operations in CHF	47	−6.05		0.47[1]	
Earnings per share from discontinued operations in CHF	47			0.16[1]	
Earnings per share in CHF	47	−6.05		0.63[1]	

Basic and diluted earnings are identical

[1] Adjustments to earnings per share due to the capital increase 2015 (see note 47)
The notes on pages 96 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015	2014
	in 1 000 CHF	in 1 000 CHF
Group result	**−177 106**	**15 089**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	−12 598	−23 949
Deferred tax effect	2 180	5 120
Total items that will not be reclassified to income statement	**−10 419**	**−18 828**
Items that may be subsequently reclassified to income statement		
Fair value adjustments on cash flow hedges		2 578
Deferred tax effect on cash flow hedges		611
Currency translation differences	−28 302	−6 605
Cumulative currency translation differences transferred to the income statement		1908
Total items that may be subsequently reclassified to income statement	**−28 302**	**−1 508**
Other comprehensive income after taxes	**−38 721**	**−20 336**
Total comprehensive income	**−215 827**	**−5 247**
Attributable to:		
Shareholders of AFG Arbonia-Forster-Holding AG	−215 827	−5 271
Non-controlling interests		24
Total comprehensive income from continuing operations	−215 827	−4 155
Total comprehensive income from discontinued operations		−1 116

The notes on pages 96 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		31/12/2015		31/12/2014	
	Note	in 1000 CHF	in %	in 1000 CHF	in %
Assets					
Cash and cash equivalents	32	201 440		79 512	
Securities		2 240		1 989	
Accounts receivable	33	85 361		102 927	
Other current assets		17 484		18 513	
Inventories	34	151 431		139 998	
Deferred expenses		5 414		4 426	
Current income tax receivables		1 706		1 140	
Financial assets	35	1 200		778	
Assets held for sale	36			2 211	
Current assets		**466 276**	**51.8**	**351 494**	**36.3**
Property, plant and equipment	37	305 362		359 038	
Investment property	38	11 399		13 659	
Intangible assets	39	57 901		88 078	
Goodwill	39	41 085		125 570	
Deferred income tax assets	45	6 898		9 346	
Capitalised pension surplus	46	9 424		14 192	
Financial assets	35	2 180		8 075	
Non-current assets		**434 249**	**48.2**	**617 958**	**63.7**
Total assets		**900 525**	**100.0**	**969 452**	**100.0**

		31/12/2015		31/12/2014	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable		81 668		85 348	
Advance payments by customers		36 960		19 626	
Other liabilities		20 951		27 742	
Financial debts	41	207 095		87 896	
Finance lease liabilities	37	1 669		1 995	
Accruals and deferred income		38 112		36 052	
Current income tax liabilities		7 953		4 261	
Provisions	44	23 258		11 703	
Current liabilities		**417 666**	**46.4**	**274 623**	**28.3**
Financial debts	41	17 367		220 402	
Finance lease liabilities	37	2 621		2 328	
Other liabilities		8 487		8 006	
Provisions	44	21 508		6 379	
Deferred income tax liabilities	45	17 026		36 870	
Employee benefit obligations	46	64 033		57 891	
Non-current liabilities		**131 042**	**14.6**	**331 876**	**34.2**
Total liabilities		**548 708**	**60.9**	**606 499**	**62.6**
Share capital	47	187 140		76 547	
Share premium		262 022		166 037	
Treasury shares	48	−7 553		−8 261	
Other reserves	49	−84 288		−55 986	
Retained earnings		−5 504		184 616	
Shareholders' equity attributable to equity holders of AFG Arbonia-Forster-Holding AG		**351 817**	**39.1**	**362 953**	**37.4**
Shareholders' equity		**351 817**	**39.1**	**362 953**	**37.4**
Total liabilities and shareholders' equity		**900 525**	**100.0**	**969 452**	**100.0**

The notes on pages 96 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	31/12/2015 in 1000 CHF	31/12/2014 in 1000 CHF
Group result		**−177 106**	**15 089**
Depreciation, amortisation and impairments	37–39	185 009	44 918
Profit/loss on disposal of non-current assets and subsidiaries		−795	−3 068
Changes in non-cash transactions	54	14 944	−2 825
Changes in working capital (excluding cash and cash equivalents)	54	5 738	−2 826
Changes in current liabilities	54	26 671	−11 869
Cash flows from operating activities – net		**54 461**	**39 419**
To investment activities			
Purchases of property, plant and equipment	37	−18 981	−47 216
Purchases of investment properties	38	−60	−30
Purchases of intangible assets	39	−1 874	−1 344
Acquisition of subsidiaries/businesses (net of cash acquired)	40	−21 802	−110 182
Issuance of financial assets			−84
From divestment activities			
Proceeds from sale of property, plant and equipment		1 571	3 040
Proceeds from sale of investment properties	36/38	1 979	6 131
Proceeds from sale of intangible assets		371	28
Disposal of subsidiaries (net of cash disposed)	36/40		58 330
Repayment of financial assets		330	31
Cash flows from investing activities – net		**−38 466**	**−91 296**
From financing activities			
Proceeds from financial debts		60 046	80 000
Net proceeds from issuance of share capital	47	198 338	
Proceeds from sale of treasury shares	48	3 547	17 503
To financing activities			
Repayments of financial debts		−145 257	−136 613
Finance lease liability payments		−2 106	−2 174
Distribution from capital contribution reserves			−5 327
Dividends			−6
Purchase of treasury shares	48	−6 641	−3 218
Cash flows from financing activities – net		**107 927**	**−49 835**
Effects of translation differences on cash and cash equivalents		−1 994	−1 339
Change in cash and cash equivalents		**121 928**	**−103 051**
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	79 512	172 547
Cash and cash equivalents as of 01/01 discontinued operations			10 016
Cash and cash equivalents as of 31/12 continuing operations	32	201 440	79 512
Change in cash and cash equivalents		**121 928**	**−103 051**
Supplementary information for operating activities:			
Interest paid		9 124	13 047
Interest received		1 524	959
Income tax paid		7 399	11 406

The notes on pages 96 to 171 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Attributable to equity holders AFG	Non-controlling interests	Total shareholders' equity
Note	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Balance at 31/12/2013	**76 547**	**171 364**	**−20 148**	**−54 478**	**194 910**	**368 195**	**786**	**368 981**
Group result					15 065	15 065	24	15 089
Other comprehensive income after taxes 49				−1 508	−18 828	−20 336		−20 336
Total comprehensive income				**−1 508**	**−3 763**	**−5 271**	**24**	**−5 247**
Changes in scope of consolidation							−804	−804
Distribution from capital contribution reserves		−5 327				−5 327		−5 327
Dividends							−6	−6
Changes in treasury shares 48			11 203		−6 496	4 707		4 707
Share based payments 55			684		−35	649		649
Total transactions with owners		**−5 327**	**11 887**		**−6 531**	**29**	**−810**	**−781**
Balance at 31/12/2014	**76 547**	**166 037**	**−8 261**	**−55 986**	**184 616**	**362 953**		**362 953**
Group result					−177 106	−177 106		−177 106
Other comprehensive income after taxes 49				−28 302	−10 419	−38 721		−38 721
Total comprehensive income				**−28 302**	**−187 525**	**−215 827**		**−215 827**
Issuance of share capital (net) 47	110 593	95 985				206 578		206 578
Changes in treasury shares 48			−448		−2 645	−3 093		−3 093
Share based payments 55			1 156		50	1 206		1 206
Total transactions with owners	**110 593**	**95 985**	**708**		**−2 595**	**204 691**		**204 691**
Balance at 31/12/2015	**187 140**	**262 022**	**−7 553**	**−84 288**	**−5 504**	**351 817**		**351 817**

The notes on pages 96 to 171 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A ACCOUNTING PRINCIPLES

1 GENERAL INFORMATION

AFG Arbonia-Forster-Group (AFG) is an international leading construction technology company, whose innovative solutions and services provide for the efficient use of energy as well as for safety, security and well-being. AFG is divided into three main divisions, namely Building Technology, Building Envelope and Building Security. Manufacturing plants are located in Switzerland, Germany, Italy, the Czech Republic, Poland and Slovakia. AFG owns major brands such as Kermi, Arbonia, Prolux, Sabiana, EgoKiefer, Slovaktual, Dobroplast, Wertbau, Forster Profile Systems and RWD Schlatter 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. With around 30 production and distribution companies, agencies and partners of its own, AFG is represented in over 70 countries worldwide.

The ultimate parent company, AFG Arbonia-Forster-Holding AG is a corporation organised under Swiss law incorporated and domiciled at Amriswilerstrasse 50, CH-9320 Arbon (Canton Thurgau). AFG Arbonia-Forster-Holding 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 AFG Arbonia-Forster-Holding AG on 17 February 2016 and require approval from the Annual General Meeting on 22 April 2016. The publication of the consolidated financial statements occurred on 1 March 2016 at the media and analyst conference.

2 GENERAL PRINCIPLES AND BASIS OF PREPARATION

The consolidated financial statements of AFG 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 effective in 2015

AFG has adopted in 2015 the following annual specifications and smaller amendments on various standards and interpretations:

- Annual improvements to IFRS 2010 – 2012 cycle
- Annual improvements to IFRS 2011 – 2013 cycle

The adoption of these annual improvements did not significantly affect the Group's financial statements for 2015.

Published standards that are not yet effective nor adopted early
The following published but as of the balance sheet date not yet effective significant new or amended standards have not yet been adopted by AFG:

Standard	effective date
Amendments to IAS 1 "Presentation of financial statements" – disclosures	01 January 2016
IFRS 9 "Financial instruments: classification and measurement"	01 January 2018
Amendments to IFRS 9 "Financial instruments" – mandatory effective date of IFRS 9 and transition disclosures	01 January 2018
Amendments to IFRS 9 "Financial instruments" – hedge accounting	01 January 2018
IFRS 15 "Revenue from contracts with customers"	01 January 2018
IFRS 16 "Leases"	01 January 2019
Annual improvements to IFRS 2012–2014 cycle	01 January 2016

IFRS 9 introduces new principles for the classification and measurement of financial assets and liabilities.

IFRS 15 prescribes when and at what amount to recognise revenue from contracts with customers. This follows a five-step model, which is applied to all customer contracts: (1) identification of contracts with customers (2) identification of separate performance obligations in the contract (3) determination of the transaction price (4) allocation of the transaction price to the separate performance obligations (5) revenue recognition when a performance obligation is satisfied. The standard also requires extensive disclosures.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. An optional exemption for certain short-term leases and leases of low-value assets has been provided for. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

It is not expected that IFRS 9 will significantly affect the Group's financial statements. The application of IFRS 15 and IFRS 16 however will affect the Group's financial statements. AFG will soon systematically analyse and assess the impact of these standards on its financial statements. The adoption of the remaining amended standards will not significantly affect the Group's financial statements.

3 REPORTING ENTITY

The consolidated financial statements are based on the financial statements of the individual Group companies prepared as of 31 December. Subsidiaries are fully consolidated from the date on which control is transferred to AFG (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 AFG exercises significant influence but does not control, are initially recognised at cost. The cost comprises the share in net assets and a possible goodwill. After the date of acquisition, the investment is accounted for using the equity method. A significant influence is generally assumed by a shareholding of between 20 % to 50 % of the voting rights.

The following material changes occurred in the Group:

In the financial year 2015
- As of 1 July 2015, AFG acquired 100 % of the shares of Bloxer Ronchi S.r.l., IT-Villafranca Padovana (see note 40).
- As of 1 October 2015, AFG acquired 100 % of the shares of Wertbau GmbH & Co. KG, DE-Langenwetzendorf (see note 40).

In the financial year 2014
- As of 1 January 2014, 100 % of the shares of PZP Heating a.s., CZ-Dobre, were acquired (see note 40).
- As of 1 January 2014, 100 % of the shares of AFG Küchen AG, CH-Arbon, were sold (see note 36).
- As of 6 June 2014, 100 % of the shares of STI Precision Machining (Changshu) Co. Ltd, CN-Changshu, were sold (see note 36).
- As of 1 July 2014 and 15 October 2014 respectively, certain assets and liabilities (asset deal) were acquired from the businesses of German Bucher Systemtechnik GmbH, DE-Rottweil, and Wilhelm Marx GmbH & Co. KG, DE-Frankfurt am Main, respectively (see note 40).
- As of 4 July 2014, 90 % of the shares of Sabiana S.p.A., IT-Corbetta, were acquired (see note 40).
- As of 1 December 2014, 100 % of the shares of STI Surface Technologies International Holding AG, CH-Steinach, were sold (see note 36).

An overview of the material Group companies is included in note 59.

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

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

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

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

B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6 SIGNIFICANT ACCOUNTING POLICIES

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

These policies have been consistently applied to all the years presented, unless otherwise stated. Balance sheet items are generally stated at cost as modified by the revaluation of financial instruments at fair value through profit or loss. Assets held for sale and disposal groups are measured at the lower of its carrying amount and fair value less costs to sell.

7 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in comprehensive income as qualifying cash flow hedges and 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, exchange differences that were recorded in comprehensive income are recognised in the income statement.

The following foreign currency rates have been applied:

Currency	**Unit**	**Year-end rate 31/12/2015**	**2015 Average rate**	Year-end rate 31/12/2014	2014 Average rate
EUR	1	1.0808	1.0670	1.2027	1.2144
GBP	1	1.4705	1.4700	1.5443	1.5065
USD	1	0.9892	0.9622	0.9895	0.9151
CZK	100	3.9993	3.9121	4.3380	4.4125
PLN	100	25.3620	25.5192	28.2172	29.0292
CNY	100	15.2328	15.2742	16.1315	14.8558
RUB	100	1.3733	1.5849	1.7772	2.4160

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.

Financial assets are divided into the following four categories: (1) financial assets at fair value through profit or loss (FA FVTPL), with this being subdivided into financial assets classified from the beginning as held for trading purposes (trading) and financial assets classified from the beginning as at fair value through profit or loss (designated), (2) loans and receivables (L&AR), (3) financial assets held to maturity (HTM), and (4) financial assets available-for-sale (AFS). The classification in the balance sheet depends on the purpose for which the financial assets have been acquired. Management determines the classification on the occasion of the initial reporting and reviews the classification as of each balance sheet date. In concrete terms, the financial assets of AFG comprise cash and cash equivalents (category 2), securities (1), trade accounts receivable (2), other assets (2), loans (2) and originated and derivative financial assets held for trading purposes (1).

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

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 AFG has surrendered control of the same, i.e. when the related opportunities and risks have been transferred or expired.

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

Financial liabilities constitute a claim to redemption in the form of cash or cash equivalents or of another financial asset. Financial liabilities are divided into the following two categories: (1) financial liabilities at fair value through profit or loss (FL FVTPL), with this being subdivided into financial liabilities classified from the beginning as held for trading purposes (trading) and financial liabilities classified from the beginning as at fair value through profit or loss (designated), and (2) financial liabilities at amortised cost (FL AC). In concrete terms, the financial liabilities of AFG comprise trade accounts payable (category 2), other liabilities (2), finance lease liabilities (2), financial debts (2) and derivative financial liabilities (1).

With respect to financial liabilities, AFG has not exercised the option to designate these as financial liabilities at fair value through profit or loss on the occasion of their initial reporting in the balance sheet.

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 and foreign exchange 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.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges along with the related changes in deferred taxes are recognised in comprehensive income. The fair value of the hedging derivative is classified as financial asset or financial debt. The gain or loss relating to the ineffective portion is immediately recognised in the income statement.

Amounts accumulated in comprehensive income are recycled in the income statement in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in comprehensive income at that time remains in comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in comprehensive income is immediately transferred to the income statement.

Derivative financial instruments that do not meet the requirements of IAS 39, e.g. documentation, probability, effectiveness and reliability of measurement and therefore do not qualify for hedge accounting are held for trading financial instruments. They are classified as financial instruments 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.

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.

13 SECURITIES

Securities within current assets are marketable and easily disposable securities. Furthermore are time deposits with maturities of between 4 to 12 months classified therein. Marketable securities are carried at fair value through profit or loss, based on market prices obtained from the banks. Changes in fair value are recorded and disclosed in the income statement under financial results. Time deposits with maturities of between 4 to 12 months are carried at face value.

As of the balance sheet date, AFG did not hold any time deposits or securities, such as bonds or similar items, with the intention of holding to maturity.

14 RECEIVABLES

Accounts receivable and other current assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that AFG will not be able to collect all amounts due. The carrying amount of the asset is reduced through the use of an allowance account. When an account receivable is uncollectible, it is written off against the allowance account for accounts receivable. In connection with a factoring agreement certain accounts receivable are sold.

Since AFG 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 as stipulated under the provision of IAS 39. In particular the late payment risk is completely retained by AFG up until a certain point in time. Other current assets include WIR credits. They are carried at fair value, which approximates face value less an appropriate provision.

15 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.

16 ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES

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

16.1 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 predominantly rented to third parties. Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method.

The fair value of investment property, which is required for control 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 AFG grants a put option to the non-controlling interests and at the same time AFG receives a purchase option, this obligation is recognised at the present value of the exercise price. Goodwill is seen as an intangible asset with an indefinite useful life. Impairment on goodwill (see note 20) is separately disclosed under accumulated impairment losses.

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

Intangible assets acquired in a business combination (trademarks, 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, other non-current assets 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
Intangible assets from business acquisitions except goodwill	5 – 20
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

Land is not systematically depreciated.

22 PROVISIONS

Provisions are recognised only when AFG 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 AFG 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

AFG 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.

Prepaid contributions (e.g. employer contribution reserves) are disclosed as capitalised pension surplus.

24 FINANCIAL DEBTS

Current and non-current financial debts consist mainly of a bond, private placements (until November 2014), syndicated loans, bank loans and mortgages. Financial debts are initially recognised at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial debt, using the effective interest method.

25 LEASES

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

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

26 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by AFG 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 and 2015.

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

Net revenue comprises the fair value of the consideration received or receivable for the sale of goods and is recognised when risks and rewards of ownership have been transferred to the buyer, which in general is when delivery of the shipment has been accepted. In some business divisions, revenue is recognised only with the existence of a signed acceptance protocol. Revenue also comprises the fair value of the consideration received or receivable for the sale of services and is recognised in the period when the service has been rendered based on the services performed to date as a percentage of the total services to be performed. Revenue is shown net of value-added tax, returns, rebates, discounts and other deductions.

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.

Net operating performance
Net operating performance comprises net revenues, other operating income, capitalised own services and changes in inventories of semi-finished and finished goods.

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

EBIT
EBIT shows earnings before financial results and tax.

Financial income
Financial income comprises amongst others interest income, dividend and security income, income from securities designated at fair value through profit or loss, income of held for trading derivative financial instruments 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, expenses from securities designated at fair value through profit or loss, expenses of held for trading derivative financial instruments, 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. AFG 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.

Allowances for doubtful debts

Allowances for doubtful debts are recorded for specific known and expected losses as well as for potentially claimed cash discounts. In determining the amount of the allowances, several factors such as ageing of receivables, financial solvency of the customer, changes in payment history, historical experience with receivable losses and existence of credit insurance are considered. As of 31 December 2015, the carrying amount of accounts receivable totalled CHF 85.4 million. Therein an allowance for doubtful debts of CHF 9.1 million is included. A deterioration of the financial situation of the customers could lead to higher than originally expected receivable losses. For further information on allowances for doubtful debts, see note 33.

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 2015, the carrying amount of inventory was at CHF 151.4 million. Therein a provision for inventories of CHF 14.4 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

AFG has a significant amount of its assets invested in property, plant and equipment. As of 31 December 2015, the carrying amount of property, plant and equipment totalled CHF 305.4 million. At the time of the purchase useful lives for such assets are based on estimates, as technical obsolescence or competition could lead to shorter useful lives than initially anticipated. Therefore the determination of useful lives is based on stringent standards and thereafter continuously reviewed and if necessary adjusted. A change in estimate could impact the level of future depreciation charges. For further information on property, plant and equipment, see note 37.

Estimated impairment of goodwill

As of 31 December 2015, the carrying amount of goodwill was at CHF 41.1 million. AFG tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as expected future cash flows, margins, discount rates and growth rates. These estimates could change or differ from the actual outcome and therefore lead to additional impairments. For further information on goodwill, see note 39.

Intangible assets acquired in a business combination

Brands, technologies, client relationships and distribution channels are amortised over their estimated useful lives. This involves the use of estimates and assumptions on expected future cash flows such as sales prices, margins, discount rates, attrition rates of clients and technological development which of course are exposed to some uncertainties. As of 31 December 2015, the carrying amount of intangible assets acquired in a business combination amounted to CHF 54.9 million. For further information on such acquired intangible assets, see note 39.

Provisions

Provisions are recognised based on the criteria as set out under note 22. As of 31 December 2015, the carrying amount of the provisions totalled CHF 44.8 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 44.

Employee benefit obligations

Employee benefit obligations for defined benefit plans are based on actuarial valuations, which use statistical calculations and actuarial assumptions (see note 23). Such assumptions include amongst others discount rates, future salary and pension increases, probable turnover rates as well as life expectancy of plan participants. The assumptions underlying these calculations are dependent on a number of prospective factors, therefore actual results could significantly differ from the original valuations and as a consequence impact the carrying amount of capitalised pension surplus and employee benefit obligation. As of 31 December 2015, the underfunding amounted to CHF 54.6 million, thereof CHF 9.4 million recorded in the balance sheet as capitalised pension surplus and CHF 64.0 million as employee benefit obligation. For further information on employee benefit obligation, see note 46.

Income taxes

AFG 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. AFG 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 2015, the carrying amount of deferred tax assets before offsetting totalled CHF 19.9 million. For further information on income taxes, see notes 45 and 51.

C EXPLANATION TO CERTAIN POSITIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

31 SEGMENT INFORMATION

AFG is organised into three divisions and segments, respectively Building Technology, Building Envelope and Building Security. Corporate Services consist of service, finance, real estate and investment companies and provide their services almost entirely to Group companies. They have not been allocated to an operating segment and are therefore included in “Others and eliminations”.

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

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

Building Technology Division
The Building Technology Division is a leading and highly integrated European provider in the heating, climate and sanitary industry. The division offers a comprehensive product range under the brand names Kermi, Arbonia, Prolux, PZP and Sabiana. Plants for the production of radiators, surface heating systems, heat pumps, fan coils, air handling units and shower stalls are located in Germany, Switzerland, the Czech Republic and Italy. Outside its main markets of Germany, Switzerland and Italy it is represented by distribution companies in France, the UK, Russia, Poland and the Czech Republic.

Building Envelope Division
The Building Envelope Division with the brands EgoKiefer, Slovaktual, Dobroplast and Wertbau is one of the largest international European window and door manufacturer. 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 Switzerland, Slovakia, Poland and Germany.

Building Security Division
The Building Security Division consists of the business units Profile Systems and Doors. Profile Systems manufacture their systems in steel and stainless steel for glazed doors, windows and facades, used in fire/smoke protection and security applications in public, commercial and industrial buildings. The business unit Doors is specialized in the production of special wooden doors for interiors. Both units develop and produce their products mainly in Switzerland.

Corporate Services
Corporate Services consists of service, finance, real estate and investment companies and provide their services almost entirely to Group companies. The results and balances of Corporate Services are included in the column “Others and eliminations”.

2015	Building Technology	Building Envelope	Building Security	Others and eliminations	Total Group
in 1 000 CHF					
Sales with third parties	462 161	331 353	147 443	467	941 424
Sales with other segments	36		122	−158	
Net revenues	**462 197**	**331 353**	**147 565**	**309**	**941 424**
EBITDA before restructuring	**48 919**	**6 038**	**7 455**	**−18 209**	**44 203**
in % of net revenues	10.6	1.8	5.1		4.7
Restructuring costs	−3 335	−14 278			−17 613
EBITDA after restructuring	**45 584**	**−8 240**	**7 455**	**−18 209**	**26 590**
in % of net revenues	9.9	−2.5	5.1		2.8
Depreciation and amortisation	−17 160	−14 545	−3 911	−4 646	−40 262
Impairment property, plant and equipment/ investment properties/ intangible assets	−3 711	−50 265	−12 600	−352	−66 928
Impairment goodwill	−20 348	−50 215	−8 100		−78 663
Reversal of impairment on property, plant and equipment		844			844
Segment results (EBIT)	**4 365**	**−122 421**	**−17 156**	**−23 207**	**−158 419**
in % of net revenues	0.9	−36.9	−11.6		−16.8
Interest income	146	47	24	1 477	1 694
Interest expenses	−2 451	−3 704	−803	−4 557	−11 515
Other financial result	−4 110	−2 509	−1 967	−4 743	−13 329
Result before income tax	**−2 050**	**−128 587**	**−19 902**	**−31 030**	**−181 569**
Income tax expense	−5 210	12 772	1 948	−5 047	4 463
Result after income tax	**−7 260**	**−115 815**	**−17 954**	**−36 077**	**−177 106**
Average number of employees	**2 711**	**2 972**	**425**	**77**	**6 186**
Total assets	**378 003**	**248 280**	**103 716**	**170 526**	**900 525**
Total liabilities	**194 904**	**241 663**	**80 403**	**31 738**	**548 708**
Purchases of property, plant and equipment, investment properties and intangible assets[1]	**11 759**	**7 211**	**1 400**	**1 553**	**21 923**

[1] without acquisition of subsidiaries

The restructuring costs in the divisions Building Technology and Building Envelope comprise mainly costs for the employee redundancy programme established in connection with the reorganisations announced on 3 March 2015 and 13 August 2015 for the heating and window business in Switzerland. The Building Technology Division includes in the position impairment property, plant and equipment/investment properties/intangible assets an impairment of CHF 2.8 million on plant and equipment resulting from the relocation of the production site in CH-Arbon. Furthermore this position includes an impairment of CHF 0.9 million for the write-down of an investment property to the expected net realisable value. All other impairments on property, plant and equipment, intangible assets and goodwill disclosed in the Building Technology, Building Envelope and Building Security Divisions in the amount of CHF 141.5 million are explained in more detail in notes 37 and 39.

2014	Building Technology	Building Envelope	Building Security	Others and eliminations	Total Group
in 1 000 CHF					
Sales with third parties	490 140	375 865	149 762	1 632	1 017 399
Sales with other segments	37	108	172	−317	
Net revenues	**490 177**	**375 973**	**149 934**	**1 315**	**1 017 399**
EBITDA	**55 838**	**23 901**	**12 328**	**−13 744**	**78 323**
in % of net revenues	11.4	6.4	8.2		7.7
Depreciation and amortisation	−16 299	−17 830	−3 160	−5 333	−42 622
Impairment property, plant and equipment/investment properties	−1 214	−1 083			−2 297
Segment results (EBIT)	**38 325**	**4 988**	**9 168**	**−19 076**	**33 405**
in % of net revenues	7.8	1.3	6.1		3.3
Interest income	146	309	79	723	1 257
Interest expenses	−3 091	−4 181	−867	−7 646	−15 785
Other financial result	−6 035	−2 798	−3 247	4 175	−7 905
Result before income tax	**29 345**	**−1 682**	**5 133**	**−21 824**	**10 972**
Income tax expense	−7 889	208	−791	8 760	288
Result after income tax	**21 456**	**−1 474**	**4 342**	**−13 064**	**11 260**
Average number of employees	**2 618**	**2 940**	**393**	**106**	**6 057**
Total assets	**446 771**	**329 976**	**133 280**	**59 425**	**969 452**
Total liabilities	**213 986**	**192 635**	**82 167**	**117 711**	**606 499**
Purchases of property, plant and equipment, investment properties and intangible assets [1]	**17 514**	**20 186**	**7 414**	**2 632**	**47 746**

[1] without acquisition of subsidiaries

The Building Technology Division includes an impairment of CHF 1.2 million for the write-down of an investment property to the expected net realisable value. The impairment in the Building Envelope Division of CHF 1.1 million relates to equipment and vehicles which are no longer utilisable.

Information about geographical areas

2015	Switzerland	Germany	Other Countries	Total Group
in 1 000 CHF				
Net revenues	346 881	282 440	312 103	941 424
Property, plant and equipment, investment properties, intangible assets and goodwill	105 500	94 805	215 443	415 748

2014	Switzerland	Germany	Other Countries	Total Group
in 1 000 CHF				
Net revenues	403 153	297 062	317 185	1 017 399
Property, plant and equipment, investment properties, intangible assets and goodwill	230 037	77 108	279 199	586 344

Major customers
AFG has no customer who generates more than 10 % of the Group’s net revenues (see also paragraph credit default risk in note 52).

32 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are denominated in the following currencies:

in 1000 CHF	**31/12/2015**	31/12/2014
CHF	146 513	34 656
EUR	33 564	30 069
PLN	13 700	5 948
USD	1 290	565
GBP	1 630	433
CZK	1 422	1 468
Other currencies	3 321	6 373
Total	**201 440**	**79 512**

The effective interest on bank deposits is between 0.0% and 0.2% (2014: between 0.0% and 0.03%).

33 ACCOUNTS RECEIVABLES

in 1000 CHF	**31/12/2015**	31/12/2014
Accounts receivable	94 411	114 633
Allowance for accounts receivable	−9 050	−11 706
Total	**85 361**	**102 927**

The ageing analysis is as follows:

	31/12/2015		31/12/2014	
in 1000 CHF	Gross amount of accounts receivable	thereof not impaired	Gross amount of accounts receivable	thereof not impaired
Not yet due	70 639	66 635	87 894	83 569
Overdue up to 30 days	11 493	11 444	9 691	9 562
Overdue more than 30, less than 60 days	2 990	2 934	4 487	4 424
Overdue more than 60, less than 90 days	1 326	1 242	1 815	1 708
Overdue more than 90, less than 180 days	1 582	1 384	2 197	1 892
Overdue more than 180, less than 360 days	1 824	1 154	2 140	1 445
Overdue more than 360 days	4 557	568	6 409	327
Total	**94 411**	**85 361**	**114 633**	**102 927**

With respect to accounts receivable that are not impaired, there are no indications as of the balance sheet date that the respective debtors will not meet their payment obligations. Outstanding accounts receivable amounting to CHF 9.2 million (2014: CHF 8.2 million) were secured and mainly consist of credit insurances.

Activity in the allowance for doubtful debts account, which is disclosed in the income statement under sales deductions before net revenues, is as follows:

	2015	2014
in 1 000 CHF		
Balance at 01/01	**−11 706**	**−10 250**
Foreign exchange differences	748	161
Changes in scope of consolidation	−543	−1 146
Additional allowances	−4 863	−5 657
Used during year	7 236	5 095
Unused amounts reversed	78	91
Balance at 31/12	**−9 050**	**−11 706**

In the allowance for doubtful debts, specific allowances in the amount of CHF 4.1 million (2014: CHF 4.2 million) are included.

Since February 2010 AFG sells receivables under a factoring agreement. Because AFG 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 as stipulated under the provision of IAS 39. In particular the late payment risk is completely retained by AFG up until a certain point in time. As of 31 December 2015 the book value of the transferred receivables amounted to CHF 7.3 million (2014: CHF 8.9 million). Thereof AFG already received from the factor CHF 7.1 million (2014: CHF 11.2 million) of cash and the difference of CHF 0.2 million (2014: CHF 2.3 million other liabilities) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2014: CHF 0.3 million) and in other liabilities an amount of CHF 0.2 million (2014: CHF 0.3 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2015 to CHF 0.008 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.01 million.

34 INVENTORIES

in 1 000 CHF	31/12/2015	31/12/2014
Raw material and supplies	54 933	56 101
Semi-finished and finished goods	88 026	73 532
Goods purchased for resale	8 388	10 176
Prepayments	84	189
Total	**151 431**	**139 998**

A provision of CHF 14.4 million (2014: CHF 13.9 million) has been provided for obsolete and slow-moving items and is deducted from inventories. Inventories written down to net realisable value were CHF 0.3 million (2014: CHF 0.6 million). In 2015 the write-down to net realisable value amounted to CHF 0.04 million (2014: CHF 0.1 million).

35 FINANCIAL ASSETS

in 1 000 CHF	31/12/2015	31/12/2014
Other financial assets	18	24
Loans	3 362	8 829
Total	**3 380**	**8 853**
thereof disclosed as current assets	1 200	778

The loans originate from the sale of the property of AFG Warendorfer Immobilien GmbH in 2013, as well as from the sale of the kitchen business in 2014 (see note 36). Due to the non-compliance of agreed repayment terms and a general credit rating respectively, these loans were partially impaired during the reporting year.

The ageing analysis for loans is as follows:

	31/12/2015		31/12/2014	
in 1 000 CHF	Gross amount loans	thereof not impaired	Gross amount loans	thereof not impaired
Not yet due	7 539	3 362	8 469	8 469
Overdue up to 30 days	324		360	360
Overdue more than 360 days	51			
Total	**7 914**	**3 362**	**8 829**	**8 829**

As of the balance sheet date, AFG has secured loans in the amount of CHF 4.9 million (2014: CHF 5.8 million).

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

	2015	2014
in 1 000 CHF		
Balance at 01/01		**−900**
Foreign exchange differences	−34	
Additional allowances	−4 518	
Used during year		810
Unused amounts reversed		90
Balance at 31/12	**−4 552**	

In the impairment of loans, specific impairments of CHF 4.5 million (2014: CHF 0 million) are included.

36 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets held for sale

	2015	2014
in 1 000 CHF		
Property, plant and equipment		60
Investment property		2 151
Total		**2 211**

The position included as of 31 December 2014 a plant in CH-Romanshorn and an investment property in CH-Arbon. Both items were sold in early 2015.

Discontinued and disposed operations

In 2014 AFG sold the Surface Technology Division and AFG Küchen AG.

Disposal of Surface Technology Division	2014
in 1 000 CHF	
Assets	
Cash and cash equivalents	7 530
Accounts receivable	10 713
Other current assets	5 214
Inventories	4 238
Deferred expenses	308
Property, plant and equipment	20 242
Intangible assets	174
Financial assets	60
Current income tax receivables	797
Total assets	**49 276**
Liabilities	
Accounts payable	2 228
Other liabilties	3 702
Accruals and deferred income	3 419
Provisions	1 557
Deferred income tax liabilities	727
Employee benefit obligations	4 782
Total liabilities	**16 415**
Net assets	**32 861**
Cash and cash equivalents	−7 530
Net assets excluding cash and cash equivalents	**25 331**
Purchase price payment in equity instruments	−9 578
Gain on disposal	6 117
Net cash inflow from disposal	**21 870**

As of 6 June 2014, AFG sold the Chinese subsidiary, STI Precision Machining (Changshu) Co. Ltd, to FFG Finanzierungs- und Factorings AG, a company owned by Dr Edgar Oehler. The purchase price was fully settled by the buyer with registered shares of AFG Arbonia-Forster-Holding AG (see note 48). As of 1 December 2014, the remaining part of the Surface Technology Division was sold to the same company. From the sale of the Surface Technology Division accumulated currency translation differences in the amount of CHF 2.3 million resulted, which have been transferred from equity to the income statement and debited to the financial result of the discontinued operations.

Disposal of AFG Küchen AG	2014
in 1 000 CHF	
Assets	
Cash and cash equivalents	1 071
Accounts receivable	25 056
Other current assets	462
Inventories	14 505
Deferred expenses	825
Property, plant and equipment	22 583
Financial assets	206
Current income tax receivables	820
Total assets	**65 528**
Liabilities	
Accounts payable	14 385
Other liabilties	5 509
Accruals and deferred income	3 368
Provisions	595
Deferred income tax liabilities	452
Employee benefit obligations	2 783
Total liabilities	**27 092**
Net assets	**38 436**
Cash and cash equivalents	−1 071
Net assets excluding cash and cash equivalents	**37 365**
Granting of a loan	−3 000
Gain on disposal	111
Net cash inflow from disposal	**34 476**

As of 1 January 2014, AFG Küchen AG, which encompassed all kitchen activities of Forster Steel Kitchens and Piatti Kitchens, was sold to German kitchen manufacturer Alno. CHF 3.0 million of the purchase price was granted as an interest-bearing and repayable loan.

Result from discontinued operations	2014
in 1 000 CHF	
Net revenues	**53 296**
Other operating income	775
Capitalised own services	184
Changes in inventories of semi-finished and finished goods	−261
Net operating performance	**53 994**
Cost of material and goods	−5 109
Personnel expenses	−31 773
Other operating expenses	−15 843
EBITDA	**1 269**
Depreciation, amortisation and impairments	
EBIT	**1 269**
Financial result	−2 470
Result from discontinued operations before income tax	**−1 201**
Income tax expense	−1 198
Result from discontinued operations	**−2 399**
Gain on disposal of discontinued operations	6 228
Net result from discontinued operations	**3 829**

Discontinued operations in 2014 included the results of the Surface Technology Division as well as the former Kitchens and Refrigeration Division.

The 2014 results comprised CHF 2.8 million of sales costs for the disposal of the Surface Technology Division and AFG Küchen AG. Thereof CHF 0.4 million were included in personnel expenses and CHF 2.4 million in other operating expenses. From the sale of the Surface Technology Division and the liquidation of a foreign distribution company of the former Kitchens and Refrigeration Division, accumulated currency translation differences in the amount of CHF 2.0 million resulted, which have been transferred from equity to the income statement and debited to the financial result.

In the 2014 consolidated cash flow statement, the cash flows from the discontinued operations were included, however, they are subsequently condensed and shown separately below.

Cash flow from discontinued operations	2014
in 1 000 CHF	
Cash flows from operating activities	**−3 905**
Cash flows from investing activities	**−2 031**
Cash flows from financing activities	**49**

The cash inflows of the two disposed operations in 2014 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					
Net book value at 01/01/2014	**191 754**	**98 141**	**13 802**	**26 441**	**330138**
Cost					
Balance at 01/01/2014	**396 025**	**361 692**	**55 722**	**31 774**	**845 213**
Foreign exchange differences	−4 646	−5 060	−787	−308	−10 801
Change in scope of consolidation	29 238	9 322	185	42	38 787
Additions	3 643	9 469	3 552	29 729	46 393
Disposals	−6 186	−11 518	−4 503	−740	−22 947
Reclassifications	−39 974	22 716	−747	−43 004	−61 009
Balance at 31/12/2014	**378 100**	**386 621**	**53 422**	**17 493**	**835 636**
Foreign exchange differences	−19 920	−20 775	−3 723	−1 451	−45 869
Change in scope of consolidation	9 234	8 535	3 733	8	21 510
Additions	1 009	3 620	2 273	13 087	19 989
Disposals	−204	−21 348	−3 356	−253	−25 161
Reclassifications	372	10 084	573	−11 799	−770
Balance at 31/12/2015	**368 591**	**366 737**	**52 922**	**17 085**	**805 335**

in 1 000 CHF	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
Accumulated depreciation					
Balance at 01/01/2014	**204 271**	**263 551**	**41 920**	**5 333**	**515 075**
Foreign exchange differences	−1 502	−3 705	−503	−136	−5 846
Change in scope of consolidation	−3 291	−377	−59		−3 727
Depreciation	9 037	19 007	3 934	43	32 021
Impairment		905	178		1 083
Disposals	−5 602	−10 739	−4 397	−43	−20 781
Reclassifications	−39 475	370	−1 462	−660	−41 227
Balance at 31/12/2014	**163 438**	**269 012**	**39 611**	**4 537**	**476 598**
Foreign exchange differences	−7 026	−15 627	−2 666	−389	−25 708
Depreciation	8 184	18 108	3 932		30 224
Impairment	25 119	18 060	1 177	25	44 381
Reversal of impairment		−844			−844
Disposals	−73	−20 888	−3 256	−10	−24 227
Reclassifications		−345	−311	205	−451
Balance at 31/12/2015	**189 642**	**267 476**	**38 487**	**4 368**	**499 973**
Net book value at 31/12/2014	**214 662**	**117 609**	**13 811**	**12 956**	**359 038**
Net book value at 31/12/2015	**178 949**	**99 261**	**14 435**	**12 717**	**305 362**
Value of contained leased assets		3 676	3 012		6 688
				Previous year	5 567

In 2015, plant and machinery as well as other equipment in the amount of CHF 0.9 million (2014: CHF 1.6 million) was acquired via finance lease. Plants and machinery in 2014 included CHF 0.1 million of capitalised borrowing costs.

Impairments 2015
Based on the results from goodwill impairment tests carried out at half-year and towards year-end, impairments of CHF 41.3 million had to be recorded on property, plant and equipment in the Building Envelope and Building Security Divisions (see note 39). Furthermore an impairment to the net realisable value of CHF 2.8 million had to be booked in property, plant and equipment of the Building Technology Division in connection with the relocation of the production site in CH-Arbon.

Future aggregate minimum lease payments
AFG has the following future minimum lease payments under non-cancellable leases:

31/12/2015	Operating Leasing	Financial Leasing	Total
in 1 000 CHF			
within 1 year	12 898	1 773	14 671
between 1 and 5 years	21 431	2 778	24 209
after 5 years	13 834		13 834
Total	**48 163**	**4 551**	**52 714**
Interest charge		−261	
Present value of finance leases		**4 290**	

31/12/2014	Operating Leasing	Financial Leasing	Total
in 1 000 CHF			
within 1 year	13 879	2 158	16 037
between 1 and 5 years	24 191	2 422	26 613
after 5 years	15 713		15 713
Total	**53 783**	**4 580**	**58 363**
Interest charge		−258	
Present value of finance leases		**4 322**	

The income statement contains expenses for operating leases of CHF 15.7 million (2014: CHF 16.2 million).

Operating lease includes the obligation of the rental agreement concluded in August 2012 by AFG for the Corporate Center in CH-Arbon for a fixed but indexed rent for a time period of 15 years (see note 44).

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

	31/12/2015	31/12/2014
in 1 000 CHF		
Property, plant and equipment	6 038	4 266
Intangible assets	80	589
Total	**6 118**	**4 855**

The fire insurance value of property, plant and equipment and investment property is as follows:

in 1 000 CHF	**31/12/2015**	31/12/2014
Buildings	488 849	496 585
Plant and machinery	515 031	593 516
Total	**1 003 880**	**1 090 101**

Land and buildings amounting to CHF 50.8 million (2014: CHF 56.5 million) are pledged to secure mortgages.

38 INVESTMENT PROPERTY

in 1 000 CHF	Investment property – land	Investment property – buildings	Total
Net book value at 01/01/2014	**2 129**	**3 838**	**5 967**
Cost			
Balance at 01/01/2014	**2 969**	**11 239**	**14 208**
Foreign exchange differences	−4	−98	−102
Additions		30	30
Disposals	−1 767	−1 884	−3 651
Reclassification to assets held for sale	−995	−4 107	−5 102
Reclassifications	5 701	47 773	53 474
Balance at 31/12/2014	**5 904**	**52 953**	**58 857**
Foreign exchange differences	−20	−533	−553
Additions		60	60
Balance at 31/12/2015	**5 884**	**52 480**	**58 364**

in 1 000 CHF	Investment property – land	Investment property – buildings	Total
Accumulated depreciation			
Balance at 01/01/2014	**840**	**7 401**	**8 241**
Foreign exchange differences		−70	−70
Depreciation		519	519
Impairment		1 214	1 214
Disposals	−837	−1 485	−2 322
Reclassification to assets held for sale		−2 950	−2 950
Reclassifications	497	40 069	40 566
Balance at 31/12/2014	**500**	**44 698**	**45 198**
Foreign exchange differences	2	−428	−426
Depreciation		1 306	1 306
Impairment	179	708	887
Balance at 31/12/2015	**681**	**46 284**	**46 965**
Net book value at 31/12/2014	**5 404**	**8 255**	**13 659**
Net book value at 31/12/2015	**5 203**	**6 196**	**11 399**
Fair values of investment properties at 31/12/2014			**32 488**
Fair values of investment properties at 31/12/2015			**30 666**

Rental income from investment properties amounted to CHF 2.4 million (2014: CHF 3.1 million) and is included in other operating income. Related direct operating expenses were CHF 0.1 million (2014: CHF 0.1 million) and are included in other operating expenses.

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

39 INTANGIBLE ASSETS

in 1 000 CHF	Other intangible assets	Goodwill	Total
Net book value at 01/01/2014	**52 406**	**77 316**	**129 722**
Cost			
Balance at 01/01/2014	**104 973**	**79 369**	**184 342**
Foreign exchange differences	−2 071	−2 331	−4 402
Change in scope of consolidation	39 189	50 585	89 774
Additions	1 322		1 322
Disposals	−3 509		−3 509
Reclassifications	7 548		7 548
Balance at 31/12/2014	**147 452**	**127 623**	**275 075**
Foreign exchange differences	−8 231	−8 959	−17 190
Change in scope of consolidation	4 903	3 137	8 040
Additions	1 874		1 874
Disposals	−4 697		−4 697
Reclassifications	218		218
Balance at 31/12/2015	**141 519**	**121 801**	**263 320**
Accumulated amortisation			
Balance at 01/01/2014	**52 567**	**2 053**	**54 620**
Foreign exchange differences	−453		−453
Change in scope of consolidation	−12		−12
Amortisation	10 080		10 080
Disposals	−3 481		−3 481
Reclassifications	673		673
Balance at 31/12/2014	**59 374**	**2 053**	**61 427**
Foreign exchange differences	−1 808		−1 808
Amortisation	8 730		8 730
Impairment	21 660	78 663	100 323
Disposals	−4 340		−4 340
Reclassifications	2		2
Balance at 31/12/2015	**83 618**	**80 716**	**164 334**
Net book value at 31/12/2014	**88 078**	**125 570**	**213 648**
Net book value at 31/12/2015	**57 901**	**41 085**	**98 986**

Expenses for research and development in the amount of CHF 16.0 million (2014: CHF 15.6 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. In 2015, no additions of capitalised development costs (2014: CHF 0.2 million) are included in other intangible assets. All other additions under other intangible assets have been purchased or acquired.

Goodwill
As of 31 December 2015 goodwill from business combinations is allocated to the Group's three cash-generating units (CGUs) Wertbau, Sabiana and Slovaktual.

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

in 1 000 CHF	Wertbau	Sabiana	Dobroplast	Slovaktual	RWD Schlatter	EgoKiefer	Total
Balance at 31/12/2014		**49 443**	**18 871**	**15 998**	**8 100**	**33 158**	**125 570**
Acquisition	3 137						3 137
Foreign exchange differences		−5 504	−1 814	−1 621			−8 939
Impairment	−21	−20 347	−17 057		−8 100	−33 158	−78 683
Balance at 31/12/2015	**3 116**	**23 592**		**14 377**			**41 085**

Goodwill impairment tests 2015
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.

Due to the decision of the Swiss National Bank on 15 January 2015 to discontinue the Euro minimum exchange rate of 1.20, significant changes with an adverse economic impact have arisen during the reporting period for AFG. Those implications could only be further analysed in the course of spring and already became partially apparent in the half-year earnings. According to IAS 36 "Impairment of assets" this was an indication that goodwill may be impaired. As a consequence impairment tests were carried out on all CGUs at half-year.

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 formed part of the Group's medium term plan approved by the Board of Directors in early summer 2015.

The value in use calculation for the 2015 impairment tests (CGUs Sabiana, Dobroplast, Slovaktual and EgoKiefer at half-year; CGUs Wertbau and RWD Schlatter at year-end) assumed the following key assumptions:

2015 in %	Wertbau	Sabiana	Dobroplast	Slovaktual	RWD Schlatter	EgoKiefer
Budgeted gross margin	40.4	44.2	44.7	31.8	56.5	58.7
Growth rate	1.5	1.5	1.0	1.0	1.0	1.0
Discount rate	9.5	10.9	10.1	9.6	8.4	8.3

Budgeted gross margins were determined 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.

With the exception of the two CGUs Slovaktual and RWD Schlatter, impairments for all other CGUs were identified at half-year.

With the decision of the SNB from mid January 2015 to discontinue the Euro minimum exchange rate of 1.20, the competitiveness in particular of the CGU EgoKiefer compared to foreign window producers has further significantly deteriorated. The domestic Swiss market is characterised as highly competitive and possessing excessive capacities. This has led to a further substantial price and volume pressure. Taking already initiated reorganisation measures also into consideration, this pressure will lead in the future to significantly lower profit contributions by the CGU EgoKiefer. This new currency reality was included in the medium term plan of the CGU EgoKiefer. The underlying value in use calculation showed for the CGU an impairment of CHF 82.6 million at half-year, which as a first step has been allocated to goodwill. The remaining amount of CHF 49.5 million was assigned to property, plant and equipment and intangible assets.

The below-expectation growth and earnings as well as a reassessment of the main markets of the CGU Dobroplast led to lower future earnings potential. Due to the numerous changes in personnel since the acquisition of Dobroplast, an in-depth analysis of required capital expenditures could only be carried out time-delayed, with the result that sustainably higher capital expenditures will be required. These new findings have been taken into account in the medium term plan. The underlying value in use calculation resulted for the CGU Dobroplast in an impairment of CHF 18.2 million, which as a first step was allocated to goodwill. The remaining amount of CHF 1.1 million was assigned to intangible assets.

A reassessment based on knowledge gained since the acquisition and ongoing integration process of Sabiana has led to the awareness that the originally calculated synergies within the Division Building Technology will only eventuate with a certain delay and only be achievable with additional personnel expenses. These amended assumptions were incorporated in the medium term plan of the CGU Sabiana. The underlying value in use calculation resulted in an impairment of CHF 20.3 million, which has been fully allocated to goodwill of the CGU Sabiana.

In the course of the summer, the CGU RWD Schlatter also increasingly felt the price pressure in the market. In addition it suffered from the missing demand for construction of office and commercial buildings. The underlying assumptions in the initial planning appeared all of a sudden unachievable due to the weak prospects. As a result, a revision of the medium term plan prepared in early summer became necessary. The revised medium term plan, which reflected these new insights, and the resulting value in use calculation showed an impairment of CHF 20.7 million. As a first step the impairment was allocated to goodwill. The remaining amount of CHF 12.6 million was assigned to property, plant and equipment and intangible assets.

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2015 for the two CGUs Wertbau and Slovaktual 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 Slovaktual.

A reduction in the budgeted gross margin from 31.8% to 30.8% would result in an impairment of the CGU Slovaktual amounting to CHF 3.2 million. At a budgeted gross margin of 31.2%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of perpetual growth from 1.0% to 0.5% would lead to an impairment of CHF 6.5 million. At a reduction of 3% in EBITDA and a simultaneous reduction of perpetual growth to 0.5%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2014

The value in use calculation for the annual 2014 impairment tests assumed the following key assumptions:

2014	Sabiana	Dobroplast	Slovaktual	RWD Schlatter	EgoKiefer
in %					
Budgeted gross margin	44.0	44.2	30.3	57.4	63.1
Growth rate	1.5	1.5	2.0	1.0	1.0
Discount rate	10.9	10.2	9.6	8.4	8.5

Budgeted gross margins were determined based on past performance and expectations for the market development. 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 2014 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 Slovaktual.

A reduction in the budgeted gross margin from 30.3 % to 28.5 % would result in an impairment of the CGU Slovaktual amounting to CHF 2.1 million. At a budgeted gross margin of 28.9 %, the recoverable amount was equal to their carrying amount. A 10 % reduction in EBITDA and a simultaneous reduction of eternal growth from 2.0 % to 1.0 % would lead to an impairment of CHF 2.7 million. At a reduction of 9 % in EBITDA and a simultaneous reduction of eternal growth to 1.5 %, the recoverable amount was equal to their carrying amount.

40 ACQUISITIONS AND DIVESTMENTS

Acquisitions 2015

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

Acquisition Wertbau Group	Fair value
in 1000 CHF	
Assets	
Cash and cash equivalents	52
Accounts receivables	3 590
Other current assets	173
Inventories	8 799
Deferred expenses	109
Current income tax receivables	296
Property, plant and equipment	21 312
Intangible assets	2 525
Deferred income tax assets	108
Total assets	**36 966**
Liabilities	
Accounts payables	1 918
Other liabilities	4 713
Financial debts	3 318
Finance lease liabilities	1 593
Accruals and deferred income	606
Current income tax liabilities	117
Provisions	467
Deferred income tax liabilities	209
Total liabilities	**12 941**
Net assets acquired	**24 025**
Goodwill	3 137
Purchase consideration	**27 162**
Cost of acquisition	
Purchase price in cash	18 923
Purchase price in own equity instruments	8 239
Total cost of acquisition	**27 162**
Net cash outflow was as follows:	
Purchase price	18 923
Cash and cash equivalents acquired	−52
Net cash outflow on acquisition	**18 871**

As of 1 October 2015, AFG acquired 100 % of the shares in German Wertbau GmbH & Co. KG, with its registered seat in DE-Langenwetzendorf. The company employs modern and cost-efficient production processes, strengthening the Building Envelope Division's market access to the biggest European window market in Germany. The purchase price amounted to CHF 27.2 million and was settled in cash and with shares of AFG Arbonia-Forster-Holding AG (see note 47). From the date of acquisition, Wertbau contributed CHF 11.0 million in net revenues and CHF 0.1 million in loss to the Group. Had the acquisition taken place on 1 January 2015, net revenues for 2015 would have been CHF 34.8 million and a loss, including amortisation charges on intangible assets from acquisitions, would have been CHF 0.4 million. The gross carrying amount of accounts receivables amounted to CHF 4.1 million, of which CHF 0.5 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.3 million and are included in operating expenses in 2015. The goodwill from this acquisition is due to the fact that certain intangible assets did not meet the criteria of IFRS 3 "business combinations" for the recognition as intangible assets at the date of acquisition. These intangible assets consist mainly of workforce know-how. In addition, goodwill includes the expected synergies within the Building Envelope Division.

Acquisition Bloxer S.r.l.	Fair value
in 1 000 CHF	
Assets	
Cash and cash equivalents	373
Accounts receivables	1 374
Other current assets	55
Inventories	1 137
Property, plant and equipment	198
Intangible assets	2 377
Total assets	**5 514**
Liabilities	
Accounts payables	391
Other liabilities	320
Accruals and deferred income	81
Deferred income tax liabilities	708
Employee benefit obligations	202
Total liabilities	**1 701**
Net assets acquired	**3 813**
Cost of acquisition	
Purchase price	3 304
Contingent consideration liability	509
Total cost of acquisition	**3 813**
Net cash outflow was as follows:	
Purchase price	3 304
Cash and cash equivalents acquired	−373
Net cash outflow on acquisition	**2 931**

As of 1 July 2015, AFG acquired 100% of the shares in Italian Bloxer Ronchi S.r.l., with its registered seat in IT-Villafranca Padovana. Bloxer manufactures glazed fire-protection doors in steel and aluminium and is allocated to the Building Security Division. The purchase price amounted to CHF 3.3 million. Furthermore upon achievement of certain agreed targets based on financial years through 2018, a maximum of CHF 2.1 million (undiscounted) of contingent consideration may become due. The fair value of the contingent consideration liability was determined at CHF 0.5 million by means of a probability-weighted pay out approach. The applied discount rate for the determination of the fair value amounted to 9.2 %. Based on IFRS 13 this is a level 3 fair value measurement (see note 43). From the date of acquisition, Bloxer contributed CHF 1.9 million in net revenues and CHF 0.1 million in loss to the Group. Had the acquisition taken place on 1 January 2015, net revenues for 2015 would have been CHF 3.4 million and a loss, including amortisation charges on intangible assets from acquisitions, would have been CHF 0.2 million. The gross carrying amount of accounts receivables amounted to CHF 1.4 million, of which CHF 0.02 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.1 million and are included in operating expenses in 2015.

Acquisitions 2014

Acquisition Bucher Systemtechnik and Marx	Fair value
in 1 000 CHF	
Assets	
Inventories	2 297
Property, plant and equipment	25
Intangible assets	671
Total assets	**2 993**
Liabilities	
Employee benefit obligations	30
Total liabilities	**30**
Net assets acquired	**2 963**
Cost of acquisition	
Purchase price	2 737
Deferred payment	225
Total cost of acquisition	**2 963**
Net cash outflow was as follows:	
Purchase price	2 737
Net cash outflow on acquisition	**2 737**

As of 1 July 2014 and 15 October 2014 respectively, certain assets and liabilities (asset deal) were acquired from the businesses of German Bucher Systemtechnik GmbH, DE-Rottweil, and Wilhelm Marx GmbH & Co. KG, DE-Frankfurt am Main, respectively. The acquired businesses were allocated to Forster Profile Systems of the Building Security Division. The purchase price amounted to CHF 2.7 million and the deferred purchase price of CHF 0.2 million was settled in September 2014. Because this transaction was structured as an asset deal and the supply to existing customers was effected from the date of acquisition through the acquired business and no longer from Forster Profilsysteme AG in CH-Arbon, both the determination of revenues and earnings from date of acquisition and for the full year was not possible. The acquisition-related costs amounted to CHF 0.2 million and were included in operating expenses in 2014.

Acquisition Sabiana	Fair value
in 1 000 CHF	
Assets	
Cash and cash equivalents	3 174
Accounts receivables	25 687
Other current assets	311
Inventories	14 750
Deferred expenses	720
Current income tax receivables	495
Property, plant and equipment	44 109
Intangible assets	37 104
Financial assets	552
Total assets	**126 901**
Liabilities	
Accounts payables	14 264
Other liabilities	3 422
Financial debts	27 939
Accruals and deferred income	2 914
Current income tax liabilities	420
Provisions	583
Deferred income tax liabilities	12 282
Employee benefit obligations	2 432
Total liabilities	**64 255**
Net assets acquired	**62 646**
Goodwill	50 585
Purchase consideration	**113 231**
Cost of acquisition	
Purchase price	94 685
Deferred purchase price	10 677
Present value of purchase commitment on non-controlling interests	7 869
Total cost of acquisition	**113 231**
Net cash outflow was as follows:	
Purchase price	94 685
Cash and cash equivalents acquired	−3 174
Net cash outflow on acquisition	**91 511**

As of 4 July 2014, 90 % of the shares of Sabiana S.p.A., IT-Corbetta, were acquired. Sabiana operates in the areas of commercial heating, ventilation and air-conditioning and is allocated to the Building Technology Division. The purchase price amounted to CHF 94.7 million. In addition CHF 10.7 million of the deferred purchase price became due after the final determination of the net debt level as of the acquisition date and was paid in October 2014 to the former owners. AFG has the right, to buy the remaining 10 % of the company after four years, at the earliest within one year at a fixed price. The owners have the right to sell their remaining 10 % to AFG at any time up to the end of the fifth year at a fixed price. The fair value of the purchase commitment on non-controlling interests was calculated using a discount rate of 10.4 %. Based on IFRS 13 this is a level 3 fair value measurement (see note 43). From the date of acquisition, Sabiana contributed CHF 42.7 million in net revenues and CHF 1.1 million in profit in 2014 to the Group. Had the acquisition taken place on 1 January 2014, net revenues for 2014 would have been CHF 84.0 million and profit would have been CHF 1.9 million. The gross carrying amount of accounts receivables amounted to CHF 26.8 million, of which CHF 1.1 million were considered uncollectable. The acquisition-related costs amounted to CHF 1.1 million and were included in operating expenses in 2014. The goodwill from this acquisition was due to the fact that certain intangible assets did not meet the criteria of IFRS 3 "business combinations" for the recognition as intangible assets at the date of acquisition. These intangible assets consisted mainly of workforce know-how. In addition, goodwill included the expected synergies within the Building Technology Division.

Acquisition PZP Heating a.s.	Fair value
in 1 000 CHF	
Assets	
Cash and cash equivalents	86
Accounts receivables	315
Inventories	669
Deferred expenses	29
Property, plant and equipment	116
Intangible assets	1 706
Total assets	**2 922**
Liabilities	
Accounts payables	363
Other liabilities	114
Financial debts	283
Deferred income tax liabilities	324
Total liabilities	**1 084**
Net assets acquired	**1 838**
Cost of acquisition	
Purchase price	1 654
Deferred payment	184
Total cost of acquisition	**1 838**
Net cash outflow was as follows:	
Purchase price	1 654
Cash and cash equivalents acquired	−86
Net cash outflow on acquisition	**1 568**

As of 1 January 2014, AFG acquired 100% of the shares of Czech PZP Heating a.s., CZ-Dobre. PZP is an established manufacturer of heat pumps in the Czech Republic and is allocated to the Building Technology Division. The purchase price amounted to CHF 1.7 million. In addition CHF 0.2 million of deferred purchase price became due and were paid as agreed in July 2014 to the former owners. From the date of acquisition, PZP Heating contributed CHF 3.2 million in net revenues and CHF 0.3 million in loss in 2014 to the Group. The acquisition-related costs amounted to CHF 0.3 million and were included in operating expenses for the years 2013 and 2014.

The contingent consideration of CHF 3.3 million from the acquisition of Polish Dobroplast Fabryka Okien sp. z o.o., PL-Zambrow, in 2013 was paid to the former owners in two tranches in January and April 2014.

Disposals 2014

Various small disposals	2014
in 1 000 CHF	
Assets	
Cash and cash equivalents	16
Receivables	75
Inventories	74
Property, plant and equipment	1 758
Total assets	**1 923**
Liabilities	
Other liabilities	138
Deferred income tax liabilities	154
Total liabilities	**292**
Net assets disposed	**1 631**
Cash and cash equivalents disposed	− 16
Net assets disposed excluding cash and cash equivalents	**1 615**
Gain on disposal	369
Net cash inflow from disposal	**1 984**

As of 1 August 2014, two small companies were sold. A disposal gain of CHF 0.4 million resulted from this transaction. The gain was allocated to Corporate Services and included in other operating income. The companies generated revenues of CHF 1.0 million in 2014 until the time of disposal.

41 FINANCIAL DEBTS

On 30 November 2014, AFG completely redeemed the US private placement. The resulting cash outflow amounted to CHF 127.5 million and was largely hedged against interest and currency risks.

On 2 December 2013, AFG entered into a syndicated loan for CHF 250 million. This loan, arranged with a consortium of banks, has a term extending until 30 November 2018.

On 14 April 2010, AFG issued a bond of CHF 200 million at 3.375 % with a duration of 6 years and maturing on 12 May 2016. Since 30 April 2010, the bond is listed on the SIX Swiss Exchange

The financial debts are comprised of the following:

in 1000 CHF	**31/12/2015**	31/12/2014
Bond	199 799	199 258
Syndicated loan		80 000
Mortgage	15 568	18 989
Bank loans	4 772	5 240
Bank borrowings	4 323	4 811
Total	**224 462**	**308 298**

The syndicated loan and the US private placement redeemed on 30 November 2014 include 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. Due to the economic environment that has become even more demanding since the beginning of the year, AFG took up discussions with the syndicate banks of the syndicated loan in the first half-year 2015 in order to obtain a waiver on certain covenants as of 30 June 2015 and 31 December 2015 against the payment of a one-time fee. An agreement was reached on 7 July 2015 with all banks of the consortium. The agreement contained certain conditions, which AFG had to meet by 30 November 2015. AFG fulfilled these conditions in a timely manner. AFG was in compliance with the covenants in 2014.

The maturities of the financial debts are as follows:

in 1000 CHF	**31/12/2015**	31/12/2014
within 1 year	207 095	87 896
between 1 and 5 years	8 307	209 197
after 5 years	9 060	11 205
Total	**224 462**	**308 298**

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

in %	CHF	EUR
Financial debt 31/12/2015	3.7	3.0
Financial debt 31/12/2014	3.1	2.1

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

in 1000 CHF	**31/12/2015**	31/12/2014
CHF	203 799	284 498
EUR	20 663	23 800
Total	**224 462**	**308 298**

42 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:

31/12/2015 in 1000 CHF	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
Non-derivative financial instruments							
Accounts payable	81 668	81 668	81 619	49			
Other liabilities (without derivatives)	27 475	29 971	18 958	14		10 999	
Finance lease liabilities	4 290	4 553	1 017	756	2 071	709	
Financial debts	224 462	234 787	213 568	2 484	5 531	3 495	9 709
Derivative financial instruments							
Interest rate swaps	1 962						
Cash outflow		1 962	133	129	242	612	846
Total	**339 857**	**352 941**	**315 295**	**3 432**	**7 844**	**15 815**	**10 555**

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.

31/12/2014	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 1000 CHF							
Non-derivative financial instruments							
Accounts payable	85 348	85 348	85 348				
Other liabilities (without derivatives)	33 152	36 608	25 182			11 426	
Finance lease liabilities	4 323	4 580	834	1 324	1 589	833	
Financial debts	308 298	320 865	93 567	1 647	205 735	7 738	12 178
Derivative financial instruments							
Interest rate swaps	2 596						
Cash outflow		2 596	164	160	302	772	1 198
Total	**433 717**	**449 997**	**205 095**	**3 131**	**207 626**	**20 769**	**13 376**

43 ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The relation between the relevant balance sheet items and the measurement categories in accordance with IAS 39 and the disclosure of fair values of financial instruments is as follows:

31/12/2015	FA FVTPL designated	L&AR	FL FVTPL trading	FL FVTPL designated	FL AC	Book value at 31/12/2015	Fair value at 31/12/2015
in 1000 CHF							
Cash and cash equivalents		201 440				201 440	201 440
Securities	2 240					2 240	2 240
Accounts receivable		85 361				85 361	85 361
Other current assets		17 157				17 157	17 157
Other financial assets		18				18	18
Loans		3 362				3 362	3 362
Assets	**2 240**	**307 338**				**309 578**	**309 578**
Accounts payable					81 668	81 668	81 668
Other liabilities			8 433	1 962	19 043	29 438	29 438
Finance lease liabilities					4 290	4 290	4 319
Bank borrowings					4 323	4 323	4 323
Loans					4 772	4 772	4 930
Mortgage					15 568	15 568	15 568
Bond					199 799	199 799	200 000
Liabilities			**8 433**	**1 962**	**329 463**	**339 858**	**340 246**

Abbreviations in the header of this table are explained in note 9 “financial instruments” on page 101/102.

31/12/2014	FA FVTPL designated	L&AR	FL FVTPL trading	FL FVTPL designated	FL AC	Book value at 31/12/2014	Fair value at 31/12/2014
in 1000 CHF							
Cash and cash equivalents		79 512				79 512	79 512
Securities	1 989					1 989	1 989
Accounts receivable		102 927				102 927	102 927
Other current assets		18 367				18 367	18 367
Other financial assets		24				24	24
Loans		8 829				8 829	8 829
Assets	**1 989**	**209 659**				**211 648**	**211 648**
Accounts payable					85 348	85 348	85 348
Other liabilities			7 971	2 596	25 181	35 748	35 748
Finance lease liabilities					4 323	4 323	4 373
Bank borrowings					4 811	4 811	4 811
Loans					85 240	85 240	85 512
Mortgage					18 989	18 989	18 989
Bond					199 258	199 258	205 000
Liabilities			**7 971**	**2 596**	**423 150**	**433 717**	**439 781**

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

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

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

in 1 000 CHF	Level 2	Level 3	Fair value 31/12/2015	Level 2	Level 3	Fair value 31/12/2014
Assets						
Financial assets at fair value through profit or loss – designated (FA FVTPL designated)						
Investment funds	2 240		2 240	1 989		1 989
Total assets	**2 240**		**2 240**	**1 989**		**1 989**
Liabilities						
Financial liabilities at fair value through profit or loss – designated (FL FVTPL designated)						
Interest rate swaps without hedges	1 962		1 962	2 596		2 596
Financial liabilities at fair value through profit or loss – trading (FL FVTPL trading)						
Purchase commitment on non-controlling interests		7 879	7 879		7 971	7 971
Contingent consideration liability		554	554			
Total liabilities	**1 962**	**8 433**	**10 395**	**2 596**	**7 971**	**10 567**

The fair value of investment funds of level 2 is determined based on market prices in the OTC market. The fair value of interest rate swap transactions of level 2 is the present value of expected interest 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 shares of level 3 are unquoted assets whose fair value cannot be reliably determined and are, provided that there are no indications for an impairment, therefore stated at cost.

In 2015 and 2014, no reclassifications occurred between the levels 1 and 2.

The movement in the fair value changes of level 3 items is as follows:

in 1 000 CHF	Available-for-sale	Contingent consideration liability	Purchase commitment on non-controlling interests
Balance 01/01/2014	**998**	**3 186**	
Acquisition Sabiana			7 869
Within financial expenses recognised unrealised losses	−998		
Within financial expenses recognised realised losses		94	102
Settlement		−3 280	
Balance 31/12/2014			**7 971**
Acquisition Bloxer Ronchi		509	
Within financial results recognised unrealised foreign exchange gains			−799
Within financial results recognised unrealised foreign exchange losses		14	
Within financial results recognised expenses from compounding		31	707
Balance 31/12/2015		**554**	**7 879**

During 2014 certain facts emerged which influenced the recoverability of an unlisted investment. As a consequence the investment had to be fully impaired by CHF 1 million.

For details of the contingent consideration liabilities in 2015 and 2014 as well as on the initial measurement of the purchase commitment on non-controlling interests in 2014, see note 40.

44 PROVISIONS

in 1 000 CHF	Warranty	Personnel	Restructuring	Other provisions	Total
Balance at 01/01/2014	**11 434**	**4 610**	**161**	**1 233**	**17 438**
Foreign exchange differences	−141	−106		−18	−265
Change in scope of consolidation		197		386	583
Additional provisions	8 975	1 411	154	2 230	12 770
Used during the year	−8 512	−1 970	−136	−765	−11 383
Unused amounts reversed	−498	−10	−179	−374	−1 061
Balance at 31/12/2014	**11 258**	**4 132**		**2 692**	**18 082**
Foreign exchange differences	−682	−405		−46	−1 133
Change in scope of consolidation	453			14	467
Additional provisions	7 341	2 379	18 238	11 192	39 150
Used during the year	−7 059	−1 408	−666	−1 222	−10 355
Unused amounts reversed	−329	−198	−625	−294	−1 446
Balance at 31/12/2015	**10 982**	**4 500**	**16 947**	**12 336**	**44 765**
thereof current at 31/12/2014	7 335	1 828		2 540	11 703
thereof current at 31/12/2015	7 999	2 095	9 073	4 091	23 258

The current provision is expected to be fully utilised during 2016. The non-current provision is expected to be utilised as follows:

in 1 000 CHF	Warranty	Personnel	Restructuring	Other provisions	Total
between 1 and 5 years	2 985	2 405	7 874	3 017	16 281
after 5 years				5 227	5 227

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
The restructuring provision comprises mainly costs for the employee redundancy programme established in connection with the reorganisations announced on 3 March 2015 and 13 August 2015 for the heating and window business in Switzerland.

Other provisions
The other provisions comprise costs totalling CHF 7.4 million for the long-term lease agreement of the Corporate Center due to under-utilisation of the existing rental space. Furthermore costs of CHF 1.7 million are included for obligations arising from the AFG arena naming-right until the end of the contract due to the premature termination of the contract. Other provisions also include costs for legal claims, environmental risks and various risks that could arise in the normal course of business.

45 DEFERRED INCOME TAXES

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

	31/12/2015		31/12/2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
in 1 000 CHF				
Assets				
Securities		11		9
Accounts receivable	354	676	714	1 300
Other current assets				29
Inventories	518	1 347	776	3 383
Non-current assets held for sale			7	
Property, plant and equipment	517	12 412	133	20 393
Investment property	1 355		1 276	
Intangible assets	8	11 431	380	17 102
Capitalised pension surplus and financial assets	467	3 610	423	3 032
Liabilities				
Current liabilities	1 621	20	1 709	35
Current and non-current provisions	417	510	610	1 575
Employee benefit obligations	9 660		8 560	
Deferred taxes from timing differences	**14 917**	**30 017**	**14 588**	**46 858**
Deferred tax assets derived from tax loss carryforwards	21 748		11 418	
Valuation allowance	−16 776		−6 672	
Net deferred taxes from timing differences	**19 889**	**30 017**	**19 334**	**46 858**
Offset of deferred tax assets and liabilities	−12 991	−12 991	−9 988	−9 988
Total deferred taxes	**6 898**	**17 026**	**9 346**	**36 870**

From current and non-current liabilities, no deferred taxes were directly recorded in comprehensive income (2014: CHF 0.6 million). From the capitalised pension surplus and employee benefit obligations, CHF 2.2 million (2014: CHF 4.3 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 as tax loss carryforwards and temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

There are temporary differences in the amount of CHF 49.3 million (2014: CHF 36.6 million) in conjunction with investments in subsidiaries for which AFG has not recorded deferred tax liabilities based on the exemption provisions of IAS 12.

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

in 1 000 CHF	**2015**	2014
Balance at 01/01	**27 524**	**28 767**
Change in scope of consolidation	809	12 437
Changes to other comprehensive income	−2 180	−4 883
Changes to the income statement	−14 961	−8 707
Foreign exchange differences	−1 064	−90
Balance at 31/12	**10 128**	**27 524**

Unrecognised tax loss carryforwards

	31/12/2015	31/12/2014
in 1000 CHF		
Tax loss carryforwards	**232 520**	**121 728**
thereof recognised as deferred taxes	−40 154	−49 917
Unrecognised tax loss carryforwards	**192 366**	**71 811**
Portion expiring:		
within 1 year		3 654
between 1 and 5 years	53 530	37 009
after 5 years	138 836	31 148
Total	**192 366**	**71 811**
Tax effect on unrecognised tax loss carryforwards	**16 776**	**6 672**
thereof pertaining to tax rates below 15 %	13 722	4 819
thereof pertaining to tax rates between 15 % and 20 %	2 699	1 459
thereof pertaining to tax rates between 21 % and 25 %	355	394

46 EMPLOYEE BENEFIT OBLIGATIONS

Pension plans in Switzerland

The Swiss pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), aiming to safeguard the employees against the risks of old age, death and disability. There are semi-autonomous pension plans, that is, the foundations fully bear the risk of age itself. The risks of disability and death are reinsured entirely (congruent reinsurance) or partially (stop-loss insurance) with Swiss insurance companies. 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.

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.

During 2014, the obligation to provide pension benefits was partially transferred to other foundations (settlement) as a result of the sale of certain businesses. Complying with the regulations, a partial liquidation will be carried out.

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:

	31/12/2015	31/12/2014
in 1 000 CHF		
Present value of funded obligations	348 112	335 149
Fair value of plan assets	339 275	341 744
Under-/overfunding	**8 837**	**−6 595**
Present value of unfunded obligations	43 746	48 081
Adjustment to asset ceiling	2 026	2 213
Liability (net) recognised in the balance sheet	**54 609**	**43 699**
thereof recorded as employee benefit obligations	64 033	57 891
thereof recorded as capitalised pension surplus	−9 424	−14 192

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

in 1 000 CHF	**2015**	2014
Balance at 01/01	**383 229**	**325 757**
Changes in scope of consolidation	202	2 462
Interest cost	5 225	7 944
Current service cost	10 260	8 811
Contributions by plan participants	5 867	6 265
Benefits paid	−25 769	−25 686
Actuarial gains arising from changes in demographic assumptions		−30 024
Actuarial losses arising from changes in financial assumptions	13 067	32 308
Actuarial losses arising from experience adjustements	4 472	31 605
Administration cost	168	176
Reclassification from/to liabilities associated with assets held for sale		24 372
Foreign exchange differences	−4 862	−761
Balance at 31/12	**391 859**	**383 229**
thereof for active members	231 795	231 640
thereof for deferred members	1 676	1 789
thereof for pensioners	158 388	149 800

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

in 1 000 CHF	**2015**	2014
Balance at 01/01	**341 744**	**306 832**
Interest income	4 368	7 173
Return on plan assets excl. interest income	4 724	13 823
Contributions by the employer	8 341	8 893
Contributions by plan participants	5 867	6 265
Benefits paid	−25 769	−25 686
Reclassification from/to assets held for sale		24 444
Balance at 31/12	**339 275**	**341 744**

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

in 1 000 CHF	**2015**	2014
Balance at 01/01	**2 213**	**4 038**
Interest cost	29	89
Change in effect of asset ceiling excl. interest cost	−216	−1 914
Balance at 31/12	**2 026**	**2 213**

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

in 1 000 CHF	**2015**	2014
Actuarial losses	17 538	33 889
Actuarial losses from discontinued operations		5 797
Return on plan assets excl. interest income	−4 724	−13 823
Change in effect of asset ceiling excl. interest cost	−216	−1 914
Remeasurements of employee benefit obligations	**12 598**	**23 949**

The amounts recognised in the income statement are as follows:

in 1 000 CHF	**2015**	2014
Current service cost	10 260	8 812
Net interest result	857	771
Interest cost on effect of asset ceiling	29	89
Administration cost	168	176
Net charges for defined benefit plans	**11 314**	**9 848**
thereof recorded under personnel expenses	10 428	8 988
thereof recorded under financial expenses	886	860

The principal actuarial assumptions used were as follows:

	2015	2014
in %		
Weighted average		
Discount rate at 31/12	1.1	1.4
Future salary increases	1.1	1.1
Future pension increases	0.2	0.2
Mortality tables – Switzerland	BVG 2010 GT	BVG 2010 GT
Mortality tables – Germany	HB 2005 GT	HB 2005 GT

The sensitivities of employee benefit obligations due to changes of principal assumptions are as follows:

Impact on employee benefit obligtions	Change in assumption	**2015**
in 1 000 CHF		
Discount rate	− 0.25 %	15 232
	+ 0.25 %	−14 229
Salary increases	− 0.25 %	−1 648
	+ 0.25 %	1 613
Life expectancy	+ 1 year	10 404
	− 1 year	−10 533
Service cost 2016 with discount rate	+ 0.25 %	−691

The weighted average duration of employee benefit obligations is 15.0 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:

	31/12/2015			31/12/2014		
	quoted	unquoted	Total	quoted	unquoted	Total
in 1 000 CHF						
Cash and cash equivalents	9 492	1 645	11 137	20 700	2 372	23 072
Equity instruments	54 056		54 056	52 864		52 864
Debt instruments	61 532	167	61 699	65 873		65 873
Real estate	7 285	97 830	105 115	5 339	89 658	94 997
Investment funds	56 003	3 341	59 344	6 357	44 026	50 383
Others	12 724	35 200	47 924	11 966	42 589	54 555
Total plan assets	**201 092**	**138 183**	**339 275**	**163 099**	**178 645**	**341 744**

The category “Others” comprises mostly assets from discontinued full insurance contracts terminated some years ago.

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

	up to 1 year	between 1 and 2 years	between 2 and 5 years	next 5 years
in 1 000 CHF				
Benefit payments	1 130	1 182	3 796	7 831

Expected contributions to pension plans for the year ending 31 December 2016 amount to CHF 13.9 million (2015: CHF 15.3 million), of which CHF 8.3 million (2015: CHF 9.2 million) are attributable to the employer.

47 SHARE CAPITAL

The capital structure is as follows:

			31/12/2015			31/12/2014
Category	Outstanding shares	Par value in CHF	Share capital in CHF	Outstanding shares	Par value in CHF	Share capital in CHF
Registered shares	44 557 125	4.20	187 139 925	18 225 603	4.20	76 547 533

On 19 November 2015, the Board of Directors of AFG Arbonia-Forster-Holding AG approved an authorised capital increase under exclusion of subscription rights for existing shareholders. The capital increase was completed on 3 December 2015. The share capital was increased through the issue of 815 677 new registered shares with a par value of CHF 4.20 by CHF 3 425 843.40 to CHF 187 139 925. This capital increase served for the settlement of the remaining purchase price of CHF 8.2 million in acquiring Wertbau (see note 40). The capital surplus resulting from the capital increase in the amount of CHF 4.7 million (net of all transaction costs of CHF 0.1 million) was allocated to share premium.

On 11 September 2015, the Extraordinary Shareholders' Meeting of AFG Arbonia-Forster-Holding AG approved a capital increase, whereby the share capital was increased by CHF 107 166 549 to CHF 183 714 081.60 by issuing 25 515 845 registered shares with a par value of CHF 4.20. On 22 September 2015, the capital increase was completed. The capital surplus resulting from the capital increase in the amount of CHF 91.3 million (net of all transaction costs of CHF 8.3 million) was allocated to share premium.

On 25 April 2014 the Annual General Meeting approved the extension for the authorisation of a capital increase until 25 April 2016 which was approved on 16 April 2010. The decision taken by the Annual General Meeting from 16 April 2010 read as follows:

To authorise the Board of Directors to create additional share capital by a maximum amount of CHF 15 309 504 through the issue of maximal 3 645 120 fully paid registered shares with a par value of CHF 4.20 each until 16 April 2012 (authorised capital).

Furthermore, AFG can increase the share capital in the amount of CHF 15 309 504 by issuing a maximum of 3 645 120 fully paid up registered shares with a par value of CHF 4.20 (conditional capital increase).

The authorised and conditional capital increase together are limited to an additional share capital of CHF 15 309 504.

As a result of the completed capital increase, the maximum amount and number of registered shares allocated to raise new capital were reduced to CHF 11 883 660.60 and 2 829 443 shares respectively.

Earnings per share

	2015	2014
Group earnings from continuing operations (in 1 000 CHF)	−177 106	11 260
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)		3 805
Group earnings for the year (in 1 000 CHF)	−177 106	15 065
	2015	2014 adjusted
Outstanding shares (average)	29 658 846	24 692 752
Less treasury shares (average)	−394 948	−794 350
Average number of shares outstanding for the calculation	29 263 898	23 898 402

There were no dilutive effects impacting the calculation.

48 TREASURY SHARES

			2015			2014
	Ø market value	Number of shares	Amount	Ø market value	Number of shares	Amount
	in CHF		in 1 000 CHF	in CHF		in 1 000 CHF
Balance at 01/01	**34**	**240 183**	**8 261**	**43**	**468 477**	**20 148**
Transfer for share based payments	23	−73 304	−1 684	43	−24 086	−1 036
Settlement of purchase price STI China				30	322 494	9 578
Purchase	15	246 009	3 811	24	135 225	3 218
Sale	26	−218 123	−5 665	36	−661 927	−23 647
Share capital increase	9	314 916	2 830			
Balance at 31/12	**15**	**509 681**	**7 553**	**34**	**240 183**	**8 261**

The balance of treasury shares has been increased on a net basis by 269 498 since 31 December 2014 mainly due to the capital increase carried out in September 2015. The settlement of the purchase price for the Chinese STI Precision Machining (Changshu) Co. Ltd. which was sold on 6 June 2014 occurred using 322 494 registered shares of AFG Arbonia-Forster-Holding AG (see note 36). 2014 sales include the published, 2 December 2014 transaction of 546 800 treasury shares to Artemis Beteiligungen I AG.

49 OTHER COMPREHENSIVE INCOME AND OTHER RESERVES

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

			31/12/2015			31/12/2014
	Other reserves	Retained earnings	Total other comprehensive income	Other reserves	Retained earnings	Total other comprehensive income
in 1 000 CHF						
Remeasurements of employee benefit obligations		−12 598	−12 598		−23 949	−23 949
Deferred tax effect		2 180	2 180		5 120	5 120
Total items that will not be reclassified to income statement		**−10 419**	**−10 419**		**−18 828**	**−18 828**
Fair value adjustments on cash flow hedges				2 578		2 578
Deferred tax effect on cash flow hedges				611		611
Currency translation differences	−28 302		−28 302	−6 605		−6 605
Cumulative currency translation differences transferred to the income statement				1 908		1 908
Total items that may be subsequently reclassified to income statement	**−28 302**		**−28 302**	**−1 508**		**−1 508**
Other comprehensive income after taxes	**−28 302**	**−10 419**	**−38 721**	**−1 508**	**−18 828**	**−20 336**

Other reserves

in 1 000 CHF	Foreign exchange and hedging reserves	Currency translation	Total
Balance at 31/12/2013	**−3 189**	**−51 289**	**−54 478**
Foreign exchange differences of US PP	−8 918		−8 918
Changes in fair value of CCS	11 734		11 734
Transactions recorded in income statement	−238		−238
Deferred taxes	611		611
Currency translation differences		−4 697	−4 697
Balance at 31/12/2014		**−55 986**	**−55 986**
Currency translation differences		−28 302	−28 302
Balance at 31/12/2015		**−84 288**	**−84 288**

The interest and currency risk of the US private placement totalling USD 112 million was hedged by way of cross currency swaps (CCS). These cross currency swaps were identical with the underlying transactions in terms of amount, currency, interest payment date and duration. They were considered to be highly effective in offsetting changes in cash flows of the underlying hedged transactions and consequently AFG applied hedge accounting. The inception date of the underlying transactions and the cross currency swaps was 2 December 2004 and the maturity date was on 30 November 2014.

50 FINANCIAL RESULTS

in 1 000 CHF	2015	2014
Financial income		
Bank and other interest	1 626	823
Interest on net pension surplus	68	434
Total interest income	**1 694**	**1 257**
Income from securities designated at fair value through profit or loss	166	258
Held for trading derivative financial instruments	365	
Foreign currency exchange gain from liquidation of subsidiaries		102
Other financial income	29	104
Total other financial income	**560**	**464**
Total financial income	**2 254**	**1 721**
Financial expenses		
Bank and other interest	1 661	788
Interest on finance leases	134	189
Interest on non-current financial debts	7 366	12 370
Interest on net employee benefit obligations	954	1 294
Amortisation charges on bond, US PP and syndicated loan	541	599
Compounding of liabilities	859	545
Total interest expenses	**11 515**	**15 785**
Impact of exchange rate fluctuations	6 640	4 090
Expenses from securities designated at fair value through profit or loss		4
Held for trading derivative financial instruments	2	775
Impairment on available-for-sale financial instruments		998
Impairment on loans	4 519	
Bank charges and other financial expenses	2 728	2 502
Total other financial expenses	**13 889**	**8 369**
Total financial expenses	**25 404**	**24 154**
Total net financial results	**−23 150**	**−22 433**

51 INCOME TAXES

in 1 000 CHF	**2015**	2014
Current income taxes	10 498	8 419
Changes in deferred income taxes	−14 961	−8 707
Total	**−4 463**	**−288**

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:

in 1 000 CHF	**2015**	2014
Earnings before income tax	**−181 569**	**10 972**
Weighted average tax rate in %	15.1	25.8
Expected tax income/expense	**−27 335**	**2 830**
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	−11	−1 447
Effect of not capitalised losses for the year	10 298	3 630
Effect of non-tax-deductible expenses and non-taxable income	11 175	−4 184
Effect of income and expenses taxed at special rates	−541	−161
Effect of tax charges related to prior years	2 204	−569
Effect of tax rate changes	−1 354	29
Change in unrecognised deferred tax assets	868	−435
Other items	233	19
Effective tax income	**−4 463**	**−288**
Effective tax rate in %	n/a	n/a

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

The expected weighted average tax rate decreased significantly compared to previous year, however does not reflect, in contrast to the previous year, AFG's expected medium-term weighted average tax rate. The decrease is predominantly due to the high share of losses of some Swiss companies having significant lower tax rates. There were no significant changes in local tax rates compared to 2014.

52 FINANCIAL RISK MANAGEMENT

Risk management principles

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

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

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

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

Credit default risk

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

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

The credit or default risk in relation to receivables 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 AFG as of the balance sheet date accounted for a share of 13.2 % (2014: 13.4 %) of existing trade receivables. The 10 largest customers generated 21.9 % (2014: 20.5 %) 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 48 % / 25 % / 12 % of total liquid funds as of the balance sheet date (2014: 31 % / 28 % / 14 %).

The maximum credit risk corresponds to the book values or fair values reported in note 43 for the financial asset categories “Financial instruments held for trading purposes” and “Loans and receivables”. These include derivative financial instruments having a positive fair value.

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

The cash, investments, financing and redemptions are managed and controlled on an ongoing basis by group treasury. The standard policy involves financial structures with matching maturities and currencies for each individual subsidiary. Scheduled cash requirements for the planning horizon must be secured under facility agreements or internal funding within the Group and/or via banks. By means of rolling monthly cash flow forecasts over a planning horizon of 12 months, the future cash development is forecasted in order to take measures in due time in the event of an excess coverage or shortfall. AFG 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 AFG 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:

in 1000 CHF	**31/12/2015**	31/12/2014
Cash and cash equivalents and securities	203 680	81 501
+ undrawn credit facilities	266 800	194 800
Total available liquidity	**470 480**	**276 301**

The syndicated loan and the US private placement redeemed on 30 November 2014 include covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2014, AFG complied with all covenants. Regarding the covenant compliance in 2015, see note 41. Due to restrictions on the leverage ratio, undrawn credit facilities were not fully utilisable.

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

Market risk

(a) Currency risk

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

A currency risk arises from transactions settled in foreign currencies (transaction risks) and paid in the Group company's functional currency. The standard policy is that subsidiaries must hedge 100 % of the relevant net risk position for the risk horizon period through hedging transactions via group treasury. AFG'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. Currency fluctuations relating to financial instruments (cross currency swaps) designated as cash flow hedges to secure future cash flows for the US private placement have an immediate effect on the income statement as the underlying transaction was also reported in the income statement in the same period. Since the US private placement was repaid on 30 November 2014 and the related cross currency swap expired, such sensitivities no longer had to be disclosed. 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 (2014: 20 %), a 5 % increase (decrease) of the CZK against the CHF (2014: 20 %) or a 5 % increase (decrease) of the PLN against the CHF (2014: 20 %) would have the following effects on AFG's Group earnings as of the balance sheet date:

	31/12/2015			31/12/2014		
	EUR/CHF	CZK/CHF	PLN/CHF	EUR/CHF	CZK/CHF	PLN/CH
in 1000 CHF						
Reasonably possible change	5.0 %	5.0 %	5.0 %	20.0 %	20.0 %	20.0 %
Impact of an increase on group earnings	2 361	106	796	6 653	942	3 123
Impact of a decrease on group earnings	−2 361	−106	−796	−6 653	−942	−3 123

(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 risk".

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

For the description of interest fluctuation risks, IFRS 7 requires sensitivity analyses showing the effects of realistic fluctuations in market interest rates on Group earnings and shareholders' equity. These effects are calculated on the basis of financial instruments existing as of the balance sheet date. In this context, it is assumed that all other variables remain unchanged and that the balance of financial instruments as of the balance sheet date is representative of the entire year. Fixed-rate financial instruments valued at amortised cost are not subject to interest rate fluctuation risks within the meaning of IFRS 7. However, market interest rate fluctuations of financial instruments (cross currency swaps) designated as cash flow hedges to secure future cash flows for the US private placement affect shareholders' equity. Since the US private placement was repaid on 30 November 2014 and the related cross currency swap expired, such sensitivities no longer had to be disclosed.

An increase (decrease) in the market interest level as of the balance sheet date by 50 basis points for CHF interest rates (2014: 50 basis points) or by 50 basis points for EUR interest rates (2014: 50 basis points) would have the effects set forth below on Group earnings of AFG:

	31/12/2015		31/12/2014	
	CHF interest rate	EUR interest rate	CHF interest rate	EUR interest rate
in 1000 CHF				
Reasonably possible change in basis points	50	50	50	50
Variable interest-bearing financial instruments				
Impact of an increase on group earnings	675	128	−209	106
Impact of a decrease on group earnings	−675	−128	209	−106
Interest rate swaps				
Impact of an increase on group earnings		337		422
Impact of a decrease on group earnings		−337		−422

(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, AFG reported no significant equity instruments under investments or securities classified as available-for-sale.

Equity management
The objective of AFG is a strong equity base to secure the Group's future development. In the medium term a sustainable equity ratio of 40 % is the goal. The shareholders' equity attributable to equity holders of AFG Arbonia-Forster-Holding AG as reported in the consolidated balance sheet is deemed AFG's relevant equity and corresponds to an equity ratio of 39.1 % as of the balance sheet date (2014: 37.4 %). The increase compared to the previous year is mainly attributable to the capital increase carried out in September 2015, whereas equity ratio at half-year was only 22.9 % as a consequence of the high half-year Group loss.

With regard to the ordinary and authorised capital increases carried out in 2015, as well as the possible creation of new share capital, see note 47.

The syndicated loan and the US private placement redeemed on 30 November 2014 include covenants. One of these covenants prescribes a minimum equity ratio (see also note 41). In the event of non-compliance, the banks may at any time at their option, declare the amounts then outstanding to be immediately due and payable.

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

53 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:

in 1 000 CHF	**31/12/2015**	31/12/2014
Liabilities		
Interest rate swaps without hedges	1 962	2 596

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.

54 ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENTS

in 1 000 CHF	**2015**	2014
Changes in non-cash transactions		
Changes in deferred taxes	−14 961	−6 586
Changes in non-current provisions	15 252	−767
Changes in capitalised pension surplus/ employee benefit obligations	2 974	67
Share based payments	1 206	649
Impairment on loans and compounding of liabilities	5 798	1 668
Other non-cash effects	4 675	2 144
Total changes in non-cash transactions	**14 944**	**−2 825**
Changes in working capital		
Changes in accounts receivable	17 396	−11 923
Changes in inventories	−9 530	13 798
Changes in other working capital items	−2 128	−4 701
Total changes in working capital	**5 738**	**−2 826**
Changes in current liabilities		
Changes in accounts payable	−1 106	−4 747
Changes in advance payments by customers	13 551	−8 954
Changes in current provisions	12 097	−642
Changes in other current liabilities	2 129	2 474
Total changes in current liabilities	**26 671**	**−11 869**

55 SHARE BASED PAYMENT PLAN

For Group Management and certain other employees a share based payment plan exists. As part of this plan, Group Management members receive one third and the other employees one fourth 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 2015, Group Management and certain other employees received for their work in the year 2014 a total of 14 695 (2014: 17 898 shares) allotted shares at a fair value of CHF 0.3 million (2014: CHF 0.5 million) (2015: CHF 19.19 per share; 2014: CHF 28.81 per share). The interim CEO received a larger portion of his base compensation for his employment starting from 1 July 2015 in shares. He was allocated 30 000 shares at a fair value of CHF 0.3 million (CHF 9.44 per share). The members of the Board of Directors received for their work from 25 April 2014 up to the Annual General Meeting on 17 April 2015 a total of 28 609 shares (2014: 6 188 shares for the period from 1 January 2014 to 25 April 2014) at a fair value of CHF 0.5 million (2014: CHF 0.2 million for the period from 1 January 2014 to 25 April 2014) (2015: CHF 19.19 per share; 2014: CHF 28.81 per share). Personnel expenses in 2015 for share based payments totalled CHF 1.1 million (2014: CHF 0.8 million).

56 RELATED PARTY TRANSACTIONS

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

	2015	2014
in 1 000 CHF		
Salaries and other short-term employee benefits	3 583	4 574
Share based payments	958	702
Pension and social securities contributions	865	1 014
Total	**5 406**	**6 290**

The detailed disclosures regarding executive remuneration required by Swiss law are included in the remuneration report on pages 77 to 81.

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

					31/12/2015
	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
in 1 000 CHF					
Other related parties	106	815	21	261	14
Total	**106**	**815**	**21**	**261**	**14**

					31/12/2014
	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
in 1 000 CHF					
Key management personnel		3			
Other related parties	282	40	122		50
Total	**282**	**43**	**122**		**50**

The law firm Bratschi Wiederkehr & Buob AG, of which Christian Stambach (non-executive member of the Board of Directors) a partner is, charged in 2015 for legal advice and representation TCHF 105 (2014: TCHF 154) to AFG and its Group companies. These expenses are included in the purchase of services and were at arm's length. The sale of goods in 2015 relates almost exclusively to AFG products purchased at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors). There were no guarantees granted as of the balance sheet date. Furthermore no provisions were required for receivables.

57 CONTINGENCIES

There were no contingencies.

58 EVENTS AFTER THE BALANCE SHEET DATE

On 22 January 2016, AFG signed a contract to purchase a minority interest of 31 % in Austrian window manufacturer Gaulhofer. The participation takes the form of a capital increase of Gaulhofer group. The company is one of the leading Austrian window manufacturers and generates revenues of approx. EUR 60 million.

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2015 consolidated financial statements.

59 MATERIAL SUBSIDIARIES

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Profile Systems and Doors	Services/Finance
Building Technology Division								
Arbonia AG	Arbon, CH	4.000 CHF	100 %	▲	▲			
Prolux Solutions AG	Arbon, CH	1.000 CHF	100 %	■				
Kermi s.r.o.	Stribro, CZ	195.000 CZK	100 %	▲	▲			
PZP Heating a.s.	Dobre, CZ	7.200 CZK	100 %	▲				
AFG Arbonia-Forster-Riesa GmbH	Riesa, DE	0.614 EUR	100 %	■				
Kermi GmbH	Plattling, DE	15.339 EUR	100 %	▲	▲			
Arbonia France Sàrl	Hagenbach, FR	0.600 EUR	100 %	■				
Kermi (UK) Ltd.	Corby, GB	0.150 GBP	100 %	■	■			
Sabiana S.p.A.	Corbetta, IT	0.024 EUR	90 %	▲				
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100 %	■	■			
Building Envelope Division								
EgoKiefer AG	Altstätten, CH	8.000 CHF	100 %			▲		
Wertbau GmbH & Co. KG	Langenwetzendorf, DE	8.470 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 %			▲		
Building Security Division								
Forster Profilsysteme AG	Arbon, CH	4.000 CHF	100 %				▲	
RWD Schlatter AG	Roggwil, CH	2.000 CHF	100 %				▲	
Forster Profilsysteme GmbH	Rottweil, DE	0.100 EUR	100 %				■	
Bloxer Ronchi S.r.l.	Villafranca Padovana, IT	0.100 EUR	100 %				▲	
Corporte Services								
AFG Arbonia-Forster-Holding AG	Arbon, CH	187.140 CHF						●
AFG International AG	Arbon, CH	1.000 CHF	100 %					●
AFG Schweiz AG	Arbon, CH	1.000 CHF	100 %					●
AFG Immobilien AG	Arbon, CH	12.000 CHF	100 %					●
AFG Management AG	Arbon, CH	0.250 CHF	100 %					●
AFG (Shanghai) Building Materials Co. Ltd.	Shanghai, CN	2.000 USD	100 %					●
AFG Arbonia-Forster-Deutschland GmbH	Plattling, DE	0.511 EUR	100 %					●
AFG Schoch GmbH	Plattling, DE	0.205 EUR	100 %					●
AFG RUS	Moskau, RU	0.500 RUB	100 %					●

▲ Production/Sales ■ Trade ● Services/Finances

REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

**TO THE GENERAL MEETING OF
AFG ARBONIA-FORSTER-HOLDING AG, ARBON**

St. Gallen, 17 February 2016

As statutory auditors, we have audited the consolidated financial statements of AFG Arbonia-Forster-Holding AG, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 89 to 171), for the year ended 31 December 2015.

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

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers AG

Beat Inauen	**Martin Knöpfel**
Audit expert	Audit expert
Auditor in charge	

FINANCIAL STATEMENTS

AFG ARBONIA-FORSTER-HOLDING AG

INCOME STATEMENT

		2015		2014	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Dividend income		2 000			
Financial income	2.7	14 861		19 734	
Other operating income		10		1	
Total income		**16 871**	**100.0**	**19 735**	**100.0**
Financial expenses	2.8	−26 364	−156.3	−24 234	−122.8
Personnel expenses		−981	−5.8	−1 180	−6.0
Other operating expenses	2.9	−8 410	−49.8	−9 107	−46.1
Total expenses		**−35 755**	**−211.9**	**−34 521**	**−174.9**
Net loss for the year		**−18 884**	**−111.9**	**−14 786**	**−74.9**

The notes on pages 178 to 182 are an integral part of these financial statements.

BALANCE SHEET

	Note	31/12/2015 in 1000 CHF	31/12/2015 in %	31/12/2014 in 1000 CHF	31/12/2014 in %
Assets					
Cash and cash equivalents		139 069		26 506	
Securities with stock exchange price		2 105		1 926	
Other receivables					
Third parties		415		1 129	
Group companies		93		36	
Shareholdings		296 695		297 557	
Current assets		**438 377**	**51.0**	**327 154**	**43.5**
Loans to shareholdings		39 013		43 414	
Investments	2.1	381 774		381 524	
Non-current assets		**420 787**	**49.0**	**424 938**	**56.5**
Total assets		**859 164**	**100.0**	**752 092**	**100.0**
Liabilities and shareholders' equity					
Accounts payable					
Third parties		154		133	
Group companies		4			
Shareholdings		180			
Interest bearing liabilities	2.2				
Bank loans		1 000		81 240	
Bond 2010–2016		199 799			
Shareholdings		3 596		1 833	
Other liabilities					
Third parties		115		57	
Accruals and deferred income		5 081		5 091	
Current liabilities		**209 929**	**24.4**	**88 354**	**11.7**
Interest bearing liabilities	2.3				
Bank loans		3 000		4 000	
Bond 2010–2016				199 258	
Non-current liabilities		**3 000**	**0.3**	**203 258**	**27.0**
Total liabilities		**212 929**	**24.8**	**291 612**	**38.8**
Share capital	2.4	187 140		76 548	
Legal capital reserves					
Capital contribution reserve	2.5	223 442		127 458	
Other capital reserves		42 812		42 812	
Voluntary reserves					
Free reserves		17 100		17 100	
Retained earnings		202 418		217 204	
Net loss for the year		−18 884		−14 786	
Treasury shares	2.6	−7 553		−5 856	
Result from sale of treasury shares		−240			
Shareholders' equity		**646 235**	**75.2**	**460 480**	**61.2**
Total liabilities and shareholders' equity		**859 164**	**100.0**	**752 092**	**100.0**

The notes on pages 178 to 182 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

1.1 General information

These financial statements were prepared for the first time under the provisions of the Swiss accounting law (32nd title of the Swiss Code of Obligations). In accordance with the Code of Obligations, AFG Arbonia-Forster-Holding AG elected to restate prior year figures to ensure comparability with the 2015 presentation. This led to changes in the presentation of the balance sheet as a consequence of the new classification requirements and in particular to the reclassification of treasury shares from securities to equity as a negative position. As a result of this reclassification, securities, current assets and total assets as well as equity and total liabilities and equity were reduced by CHF 5.9 million. Accordingly, the reserve for treasury shares of CHF 6.8 million was completely released.

Since AFG Arbonia-Forster-Holding 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 Securities with stock exchange prices

Short term held securities are valued at cost or lower stock market price at the balance sheet date.

1.3 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.

1.4 Non-current loans

Non-current loans to shareholdings 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).

1.5 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 result from sale of treasury shares.

1.6 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.

1.7 Interest bearing liabilities

A premium (net of transaction costs) of bonds is accounted for in accruals and released over the life of the bond on a straight-line basis. Interest bearing liabilities are accounted for at nominal value.

2 INFORMATION AND NOTES TO THE FINANCIAL STATEMENTS

2.1 Material investments

	31/12/2015		31/12/2014	
Company	Share capital in 1 000 CHF	Capital and voting interest in %	Share capital in 1 000 CHF	Capital and voting interest in %
AFG Schweiz AG, Arbon	1 000	100%	1 000	100%
AFG International AG, Arbon	1 000	100%	1 000	100%
AFG Management AG, Arbon	250	100%	250	100%
AFG CM AG, Arbon	250	100%		

All material subsidiaries directly or indirectly held by AFG Arbonia-Forster-Holding AG are disclosed in note 59 in the notes to the consolidated financial statements of AFG Arbonia-Forster-Group.

2.2 Current interest bearing liabilities

	31/12/2015	31/12/2014
in 1 000 CHF TCHF		
Bank loans	1 000	1 240
Bank loans – syndicated loan		80 000
Bond 2010–2016 3.375 %	199 799	
Loans to group companies	3 596	1 833
Total	**204 395**	**83 073**

The syndicated loan was repaid as a result of the capital increase which occurred on 22 September 2015. The bond was reclassified in the reporting year to current interest bearing liabilities, since it will be repaid on 12 May 2016.

2.3 Non-current interest bearing liabilities

	31/12/2015	31/12/2014
in 1 000 CHF		
Bank loans	3 000	4 000
Bond 2010–2016 3.375 %		199 258
Total	**3 000**	**203 258**

Maturity structure

	31/12/2015	31/12/2014
in 1 000 CHF		
Within 5 years	3 000	203 258
Total	**3 000**	**203 258**

2.4 Share capital

Refer to note 47 in the notes to the consolidated financial statements of AFG Arbonia-Forster-Group.

2.5 Capital contribution reserve

The capital contribution reserve includes the premium from the capital increases in 2007, 2009 and 2015, 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 2014) as capital contribution within the meaning of article 5 para. 1bis VStG.

2.6 Treasury shares

	2015			2014		
	Ø market value	Number of shares	Amount	Ø market value	Number of shares	Amount
	in CHF		in 1 000 CHF	in CHF		in 1 000 CHF
Balance at 01/01	**24**	**240 183**	**5 856**	**22**	**468 477**	**10 272**
Purchase	17	246 009	4 089	28	457 719	12 796
Share capital increase	8	314 916	2 551			
Transfer for share based payments	16	−73 304	−1 156			
Sale	16	−218 123	−3 547	27	−686 013	−18 188
Gain (+)/loss (–)			−240			976
Balance at 31/12	**15**	**509 681**	**7 553**	**24**	**240 183**	**5 856**

2.7 Financial income

Financial income totals CHF 14.9 million (2014: CHF 19.7 million) and consists mainly of interest income on loans to investments and foreign currency exchange gains.

2.8 Financial expenses

Financial expenses totals CHF 26.4 million (2014: CHF 24.2 million) and consists mainly of interest on the bond, bank interest and foreign currency exchange losses. The previous year additionally contained interest on the US private placement which was repaid in November 2014.

2.9 Other operating expenses

in 1 000 CHF	2015	2014
Administrative costs	7 934	8 528
Consultancy and audit fees	440	558
Other operating expenses	36	22
Total	**8 410**	**9 107**

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:

		31/12/2015	31/12/2014
UBS AG			
in favour of Hartchrom AG	in 1 000 CHF		2 000
in favour of AFG Immobilien AG	in 1 000 CHF	2 713	2 713
St. Galler Kantonalbank			
in favour of EgoKiefer AG	in 1 000 CHF	2 000	2 000
UniCredit Bank			
in favour of Kermi GmbH	in 1 000 EUR	2 000	3 000
in favour of Wertbau GmbH & Co. KG	in 1 000 EUR	2 500	
Commerzbank			
in favour of AFG Schoch GmbH	in 1 000 EUR	1 000	1 000

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

	31/12/2015	31/12/2014
	Voting and capital interest	Voting and capital interest
Artemis Beteiligungen I AG	27.52 %	21.90 %

3.4 Risk assessment

Refer to note 52 in the notes to the consolidated financial statements of AFG Arbonia-Forster-Group.

3.5 Headcount in full-time equivalents

AFG Arbonia-Forster-Holding AG does not employ any staff.

3.6 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 AFG Arbonia-Forster-Holding AG:

	31/12/2015 Number of registered shares	31/12/2014 Number of registered shares
Alexander von Witzleben (Chairman of the BoD from 17/04/2015 and Group Management from 01/07/2015)	30 000	
Peter Barandun (Member of the BoD from 25/04/2014)	9 144	
Christian Stambach (Member of the BoD)	22 248	10 442
Peter E. Bodmer (Member of the BoD)	4 861	1 656
Markus Oppliger (Member of the BoD)	10 228	1 656
Heinz Haller (Member of the BoD from 25/04/2014)	5 000	
Michael Pieper (Member of the BoD from 17/04/2015)	12 259 974	
Rudolf Graf (Chairman of the BoD until 13/03/2015 and Group Management until 31/10/2014)		12 387
Andreas Gühring (Member of the BoD until 17/04/2015)		7 181
Felix Bodmer (Group Management)	45 790	17 232
Knut Bartsch (Group Management)	30 372	10 389
Christoph Schönenberger (Group Management)	33 881	12 415
William Christensen (Group Management from 01/11/2014 until 30/06/2015)		14 000
Roman Hänggi (Group Management from 01/07/2014 until 30/09/2015)		1 107
Total	**12 451 498**	**88 465**

PROPOSAL OF THE BOARD OF DIRECTORS

The Board of Directors will propose at the Annual General Meeting of the shareholders on 22 April 2016 the following:

Appropriation of Retained Earnings

	2015	2014
in 1 000 CHF		
Retained earnings carried forward from previous year	202 418	205 184
Net loss for the year	−18 884	−14 786
Change of reserve for treasury shares		12 020
Retained earnings	**183 534**	**202 418**
Retained earnings carried forward	183 534	202 418
Total	**183 534**	**202 418**

REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS

**TO THE GENERAL MEETING OF
AFG ARBONIA-FORSTER-HOLDING AG, ARBON**

St. Gallen, 17 February 2016

As statutory auditors, we have audited the financial statements of AFG Arbonia-Forster-Holding AG, which comprise the balance sheet, income statement and notes (pages 175 to 183), for the year ended 31 December 2015.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers AG

Beat Inauen
Audit Expert
Auditor in charge

Martin Knöpfel
Audit Expert

SUPPLEMENTARY INFORMATION FOR INVESTORS

	2015	2014	2013	2012	2011
Number of shares					
Registered par value CHF 4.20	44 557 125	18 225 603	18 225 603	18 225 603	18 225 603
Stock market prices in CHF [1]					
Highest	18.6	26.3	25.2	17.3	28.0
Lowest	8.7	14.0	16.9	11.3	10.6
31/12	10.1	18.2	23.2	17.0	13.0
Stock market capitalisation in CHF million (31/12)	450.0	449.3	573.2	421.0	320.8
Per share data [1]					
Gross dividend in CHF [2]	0.0	0.0	0.3	0.0	0.0
Pay-out ratio (in % of Group earnings)	0.0	0.0	n/a	0.0	0.0
Group earnings in CHF	−6.1	0.6	−2.1	−3.0	−2.9
Cash flow from operating activities in CHF	1.8	1.6	2.6	2.2	2.7
Shareholders' equity in CHF	11.9	14.7	14.9	14.6	17.8
Price/earnings ratio (highest)	−3.1	31.7	−9.2	−4.4	−7.3
Price/earnings ratio (lowest)	−1.5	16.9	−6.2	−2.9	−2.8
Price/earnings ratio (31/12)	−1.7	22.0	−8.5	−4.3	−3.4
Price/cash flow ratio (highest)	10.1	12.1	7.1	5.7	7.6
Price/cash flow ratio (lowest)	4.8	6.5	4.7	3.7	2.9
Price/cash flow ratio (31/12)	5.5	8.4	6.5	5.6	3.5

[1] Adjusted for 2015 capital increase
[2] 2016 proposal to the Annual General Meeting

DATES

22 April 2016
29^{th} Annual General Meeting
OLMA, Hall 2.1, St. Gallen (CH)

11 August 2016
Publication of midyear results for 2016 financial year

17 November 2016
Investors' Day

ADDRESSES AND COMPANIES

AFG Arbonia-Forster Holding AG
Amriswilerstrasse 50
P.O. Box 134
9320 Arbon
Switzerland
T +41 71 447 41 41
holding@afg.ch

AFG Arbonia-Forster-Deutschland GmbH
Pankofen-Bahnhof 1
94447 Plattling
Germany
T +49 9931 50 10

AFG Arbonia-Forster-Riesa GmbH
Heinrich-Schönberg-Strasse 3
01591 Riesa
Germany
T +49 3525 74 60
F +49 3525 74 62 57
info@arbonia.de

AFG Building Envelope AG
Schöntalstrasse 2
9450 Altstätten
Switzerland
zentrale@egokiefer.ch

AFG Immobilien AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41
holding@afg.ch

AFG International AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41
holding@afg.ch

AFG Management AG
Amriswilerstrasse 50
P.O. Box 550
9320 Arbon
Switzerland
T +41 71 447 41 41
holding@afg.ch

AFG Middle East Fze
C202 Dubai Silicon Oasis
P.O. Box 341070
Dubai
United Arab Emirates
T +97 14 372404042

OOO AFG RUS
Chermyansky proezd 7/1
Office 2603
127282 Moscow
Russia
T +7495 646 2719
info@afg-rus.ru

AFG Schweiz AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41

AFG Services AG
Amriswilerstrasse 50
P.O. Box 550
9320 Arbon
Switzerland
T +41 71 447 41 41

AFG (Shanghai) Building Materials Co., Ltd.
Part A, Floor 2, No. 1719
Xin Cun Road, Putuo District
CN-Shanghai 200333, P.R. China
T +86 21 6235 0883
asia.pacific@afg.ch

Arbonia AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 47 47
info@arbonia.ch

Arbonia Forster Group (AFG) Pte Ltd
207A Thomson Road
Goldhill Shopping Centre
Singapore, 307640
Singapore
T +65 6396 0336

Arbonia France Sàrl
17A rue d'Altkirch
CS 70053
68210 Hagenbach
France
T +33 389 40 02 53
info@arbonia.fr

Blitz 15-132 GmbH
(Wertbau GmbH)
Am Dasslitzer Kreuz 3
04957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de

Bloxer Ronchi srl
Via XI Settembre, 38
Frazione Ronchi Sud
35010 Villafranca Padovana (PD), Italy
T +39 49 907 0662
info@bloxer.com

Dobroplast Fabryka Okien sp. z o. o.
Stary Laskowiec 4
18-300 Zambrów
Poland
T +48 86 276 35 00
F +48 86 276 35 33
dobroplast@dobroplast.pl

Dobroplast Fabryka Okien sp. z o. o.
Zakład Produkcji Okien Dachowych
i Stolarki Aluminiowej
ul. Vetterów 7
20-277 Lublin
Poland
T +48 86 276 34 64
oknadachowe@dobroplast.pl

EgoKiefer AG
Windows and Doors
Schöntalstrasse 2
9450 Altstätten
Switzerland
T +41 71 757 33 33
zentrale@egokiefer.ch

EgoKiefer SA
Rte du Pré du Bruit 11 A
1844 Villeneuve
Switzerland
T +41 21 967 08 00
villeneuve@egokiefer.ch

Forster Profile Systems (UK) Ltd.
Units B3 & B4 Waleswood Industrial Estate
Rotherham S26 5PY
United Kingdom
T +44 1909 29 50 00

Forster Profile Systems AG
Amriswilerstrasse 50
P.O. Box 400
9320 Arbon
Switzerland
T +41 71 447 43 43
info.forster.profile@afg.ch

Forster Profilsysteme GmbH
Betriebsobjekt M51, Gewerbestrasse
2351 Wiener Neudorf
Austria
T +43 2236 677 293
forster.at@afg.ch

Forster Profilsysteme GmbH
Rheinwaldstrasse 38
78628 Rottweil
Germany
T +49 741 252 480
rottweil@forster.ch

Forster Profilsysteme GmbH
Obere Stegwiesen 28
88400 Biberach
Germany
T +49 7351 575 202
rottweil@forster.ch

Forster Profilsysteme GmbH
Frankfurter Landstrasse 2–4
61440 Oberursel
Germany
T +49 6171 50 896-0
frankfurt@afg.ch

Forster Profilsysteme GmbH
Auf Stein
35789 Weilmünster
Germany
T +49 6472 9157 23
weilmuenster@afg.ch

Prolux Solutions AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 48 48
info@prolux-ag.ch

InnoPaint GmbH
(Wertbau GmbH)
Am Dasslitzer Kreuz 3
04957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de

Kermi GmbH
Pankofen-Bahnhof 1
94447 Plattling
Germany
T +49 9931 50 10
info@kermi.de

Kermi Sp. z o.o.
Ul. Granicna 8b
54-610 Wrocław
Poland
T +48 71 35 40 370
info@kermi.pl

Kermi s.r.o.
Ul. Dukelská 1427
34901 Stříbro
Czech Republic
T +420 374 611 111
info@kermi.cz

Kermi UK Ltd.
7 Brunel Road
Earlstrees Industrial Estate
Northamptonshire NN17 4JW
Corby
United Kingdom
T +44 1536 40 00 04
info@kermi.co.uk

PZP HEATING a.s.
Dobré 149
517 93 Dobré
Czech Republic
T +420 494 664 203
pzp@pzp.cz

RWD Schlatter AG
St. Gallerstrasse 21
9325 Roggwil
Switzerland
T +41 71 454 63 00
info@rwdschlatter.ch

RWD Schlatter AG
Bergstrasse 23
8953 Dietikon/ZH
Switzerland
T +49 44 745 40 40
info@rwdschlatter.ch

RWD Schlatter AG
rue de Fribourg 6
1800 Vevey/VD
Switzerland
T +41 21 967 22 20
info@rwdschlatter.ch

RWD Schlatter AG
via Carvina 2
6807 Taverne/TI
Switzerland
T +41 91 961 80 80
info@rwdschlatter.ch

Sabiana S.p.A.
Via Piave 53,
20011 Corbetta (MI)
Italy
T +39 02 972031
info@sabiana.it

Slovaktual s.r.o.
972 16 Pravenec 272
Slovakia
T +421 46 544 74 32
slovaktual@slovaktual.sk

WERTBAU-Elemente
Am Dasslitzer Kreuz 3
04957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de

WERTBAU GmbH & Co. KG
Am Dasslitzer Kreuz 3
04957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de

WERTBAU Verwaltungsges. GmbH
Am Dasslitzer Kreuz 3
04957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de

GLOSSARY OF THE MANAGEMENT REPORT

Batch size A batch size indicates the quantity of items in a batch, variety or series that are manufactured one after the other without any changeovers or interruptions in production.

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.

Connector-fan-door A connector-fan-door operates in a similar way to a fan that actively exchanges air in closed rooms with fresh air from a corridor, for instance. In living areas, the air speed is below 10 cm/sec, making the exchange process inaudible.

Door air curtain This is a system that is installed at doors that are opened frequently or remain permanently open, and uses a powerful fan to create an air stream that acts as a barrier, preventing air exchange and, therefore, warm or cool air escaping. They are typically used in industrial buildings where transportation or loading activities take place, as well as in commercial areas where the general public can be found, such as banks, hotels and supermarkets.

EBIT Earnings Before Interests and Taxes: a company's operating results before interest and taxes are taken into account. The **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. The **EBITDA margin** indicates EBITDA in relation to revenue.

Electrostatic filter This is an electronic, active plate filter. Electronic filters are used in cases where air-conditioning and air purification functions need to be combined in a single device. In particular, they remove pollutants that may be present in the air, such as tobacco smoke, dust, fibres and microbiological substances including bacteria and fungi. This type of filter can be washed, making its service life almost unlimited.

Fan coils 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 in fan-only operation. This results in an extremely comfortable atmosphere 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.

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 free float is 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.

GVGC stands for "galvanisch verzinkt gelb chromatisiert" and is a surface treatment used for profile systems that uses yellow zinc chromate plating.

Lift-and-slide doors In contrast to a leaf door, the leaf on a lift-and-slide door is lifted out of its closed position and along a running rail into the required position. Lift-and-slide doors provide a much larger opening, ensuring significantly better ventilation, and offer the option of installing glazing over a wide area. Thanks to an almost threshold-free connection to the floor, maximum light penetration and comfort are also ensured.

Non-recurring expenses are costs that arise only once and may be attributable to factors such as restructuring measures.

Radiant panels Heat that is provided in the form of radiant heat is completely silent and involves no movement of air. Radiant heat, which is the method used by radiant panels and is based on the same principle as solar heat, is the most energy-efficient type of heat transfer and people experience it as a very comfortable form of heat.

RC (resistance class) describes the resistance class that is present in intruder resistance systems. The individual classes equate to certain levels of security against intruders, where RC 1 represents the minimum required level of basic protection and RC 6 represents successful resistance to an intruder by means of high-performance electrical appliances.

Steel panel radiators are radiators consisting of at least one shaped panel through which water flows. Convection plates are attached to the water-conveying panels in order to boost performance. Standard versions have one, two or three layers. Basic models usually have a distinctive profiled appearance, while higher-quality models are equipped with a flat or finely profiled face.

Surface heating Surface heating is 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.

Underfloor convectors/floor convectors combine visual appeal with outstanding functions in a single air-conditioning system that can be used for heating, ventilation or cooling, depending on its design. Particularly where large window areas and glazed doors are concerned, they prevent unpleasant flows of cold air and thus ensure an optimum level of comfort is maintained.

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 which 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. The company, based in Zwingen BL, specialises in underfloor convectors which, alongside their conventional 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 as the successor to the Miele Kitchens (Miele Die Küche) brand.

In 2010, 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. Hubs were established in Russia, China and the Middle East.

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 to serve as the new Chairman of the Board of Directors. In July, he also took up the post of interim CEO. In August, the Board of Directors decided, due to the strong competitive pressure, to relocate production sites to other European countries. In August, eastern German window manufacturer Wertbau GmbH and Italian company Bloxer Ronchi were acquired. As part of a capital increase aimed at reinforcing AFG's financial strength, Artemis Beteiligungen I AG reaffirmed its commitment and increased its share portion to just under 28 % in the period leading up to the end of the year.

PUBLICATION INFORMATION

Publisher
AFG Arbonia-Forster-Holding AG
Corporate Communications
Amriswilerstrasse 50
P.O. Box 134
9320 Arbon
Switzerland
T +41 71 447 41 41
media@afg.ch

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AFG Arbonia-Forster-Holding AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
www.afg.ch