

Consolidated Financial Statements

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Financial commentary of Daniel Wüest (CFO)

Revenue development

On 4 January 2021, Arbonia announced the sale of the Windows Division. As a result of the sale, Arbonia will receive around CHF 350 million in cash and cash equivalents at the time of closing (expected at the beginning of Q2 2021). In return, around 25% of group revenue and EBITDA will be deconsolidated as of the closing of the transaction. In accordance with the accounting standards of IFRS, the 2020 consolidated financial statement already shows only the three remaining divisions ("continuing operations"), while the result of the Windows Division is shown as a "result from discontinued operations" and the assets and liabilities as "assets/liabilities held for sale".

On the basis of the continuing operations, Arbonia achieved net revenues of CHF 1038.4 million in the reporting year 2020, which represents a decrease of -1.8% in comparison to the previous year (CHF 1057.8 million). Adjusted for currency effects, growth was 2.0% (organic), which is a remarkable achievement given the restrictions due to COVID-19. This growth was largely due to price effects and to a lesser extent to volume effects. The Doors Division and Sanitary Equipment Division achieved strong organic growth of 5.0% and 4.0% respectively. The HVAC Division recorded slightly negative organic growth of -0.4%, whereby the indirect sales business unit achieved organic growth of 2.0% while the direct sales business unit, which is heavily active in Italy and Belgium and was thus strongly affected by the COVID-19 restrictions, suffered organic growth of -6.9%. At group level, organic growth was 5.8% in the second half of the year compared to -1.7% in the first half of the year. The main drivers of the good revenue growth were the German and Swiss markets, where, with a few regional exceptions, construction sites remained open and demand for building materials was high due to the positive environment (low interest rates, high savings rate, temporary reduction of VAT in Germany, renovation needs, and CO₂ subsidies), which more than compensated for the negative impact of COVID-19. Arbonia expects that most of these supportive factors will also continue in 2021 and thus a good environment will still prevail. However, this is in a still challenging market environment and provided that the COVID-19 measures are not tightened further and restrictions are eased over the year.

In the 2020 financial year, Arbonia increased its shareholding in KIWI, a provider of keyless locking systems in Germany, to over 20% as part of another financing round together with Deutsche Wohnen. The price for the increase in shareholding was around CHF 4.9 million. The KIWI locking system will be installed exclusively in the wooden doors of Arbonia's Doors Division. In

December 2020, it also acquired the remaining 65% of Webcom Management Holding for around CHF 6.7 million.

Accelerated increase in earnings

Group result at net profit level improved by 71% to CHF 44.9 million compared to the previous year (CHF 26.2 million). This corresponds to earnings per share of CHF 0.65.

On the cost side, the weaker euro and the Eastern European currencies had a positive effect on the costs that were mainly incurred in these currencies. While the personnel costs ratio remained unchanged (33.3%), the cost of materials ratio and the other operating expenses ratio decreased slightly. The cost of materials ratio decreased by 1.2 percentage points to 43.7% due to insourcing and even lower material costs in the first half-year, while other operating expenses decreased by 0.7 percentage points to 14.1%, mainly due to lower travel and marketing expenses. Without one-time effects, the personnel ratio was marginally higher.

Due to operational improvements, the increase in vertical integration through insourcing of production steps, as well as a more favourable product, price, and country mix, EBITDA from continuing and discontinued operations with one-time effects increased by 25.9% to CHF 157.8 million (previous year: CHF 125.4 million) in the 2020 financial year, whereby the EBITDA margin improved from 8.9% to 11.3%. All four divisions achieved an EBITDA margin of over 11% and were able to increase it by 1.2 percentage points (Sanitary Equipment Division) up to 4.9 percentage points (Windows Division) compared to the previous year. EBITDA from continuing operations with one-time effects amounted to CHF 116.3 million (previous year: CHF 100.7 million), which corresponds to an increase of 15.5%. Without one-time effects, EBITDA from continuing operations amounted to CHF 114.5 million (previous year: CHF 107.7 million) and an increase of 6.3%.

Depreciation and amortisation remained practically unchanged compared to the previous year and resulted in a disproportionate increase in EBIT. Considering continuing and discontinued operations with one-time effects, EBIT increased by CHF 33.6 million or 84.6% from CHF 39.7 million to CHF 73.3 million, which corresponds to an EBIT margin of 5.2%. EBIT from continuing operations with one-time effects increased by CHF 13.8 million or 34.4% from CHF 40.1 million to CHF 53.9 million. Without taking into account one-time effects, EBIT increased by CHF 3.0 million or 5.9% from CHF 49.1 million to CHF 52.1 million.

The net financial expense figure increased in 2020 from CHF 6.0 million to CHF 12.9 million, due on the one hand to offsetting currency losses compared to the previous year and on the other hand to costs in connection with the refinancing of the syndicated loan (see below). Lower commitment fees and interest margins in the new syndicated loan in combination with a reduced net debt will lead to lower interest expenses in the future.

Income tax expense decreased slightly to CHF 11.2 million (previous year: CHF 11.6 million) in the 2020 financial year, despite a higher operating profit and thus also higher group earnings before taxes (EBT). The effective tax rate of 27.4% (previous year: 33.9%) decreased due to the use of previously non-capitalised loss carry-forwards and, in contrast to the previous year, positive effects of tax charges from previous years.

Significant increase in cash flow underscores operational progress and performance

The free cash flow amounted to CHF 52.5 million in the 2020 financial year (previous year: CHF 8.4 million). The positive development is due to the cash flow from operating activities, which was around CHF 30 million higher than in the previous year and rose to CHF 141.3 million in the reporting year (previous year: CHF 111.8 million). In addition, as in the previous year, investments in property, plants, and equipment as well as in intangible assets decreased further from CHF 113.0 million to CHF 95.5 million, which corresponds to an investment rate (investments/revenue) of 6.8% (previous year: 8.0%). Until the completion of the new frame production and the associated capacity expansion at the German production site Prüm of the Doors Division, the expansion investment ratio will remain high until 2022.

Higher equity ratio, lower net debt, and increase in the dividend

The total assets of Arbonia as of 31 December 2020 decreased only negligibly to CHF 1515.2 million compared to the previous year (CHF 1534.4 million). This is mostly due to the exchange rate conversions of assets and liabilities held in foreign currencies as of the balance sheet date. However, despite negative exchange rate effects, shareholders' equity increased to CHF 893.2 million (previous year: CHF 873.3 million), which is due to the high net profit and the deferred dividend for the 2019 financial year. Consequently, the equity ratio also increased from 56.9% to a very solid 59.0% at the end of the year.

The net debt decreased as per 31 December 2020 by around CHF 40 million to CHF –140.6 million (previous year CHF –180.6 million). The leverage ratio (net debt/EBITDA) fell to –0.9x (previous year: –1.4x), which is well below the defined value of the covenant, so that Arbonia has sufficient strategic and financial leeway. In addition, Arbonia renewed the syndicated loan of CHF 350 million, which expires in 2021, ahead of schedule in November 2020. The firmly committed syndicated loan facility now amounts to CHF 250 million and thereby reflects the improved and solid financial situation of Arbonia. In addition, more favourable terms and conditions were agreed with the banking syndicate as part of the renewal of the facility, which will reduce the financial expense by several hundred thousand Swiss francs per year. The term is once again five years – with the possibility of extending it twice by one year each time. The only covenant is the leverage ratio.

The solid balance structure even before the inflow of funds from the sale of the Windows Division and the further increase in profitability allow Arbonia to increase the distribution to shareholders further for the third year since the resumption of dividend payments for the 2018 financial year. The Board of Directors will propose to the General Meeting to distribute a dividend of CHF 0.25 per registered share for the 2020 financial year, half from retained earnings and half from capital contribution reserves. In addition, the dividend of CHF 0.22 for the 2019 financial year, which was postponed due to COVID-19, is to be paid out, so that the shareholders will receive a total gross distribution of CHF 0.47 after the General Meeting on 23 April 2021.

**Consolidated
Financial Statements
Arbonia Group**

Consolidated Income Statement

in 1 000 CHF	Note	2020		2019 restated ¹	
		in %		in %	
Continuing operations					
Net revenues	31	1 038 421	100.0	1 057 832	100.0
Other operating income		14 807	1.4	17 062	1.6
Capitalised own services		6 369	0.6	7 422	0.7
Changes in inventories of semi-finished and finished goods		3 333	0.3	2 248	0.2
Cost of material and goods		– 454 017	– 43.7	– 475 227	– 44.9
Personnel expenses		– 345 604	– 33.3	– 351 978	– 33.3
Other operating expenses		– 147 017	– 14.2	– 156 661	– 14.8
EBITDA	31	116 292	11.2	100 698	9.5
Depreciation, amortisation and impairments	36-40	– 47 505	– 4.6	– 45 133	– 4.3
Amortisation of intangible assets from acquisitions	36, 40	– 14 915	– 1.4	– 15 494	– 1.5
EBIT	31	53 872	5.2	40 071	3.8
Financial income	51	469	0.0	1 164	0.1
Financial expenses	51	– 13 401	– 1.3	– 7 136	– 0.7
Group result before income tax		40 940	3.9	34 099	3.2
Income tax expense	52	– 11 210	– 1.1	– 11 561	– 1.1
Group result from continuing operations		29 730	2.9	22 538	2.1
Group result from discontinued operations after taxes	36	15 184	1.5	3 669	0.3
Group result		44 914	4.3	26 207	2.5
Attributable to:					
Shareholders of Arbonia AG		44 914		26 207	
Earnings per share from continuing operations in CHF					
	48	0.43		0.33	
Earnings per share from discontinued operations in CHF					
	48	0.22		0.05	
Earnings per share in CHF					
	48	0.65		0.38	

Basic and diluted earnings are identical.

¹ see note 36

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in 1 000 CHF	2020	2019
Group result	44 914	26 207
Other comprehensive income		
<i>Items that will not be reclassified to income statement</i>		
Remeasurements of employee benefit obligations	- 2 106	- 7 440
Deferred tax effect	956	2 494
Total items that will not be reclassified to income statement	- 1 150	- 4 947
<i>Items that may be reclassified subsequently to income statement</i>		
Currency translation differences	- 25 523	- 24 966
Cumulative currency translation differences transferred to the income statement		111
Total items that may be reclassified subsequently to income statement	- 25 523	- 24 855
Total other comprehensive income after taxes	- 26 673	- 29 802
Total comprehensive income	18 241	- 3 595
Attributable to:		
Shareholders of Arbonia AG	18 241	- 3 595
Total comprehensive income from continuing operations	5 039	- 5 396
Total comprehensive income from discontinued operations	13 202	1 801

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

in 1 000 CHF		31/12/2020		31/12/2019	
	Note	in %		in %	
Assets					
Cash and cash equivalents	32	52 107		58 354	
Accounts receivable	33	82 357		124 964	
Other current assets		28 213		30 159	
Inventories	34	133 642		168 938	
Contract assets	33	11 574		25 603	
Deferred expenses		5 241		5 396	
Current income tax receivables		678		2 013	
Financial assets	35			1 629	
Assets held for sale	36	283 292		9 823	
Current assets		597 104	39.4	426 879	27.8
Property, plant and equipment	37	491 437		578 169	
Right-of-use assets	38	56 457		81 113	
Investment property	39	1 296		4 134	
Intangible assets	40	163 492		187 305	
Goodwill	40	177 598		197 338	
Deferred income tax assets	46	7 206		8 537	
Capitalised pension surplus	47	12 315		44 683	
Financial assets	35	8 265		6 257	
Non-current assets		918 066	60.6	1 107 536	72.2
Total assets		1 515 170	100.0	1 534 415	100.0

in 1 000 CHF		31/12/2020		31/12/2019	
	Note	in %		in %	
Liabilities and shareholders' equity					
Accounts payable		92 947		125 844	
Contract liabilities	33	2 892		8 446	
Other liabilities		21 981		29 293	
Financial debts	42	1 265		31 352	
Lease liabilities	55	9 532		13 581	
Accruals and deferred income		67 179		79 955	
Current income tax liabilities		14 628		13 952	
Provisions	45	10 418		17 749	
Liabilities associated with assets held for sale	36	100 498			
Current liabilities		321 340	21.2	320 172	20.9
Financial debts	42	138 904		145 151	
Lease liabilities	55	29 792		48 863	
Other liabilities		15 476		15 577	
Provisions	45	9 463		12 041	
Deferred income tax liabilities	46	49 265		63 420	
Employee benefit obligations	47	57 715		55 941	
Non-current liabilities		300 615	19.8	340 993	22.2
Total liabilities		621 955	41.0	661 165	43.1
Share capital	48	291 787		291 787	
Share premium		512 583		512 583	
Treasury shares	49	– 2 456		– 4 426	
Other reserves	50	– 108 710		– 83 187	
Retained earnings		200 011		156 493	
Shareholders' equity		893 215	59.0	873 250	56.9
Total liabilities and shareholders' equity		1 515 170	100.0	1 534 415	100.0

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

in 1 000 CHF	Note	2020	2019
Group result		44 914	26 207
Depreciation, amortisation and impairments	37 - 40	84 555	85 647
Profit/loss on disposal of non-current assets	35 - 38	- 2 406	- 1 272
Changes in non-cash transactions	55	19 636	13 240
Net interest expense	31	6 070	4 664
Income tax expense	31	14 638	8 087
Changes in working capital	55	6 800	9 473
Changes in current liabilities	55	- 10 704	- 18 854
Interest paid		- 4 869	- 3 549
Interest received		148	452
Income tax paid		- 17 470	- 12 296
Cash flows from operating activities - net		141 312	111 799
To investment activities			
Purchases of property, plant and equipment	37	- 92 248	- 109 551
Purchases of investment properties	39		- 61
Purchases of intangible assets	40	- 3 295	- 3 361
Acquisition of subsidiaries/businesses (net of cash acquired)	41	- 3 310	- 1 113
Issuance of financial assets	35	- 3 425	- 1 782
From divestment activities			
Proceeds from sale of property, plant and equipment	36, 37	8 582	1 177
Proceeds from sale of investment properties	39	4 879	923
Proceeds from sale of intangible assets		12	78
Repayment of financial assets		3	10 263
Cash flows from investing activities - net		- 88 802	- 103 427

in 1 000 CHF	Note	2020	2019
From financing activities			
Proceeds from financial debts	42, 55	45 062	78 082
To financing activities			
Repayments of financial debts	42, 55	– 80 461	– 70 763
Lease liability payments	55	– 14 990	– 14 436
Distribution from capital contribution reserves			– 13 736
Purchase of treasury shares	49	– 983	
Cash flows from financing activities - net		– 51 372	– 20 853
Effects of translation differences on cash and cash equivalents		– 844	– 279
Change in cash and cash equivalents		294	– 12 760
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	58 354	70 877
Cash and cash equivalents as of 01/01 discontinued operations			237
Cash and cash equivalents as of 31/12 continuing operations	32	52 107	58 354
Cash and cash equivalents as of 31/12 discontinued operations	36	6 541	
Change in cash and cash equivalents		294	– 12 760

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in 1 000 CHF	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total shareholders' equity
Balance at 01/01/2019		291 787	526 319	- 7 101	- 58 332	135 054	887 727
Group result						26 207	26 207
Total other comprehensive income after taxes	50				- 24 855	- 4 947	- 29 802
Total comprehensive income					- 24 855	21 260	- 3 595
Distribution from capital contribution reserves			- 13 736				- 13 736
Share based payments	56			2 675		179	2 854
Total transactions with owners			- 13 736	2 675		179	- 10 882
Balance at 31/12/2019		291 787	512 583	- 4 426	- 83 187	156 493	873 250
Group result						44 914	44 914
Total other comprehensive income after taxes	50				- 25 523	- 1 150	- 26 673
Total comprehensive income					- 25 523	43 764	18 241
Changes in treasury shares	49			- 983			- 983
Share based payments	56			2 952		- 246	2 706
Total transactions with owners				1 970		- 246	1 724
Balance at 31/12/2020		291 787	512 583	- 2 456	- 108 710	200 011	893 215

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

A Accounting principles

1. General information

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

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021 (see note 36).

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

These consolidated financial statements have been approved for issue by the Board of Directors of Arbonia AG on 22 February 2021 and require approval from the Annual General Meeting on 23 April 2021. The publication of the consolidated financial statements occurred on 2 March 2021 at the media and analyst conference.

2. General principles and basis of preparation

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

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

Amendments to significant published standards

The accounting policies adopted in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019.

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

Published standards that are not yet effective nor adopted early

The published but as of the balance sheet date not yet effective significant new or amended standards will not have a material impact on the Group's financial statements.

3. Reporting entity

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

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

The following material changes occurred in the Group:

In the financial year 2020

- As of 1 December 2020, Arbonia acquired the remaining 65% of Webcom Management Holding GmbH, DE-Bad Liebenstein (see note 41).

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

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

4. Full consolidation

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

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

5. Capital consolidation

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

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

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

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

B Summary of significant accounting policies

6. Significant accounting policies

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

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

7. Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

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

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

The following foreign currency rates have been applied:

Currency	Unit	2020		2019	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.0814	1.0704	1.0857	1.1127
GBP	1	1.2024	1.2046	1.2773	1.2694
USD	1	0.8986	0.9390	0.9687	0.9938
CZK	100	4.1204	4.0498	4.2728	4.3355
PLN	100	23.4333	24.1069	25.4951	25.8979
CNY	100	13.4754	13.6046	13.8918	14.3962
RUB	100	1.1974	1.3067	1.5658	1.5365

8. Maturities

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

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

9. Financial instruments

A financial instrument is a transaction that results in the creation of a financial asset for one party and simultaneously in the creation of a financial liability or equity instrument for the other party. Accounts receivable and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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

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

Transaction costs directly attributable to the acquisition are also reported with respect to all financial assets not carried at fair value through profit or loss in subsequent periods.

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

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

At each balance sheet date, financial assets (debt securities) that are not measured at fair value through profit or loss are assessed for expected credit losses. Indications that the creditworthiness of assets is impaired include financial difficulties, breaches of

contract and possible bankruptcy of the contracting party. A default with respect to a financial asset exists if it appears unlikely that the contracting party will meet its contractual payments to the Group in full. If loans or receivables have been impaired, the company continues to enforce the receivable to recover it. Financial assets are written-off as soon as there is no reasonable expectation of recovery. Among the indicators that there is no reasonable expectation of recovery is the bankruptcy of the counterparty. Further information on the impairment of financial assets is provided in the accounting policies for the individual assets (in particular on accounts receivable and contract assets in note 13).

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

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

10. Derivative financial instruments

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

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

11. Fair value estimation of financial instruments

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

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

Financial instruments measured at fair value are disclosed under the following hierarchy:

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

Due to its current nature, the nominal value less estimated allowance of accounts receivable is assumed to approximate their fair value. The nominal value of accounts payable is assumed to approximate their fair value. The fair value of financial liabilities disclosed in the notes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

12. Cash and cash equivalents

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

13. Receivables and contract assets

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

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

14. Inventories

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

15. Assets held for sale and associated liabilities

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

16. Discontinued operations

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

17. Property, plant and equipment

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

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

18. Investment property

Investment property, principally comprising land and buildings, is held for long-term rental yields or appreciation and is not used for more than for minor operational purposes. Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method.

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

19. Intangible assets

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

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

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

Expenses relating to research activities are directly charged to the income statement in the period in which they are incurred. Development costs are capitalised at acquisition cost or production cost and reported under intangible assets if all criteria under IAS 38 have been met on a cumulative basis, including evidence of technical and economic feasibility, evidence of expected future economic benefit and attributability of costs and their reliable valuation. They are amortised over the expected useful life on the basis specified in note 21.

Development costs not meeting the criteria under IAS 38 are directly charged to the income statement in the period in which they are incurred.

20. Impairment of assets

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

21. Estimated useful lives

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

Land is not systematically depreciated.

22. Provisions

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

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

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

23. Employee benefit obligations

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

Based on their characteristics the pension plans qualify under IAS 19 as defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

24. Financial debts

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

25. Leases

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

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

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

26. Deferred income tax

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

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

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

27. Share based payment

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

28. Shareholders' equity

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

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

29. Income statement

Net revenue

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

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

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

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

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

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

The performance obligation in the resale/commercial business is fulfilled when the customer has received the delivery. As a result of that, an invoice is issued and hence recognition of a contract asset is not required. The variable considerations can be reliably measured at the time the performance obligation is fulfilled and

are taken into account as sales deductions. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component.

The performance obligation in the project business is progressively satisfied over the period of the provided services (planning, production, assembly, acceptance) using the cost-to-cost method. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Revenue is recognised in proportion to the contract costs incurred. Therefore, revenue is recognised over the term of a contract. The allocation of the transaction price to separate performance obligations is not required because of the existence of only one performance obligation in the project business. Variable considerations such as discounts or construction rebates which can be measured reliably are deducted from the transaction price at the beginning of the contract term. In this way, these revenue reductions can be realised proportionally to the revenue recognition over the contract term. For reasons of materiality, it is not necessary to adjust the consideration for the time value of money or to measure non-cash consideration. If revenue is recognised as mentioned before, but the expected amount of consideration has not yet been invoiced, then a contract asset is recognised due to the conditional right to consideration. Accounts receivable from project business are recognised when the right to the consideration becomes unconditional. The right becomes unconditional when an acceptance protocol is signed and accordingly the invoice is issued to the customer. Payment periods customary in the industry are granted unless special payment periods have been agreed. The contract liability relates to contracts whose partial payments exceed the stage of completion or the revenue already recognised respectively, on a net contract-by-contract basis. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied. Based on the analysed order durations, there are no significant financing components. The treatment of loss-making contracts occurs regardless of the stage of completion by recognising a provision amounting to the total contract loss resulting from the total budgeted costs not covered by the total amount of the transaction price.

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

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

The assessment of right of return, refund and similar obligations is not necessary as they do not constitute an integral part of Arbonia's business.

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

Other operating income

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

EBITDA

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

EBITA

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

EBIT

EBIT shows earnings before financial results and tax.

Financial income

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

Financial expenses

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

30. Significant accounting judgments, estimates and assumptions

All estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Arbonia makes judgments, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition

With regards to performance obligations that are fulfilled at a point in time, there are no significant estimates when assessing the point in time. Revenue is recognised when the goods are delivered to the customer.

In project business, sales are realised over a period of time. Arbonia determines the stage of completion by using the cost-to-cost method. In Arbonia's opinion, this method best depicts the transfer of control of the products to the customer. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Changes due to post calculations and actively managed project controlling are taken into account when determining the stage of completion. Such changes in estimates are recognised prospectively. Costs for future activities, such as costs for materials not yet installed or inefficiencies due to revisions (error costs), are charged directly to the income statement and are not included in the calculation of the stage of completion. Revenue is recognised proportionally as costs are incurred. If the expected margin cannot be measured reliably, then revenue is recognised only in the amount of costs incurred.

Inventory provision

In order to determine the adequacy of the inventory provision, factors such as expected sales prices, inventory turnover and coverage days of inventory are considered. As of 31 December 2020, the carrying amount of inventory was at CHF 133.6 million. Therein a provision for inventories of CHF 20.0 million is included. A falling market demand or falling sales prices could lead to additional provisions needed. For further information on the inventory provision, see note 34.

Useful lives for property, plant and equipment

Arbonia has a significant amount of its assets invested in property, plant and equipment. As of 31 December 2020, the carrying amount of property, plant and equipment totalled CHF 491.4 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 2020, the carrying amount of goodwill was at CHF 177.6 million. Arbonia tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as expected future cash flows, margins, discount rates and growth rates. These estimates could change or differ from the actual outcome and therefore lead to additional impairments. For further information on goodwill, see note 40.

Intangible assets acquired in a business combination

Brands, technologies, client relationships and distribution channels are amortised over their estimated useful lives. At initial recognition, assumptions and estimates must be made about the expected 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 2020, the carrying amount of intangible assets acquired in a business combination amounted to CHF 151.1 million. For further information on such acquired intangible assets, see note 40.

Provisions

Provisions are recognised based on the criteria as set out under note 22. As of 31 December 2020, the carrying amount of the provisions totalled CHF 19.9 million. In estimating the amount of provision, assumptions are used and depending on the outcome of the various business transactions, the actual cash outflow and its timing could significantly differ from the booked provision. For further information on provisions, see note 45.

Employee benefit obligations

Employee benefit obligations for defined benefit plans are based on actuarial valuations, which use statistical calculations and actuarial assumptions (see note 23). Such assumptions include amongst others discount rates, future salary and pension increases, probable turnover rates as well as life expectancy of plan participants. The assumptions underlying these calculations are dependent on a number of prospective factors, therefore actual results could significantly differ from the original valuations and as a consequence impact

the carrying amount of capitalised pension surplus and employee benefit obligation. As of 31 December 2020, the underfunding amounted to CHF 45.4 million, thereof CHF 12.3 million recorded in the balance sheet as capitalised pension surplus and CHF 57.7 million as employee benefit obligation. For further information on employee benefit obligation, see note 47.

Income taxes

Arbonia is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Arbonia recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax assets, including those on tax loss carryforwards and expected tax credits, are only recognised if it is probable that they can be used by future taxable profits. The assessment of the recoverability of those deferred tax assets is therefore based on estimates, which could differ from actual results and consequently lead to valuation allowances. As of 31 December 2020, the carrying amount of deferred tax assets before offsetting totalled CHF 31.9 million. For further information on income taxes, see notes 46 and 52.

C Explanation to certain positions of the consolidated financial statements

31. Segment information

Arbonia is organised into the divisions or segments HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. Corporate Services consist of service, finance, real estate and investment companies and provide their services almost entirely to Group companies. They have not been allocated to an operating segment and are therefore shown separately.

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

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

HVAC Division

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

Sanitary Equipment Division

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

Windows Division

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

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021 (see note 36).

Doors Division

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

Corporate Services

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

in 1 000 CHF							2020	
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina- tions	Total Group
Sales with third parties at point in time	529 092	144 944	226 360	301 551	1 201 947			1 201 947
Sales with third parties over time			131 484	62 834	194 318			194 318
Sales with other segments		20	14	1	35		- 35	
Net revenues	529 092	144 964	357 858	364 386	1 396 300		- 35	1 396 265
Segment results I (EBITDA)	59 182	16 992	42 381	49 149	167 704	- 9 860	- 9	157 835
<i>in % of net revenues</i>	<i>11.2</i>	<i>11.7</i>	<i>11.8</i>	<i>13.5</i>	<i>12.0</i>			<i>11.3</i>
Depreciation and amortisation	- 25 648	- 4 172	- 19 909	- 15 561	- 65 290	- 1 843		- 67 133
Reversal of impairment on property, plant and equipment			29		29			29
Impairment property, plant and equipment	- 281		- 1 006		- 1 287			- 1 287
Segment results II (EBITA)	33 253	12 820	21 495	33 588	101 156	- 11 703	- 9	89 444
<i>in % of net revenues</i>	<i>6.3</i>	<i>8.8</i>	<i>6.0</i>	<i>9.2</i>	<i>7.2</i>			<i>6.4</i>
Amortisation of intangible assets from acquisitions	- 3 646	- 1 797	- 1 249	- 9 472	- 16 164			- 16 164
Segment results III (EBIT)	29 607	11 023	20 246	24 115	84 991	- 11 703	- 8	73 280
<i>in % of net revenues</i>	<i>5.6</i>	<i>7.6</i>	<i>5.7</i>	<i>6.6</i>	<i>6.1</i>			<i>5.2</i>
Interest income	299	77	219	44	639	8 159	- 8 509	289
Interest expenses	- 5 500	- 275	- 2 151	- 2 499	- 10 425	- 4 463	8 530	- 6 358
Minority share from associated companies			101	- 479	- 379			- 379
Other financial result	- 3 638	- 1 492	- 2 673	- 1 152	- 8 955	10 552	- 8 877	- 7 280
Result before income tax	20 768	9 333	15 742	20 029	65 871	2 545	- 8 864	59 552
Income tax expense	- 4 764	- 1 957	- 3 428	- 4 850	- 14 999	361		- 14 638
Result after income tax	16 004	7 376	12 314	15 179	50 872	2 906	- 8 864	44 914
Average number of employees	2 914	811	2 632	2 025	8 382	63		8 445
Total assets	559 177	108 525	296 790	527 225	1 491 717	1 032 032	- 1 008 579	1 515 170
thereof associated companies				8 194	8 194			8 194
Total liabilities	301 340	53 109	182 357	237 008	773 814	236 548	- 388 407	621 955
Purchases of property, plant and equipment, right-of-use assets, investment properties and intangible assets	33 126	7 629	11 169	50 348	102 272	2 049		104 321

In the Windows Division, the impairment mainly relates to machinery of the plant in Altstätten resulting from the closure and thus decommissioning of production machinery.

in 1 000 CHF								2019
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina- tions	Total Group
Sales with third parties at point in time	554 685	143 779	235 840	299 086	1 233 390			1 233 390
Sales with third parties over time			122 295	60 282	182 577			182 577
Sales with other segments			58		58		- 58	
Net revenues	554 685	143 779	358 193	359 368	1 416 025		- 58	1 415 967
Segment results I (EBITDA)	51 565	14 669	24 653	43 954	134 841	- 9 472	- 18	125 351
<i>in % of net revenues</i>	9.3	10.2	6.9	12.2	9.5			8.9
Depreciation and amortisation	- 23 078	- 3 846	- 20 772	- 14 477	- 62 173	- 1 659		- 63 832
Reversal of impairment on property, plant and equipment			74		74			74
Impairment property, plant and equipment/ right-of-use assets	- 1 973		- 1 174	- 100	- 3 247			- 3 247
Segment results II (EBITA)	26 514	10 823	2 781	29 377	69 495	- 11 131	- 18	58 346
<i>in % of net revenues</i>	4.8	7.5	0.8	8.2	4.9			4.1
Amortisation of intangible assets from acquisitions	- 3 794	- 1 798	- 3 148	- 9 901	- 18 642			- 18 642
Segment results III (EBIT)	22 720	9 025	- 367	19 476	50 853	- 11 131	- 18	39 704
<i>in % of net revenues</i>	4.1	6.3	- 0.1	5.4	3.6			2.8
Interest income	225	46	327	36	634	9 084	- 8 876	842
Interest expenses	- 4 212	- 283	- 2 683	- 2 412	- 9 590	- 4 766	8 851	- 5 505
Minority share from associated companies			149		149			149
Other financial result	- 2 352	- 1 009	- 1 447	- 1 620	- 6 428	9 828	- 4 296	- 896
Result before income tax	16 381	7 779	- 4 021	15 479	35 618	3 014	- 4 338	34 294
Income tax expense	- 6 436	- 1 637	3 474	- 4 966	- 9 565	1 478		- 8 087
Result after income tax	9 945	6 142	- 547	10 513	26 053	4 492	- 4 338	26 207
Average number of employees	2 947	811	2 823	1 961	8 543	63		8 606
Total assets	576 504	107 640	290 004	506 788	1 480 936	1 039 306	- 985 827	1 534 415
thereof associated companies			2 492		2 492			2 492
Total liabilities	329 122	53 124	189 943	221 599	793 788	256 111	- 388 734	661 165
Purchases of property, plant and equipment, right-of-use assets, investment properties and intangible assets	53 034	8 187	18 087	40 713	120 021	2 226		122 247

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

The consolidated financial statements were prepared in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" and the related disclosures and adjustments of certain prior-year figures. The above-mentioned segment information however follows internal management reporting, which is why the discontinued operations per note 36 consisting of Windows Division are also included.

The reconciliation of the continuing and discontinued operations on the segment information is presented as follows:

in 1 000 CHF	2020		
	Continuing operations	Discontinued operations Windows	Total segments
Net revenues	1 038 421	357 844	1 396 265
Segment results I (EBITDA)	116 292	41 543	157 835
<i>in % of net revenues</i>	<i>11.2</i>	<i>11.6</i>	<i>11.3</i>
Segment results II (EBITA)	68 787	20 657	89 444
<i>in % of net revenues</i>	<i>6.6</i>	<i>5.8</i>	<i>6.4</i>
Segment results III (EBIT)	53 872	19 408	73 280
<i>in % of net revenues</i>	<i>5.2</i>	<i>5.4</i>	<i>5.2</i>
Interest result	– 5 713	– 356	– 6 069
Other financial result	– 7 218	– 440	– 7 659
Result before income tax	40 940	18 612	59 552
Income tax expense	– 11 210	– 3 428	– 14 638
Result after income tax	29 730	15 184	44 914
Total assets	1 234 104	281 066	1 515 170
Total liabilities	521 457	100 498	621 955

in 1 000 CHF	2019		
	Continuing operations	Discontinued operations Windows	Total segments
Net revenues	1 057 832	358 135	1 415 967
Segment results I (EBITDA)	100 698	24 653	125 351
<i>in % of net revenues</i>	9.5	6.9	8.9
Segment results II (EBITA)	55 565	2 781	58 346
<i>in % of net revenues</i>	5.3	0.8	4.1
Segment results III (EBIT)	40 071	- 367	39 704
<i>in % of net revenues</i>	3.8	- 0.1	2.8
Interest result	- 4 444	- 219	- 4 663
Other financial result	- 1 528	781	- 747
Result before income tax	34 099	195	34 294
Income tax expense	- 11 561	3 474	- 8 087
Result after income tax	22 538	3 669	26 207
Total assets	1 246 158	288 257	1 534 415
Total liabilities	568 114	93 051	661 165

Information about geographical areas

in 1 000 CHF				2020
	Switzerland	Germany	Other Countries	Total
Net revenues	371 596	568 453	456 216	1 396 265
Property, plant and equipment, right-of-use assets, investment properties, intangible assets and goodwill	127 405	530 472	395 052	1 052 929
in 1 000 CHF				
	Switzerland	Germany	Other Countries	2019
Net revenues	356 324	555 686	503 957	1 415 967
Property, plant and equipment, right-of-use assets, investment properties, intangible assets and goodwill	130 751	499 688	417 620	1 048 059

Major customers

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

32. Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

in 1 000 CHF	31/12/2020	31/12/2019
CHF	14 085	6 644
EUR	26 512	31 190
PLN	2 984	10 703
CZK	1 694	1 784
RUB	3 824	5 216
USD	305	295
GBP	212	105
Other currencies	2 491	2 417
Total	52 107	58 354

The effective interest on bank deposits is 0.0% (2019: 0.0%).

33. Accounts receivable/ contract balances**Accounts receivable**

in 1 000 CHF	31/12/2020	31/12/2019
Accounts receivable	94 429	141 267
Allowance for accounts receivable	- 12 072	- 16 303
Total	82 357	124 964
thereof accounts receivable project business	7 875	29 551

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

The ageing analysis is as follows:

in 1 000 CHF	31/12/2020	31/12/2019
Not yet due	73 663	101 714
Overdue up to 30 days	6 120	14 421
Overdue more than 30, less than 60 days	1 626	4 078
Overdue more than 60, less than 90 days	557	1 580
Overdue more than 90, less than 180 days	411	1 397
Overdue more than 180, less than 360 days	- 52	1 278
Overdue more than 360 days	32	496
Total accounts receivable, net	82 357	124 964

Outstanding accounts receivable amounting to CHF 38.0 million (2019: CHF 18.5 million) were secured and mainly consist of credit insurances. No allowances are made on the secured receivables.

The expected credit losses on accounts receivable developed as follows:

in 1 000 CHF	2020	2019
Balance at 01/01	- 11 212	- 10 230
Foreign exchange differences	144	269
Additional allowances	- 1 340	- 2 194
Used during year	841	843
Unused amounts reversed	1 761	100
Reclassification to assets held for sale	2 990	
Balance at 31/12	- 6 816	- 11 212

The expected credit losses were determined taking into account the current conditions and economic consequences of the coronavirus pandemic. Against this background, the assessment of credit losses focused on current conditions and future forecasts (in particular the future financial performance of the contracting party). The available collateral (e.g. credit insurance) were also included in the assessment. On the basis of these analyses, there was overall no significantly higher assessment of the credit default risk for the group companies.

Since February 2010 Arbonia sells receivables under a factoring agreement. Because Arbonia neither transfers nor retains substantially all the risks and rewards of ownership and still retains control, the receivables have to be recorded in the balance sheet to the extent of the so-called continuing involvement. In particular the late payment risk is completely retained by Arbonia up until a certain point in time. As of 31 December 2020 the book value of the transferred receivables amounted to CHF 16.4 million (2019: CHF 13.6 million). Thereof Arbonia already received from the factor CHF 14.7 million (2019: CHF 11.9 million) of cash and the difference of CHF 1.8 million (2019: CHF 1.7 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2019: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2019: CHF 0.2 million) are recorded for the consideration of the continuing involvement. In 2020 there was no gain realised for the continuing involvement, the cumulative loss since the inception of the factoring agreement amounts to CHF 0.02 million.

Contract balances

in 1 000 CHF	31/12/2020	31/12/2019
Contract assets project business	11 574	25 603
Total contract assets	11 574	25 603
Contract liabilities project business	1 218	4 270
Other advance payments by customers	1 674	4 176
Total contract liabilities	2 892	8 446

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

The movement in the contract assets is as follows:

in 1 000 CHF	2020	2019
Balance at 01/01	25 603	27 968
Reclassification of contract assets existing at the beginning of the period to accounts receivable	- 22 692	- 24 517
Revenue recognition on projects in progress as of the balance sheet date based on percentage of completion	57 927	50 715
Offset against contract liabilities due to partial payments received	- 34 198	- 28 563
Reclassification to assets held for sale	- 15 066	
Balance at 31/12	11 574	25 603

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

in 1 000 CHF	2020	2019
Balance at 01/01	4 270	1 451
Revenue recognised from amounts included in the contract liabilities at the beginning of the period	- 2 649	- 1 192
Partial payments received for projects in progress at the balance sheet date	36 020	32 574
Offset against contract assets	- 34 198	- 28 563
Reclassification to assets held for sale	- 2 225	
Balance at 31/12	1 218	4 270

In 2020, there were no known default risks and therefore no need for specific allowances on contract assets. The expected credit losses are estimated to be insignificant and therefore no allowance was made.

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

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

in 1 000 CHF	within 1 year	in 1-2 years	after 2 years
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2020	42 732	6 327	1 163
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2019	114 477	6 402	2 604

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

34. Inventories

in 1 000 CHF	31/12/2020	31/12/2019
Raw material and supplies	64 856	91 236
Semi-finished and finished goods	61 198	70 226
Goods purchased for resale	7 588	7 343
Prepayments		133
Total	133 642	168 938

A provision of CHF 20.0 million (2019: CHF 21.6 million) has been provided for obsolete and slow-moving items and is deducted from inventories. 2020 and 2019, there are no inventories written down to the net realisable value and no write-downs to net realisable value were recorded.

35. Financial assets

in 1 000 CHF	31/12/2020	31/12/2019
Investments < 20%		3 685
Investments in associated companies > 20 % < 50 %	8 194	2 492
Other financial assets	71	80
Loans		1 629
Total	8 265	7 886
thereof disclosed as current assets		1 629

In April 2020, Arbonia increased its minority interest in the German company KIWI-KI GmbH, DE-Berlin, acquired in 2018, to over 20%. The purchase price amounted to CHF 4.9 million, of which CHF 1.6 million was offset against the convertible loan granted in October 2019. The cash outflow of CHF 3.3 million is included in the consolidated statement of cash flows in the position issuance of financial assets.

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

Associated companies

in 1 000 CHF	2020	2019
Balance at 01/01	2 492	2 672
Foreign exchange differences	37	- 97
Reclassification from investments < 20% and increase of investment	8 638	
Minority share from associated companies	- 378	149
Dividends received		- 232
Reclassification due to full business acquisition	- 2 595	
Balance at 31/12	8 194	2 492

Due to the acquisition of the remaining 65% share in Webcom Management Holding GmbH in December 2020, the company will be fully consolidated as of the end of the 2020 financial year (see note 41). As of 30 March 2017, Arbonia had acquired a 35% minority share of this German online windows dealer through payment of CHF 2.4 million.

Subsequently, the financial information of these associated companies is disclosed in condensed form.

Associated companies – Balance sheet

in 1 000 CHF	31/12/2020	31/12/2019
Current assets	6 318	1 766
Non-current assets	1 535	1 164
Total assets	7 852	2 930
Current liabilities	646	1 876
Non-current liabilities	627	190
Shareholders' equity	6 579	864
Total liabilities and shareholders' equity	7 852	2 930

The balance sheet as of 31 December 2020 includes KIWI-KI GmbH, whereas the previous year shows Webcom.

Associated companies - Income statement

in 1 000 CHF	2020	2019
Net revenues	15 701	12 202
Results after taxes	- 1 631	515

The income statement for 2020 and 2019 includes Webcom, whereas KIWI-KI GmbH has only been included in the income statement since the increase of the investment to over 20% in April 2020.

Business transactions with associated companies

in 1 000 CHF	2020	2019
Sale of goods and services	2 146	3 258
Purchase of goods and services	42	24
Receivables at balance sheet date	20	
Liabilities at balance sheet date	26	21

Loans

At the beginning of October 2019, KIWI-KI GmbH was granted an interest-bearing convertible loan of EUR 1.5 million, repayable by the end of February 2020. The loan was converted into shares at a predetermined share value on the occasion of the financing round successfully carried out in April 2020.

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

The ageing analysis for loans was as follows for 2019:

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

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

in 1 000 CHF	2020	2019
Balance at 01/01	- 3 000	- 3 000
Used during year	3 000	
Balance at 31/12		- 3 000

The impairment of loans of CHF 3.0 million which originated from the sale of the kitchen division in 2014, was derecognised in the reporting year. The recovery or partial recovery of the claim from the insolvency proceedings that have been ongoing for years is estimated to be low.

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

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021. In accordance with IFRS 5, Arbonia reports the business unit windows as of 31 December 2020 as discontinued operations. All prior-year figures in the income statement and the accompanying notes have been adjusted accordingly. In the consolidated balance sheet as of 31 December 2020, assets and liabilities of the discontinued operations windows are disclosed in the respective held for sale asset and liability positions. Previous year's figures in the balance sheet, however, were not adjusted.

In 2020, the production property in Belgium was sold. The cash inflow of CHF 7.2 million is included in the consolidated statement of cash flows under proceeds from sale of property, plant and equipment. The sale of the investment property in Germany, which was reclassified in the previous year, could not yet be completed in

2020 as expected; the sale is now expected in the first half of 2021.

Assets held for sale and discontinued operations

in 1 000 CHF	31/12/2020	31/12/2019
Cash and cash equivalents	6 541	
Receivables and other assets	37 557	
Inventories and contract assets	42 681	
Deferred expenses	428	
Property, plant and equipment and right-of-use assets	130 376	9 823
Intangible assets and goodwill	34 498	
Deferred income tax assets	952	
Capitalised pension surplus	30 229	
Financial assets	30	
Total	283 292	9 823

Liabilities associated with assets held for sale and discontinued operations

in 1 000 CHF	31/12/2020	31/12/2019
Liabilities	38 962	
Financial debts and lease liabilities	19 770	
Accruals and deferred income	23 058	
Provisions	10 555	
Deferred income tax liabilities	8 153	
Total	100 498	

Result from discontinued operations

in 1 000 CHF	2020	2019
Net revenues	357 844	358 135
Other operating income and capitalised own services	2 445	2 628
Changes in inventories of semi-finished and finished goods	- 3 459	1 222
Cost of material and goods	- 146 698	- 163 056
Personnel expenses	- 123 112	- 128 097
Other operating expenses	- 45 477	- 46 179
EBITDA	41 543	24 653
Depreciation, amortisation and impairments	- 20 886	- 21 871
Amortisation of intangible assets from acquisitions	- 1 249	- 3 149
EBIT	19 408	- 367

Financial result	- 796	562
Result from discontinued operations before income tax	18 612	195
Income tax expense	- 3 428	3 474
Result from discontinued operations	15 184	3 669

The results for the reporting period comprise sales costs for the disposal of the business unit windows of CHF 0.8 million.

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

Cash flow from discontinued operations

in 1 000 CHF	2020	2019
Cash flows from operating activities	46 916	31 426
Cash flows from investing activities	- 12 574	- 16 687
Cash flows from financing activities	- 4 616	- 4 434

37. Property, plant and equipment

in 1 000 CHF	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
Net book value at 01/01/2019	252 167	182 903	17 164	93 983	546 217
Cost					
Balance at 01/01/2019	355 689	441 839	56 696	108 499	962 723
Foreign exchange differences	- 10 676	- 12 899	- 1 300	133	- 24 742
Change in scope of consolidation		- 1	- 326		- 327
Additions	14 341	25 978	4 934	64 298	109 551
Disposals	- 448	- 26 297	- 1 907	- 3 530	- 32 182
Reclassification to assets held for sale	- 8 203				- 8 203
Reclassifications	25 429	61 646	- 1 300	- 89 909	- 4 134
Balance at 31/12/2019	376 132	490 266	56 797	79 491	1 002 686
Foreign exchange differences	- 10 716	- 12 910	- 1 069	- 1 964	- 26 659
Change in scope of consolidation	367	1	128		496
Additions	3 292	21 784	2 948	64 224	92 248
Disposals	- 600	- 23 756	- 3 966	- 406	- 28 728
Reclassification to assets held for sale	- 58 857	- 128 863	- 14 214	- 4 448	- 206 382
Reclassifications	11 335	31 226	1 822	- 45 113	- 730
Balance at 31/12/2020	320 953	377 748	42 446	91 784	832 931

in 1 000 CHF	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
Accumulated depreciation					
Balance at 01/01/2019	103 522	258 936	39 532	14 516	416 506
Foreign exchange differences	– 3 357	– 7 123	– 903	367	– 11 016
Change in scope of consolidation		– 1	– 326		– 327
Depreciation	9 495	30 463	5 296	160	45 414
Impairment	156	2 991			3 147
Reversal of impairment		– 54	– 20		– 74
Disposals	– 425	– 25 951	– 1 745	– 154	– 28 275
Reclassification to assets held for sale	– 641				– 641
Reclassifications	383	16 714	– 2 431	– 14 883	– 217
Balance at 31/12/2019	109 133	275 975	39 403	6	424 517
Foreign exchange differences	– 1 367	– 5 969	– 635	– 524	– 8 495
Depreciation	9 614	32 511	5 403		47 528
Impairment		1 262	25		1 287
Reversal of impairment		– 29			– 29
Disposals	– 243	– 23 688	– 3 879	– 6	– 27 816
Reclassification to assets held for sale	– 8 927	– 78 813	– 9 464	– 256	– 97 460
Reclassifications		– 4 932	368	6 526	1 962
Balance at 31/12/2020	108 210	196 317	31 221	5 746	341 494
Net book value at 31/12/2019	266 999	214 291	17 394	79 485	578 169
Net book value at 31/12/2020	212 743	181 431	11 225	86 038	491 437

In 2019, land and buildings and plant and machinery included capitalised borrowing costs in the amount of CHF 2.0 million. No borrowing costs were capitalised in 2020.

Capital commitments

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

in 1 000 CHF	31/12/2020	31/12/2019
Property, plant and equipment	41 370	19 783
Intangible assets	690	489
Total	42 060	20 272

Land and buildings amounting to CHF 50.8 million (2019: CHF 51.0 million) are pledged to secure mortgages.

38. Leasing

Arbonia leases various assets, including buildings, machinery, vehicles, tools and IT equipment. The lease conditions are negotiated individually and contain a

variety of different conditions. The rights-of-use assets in connection with these leases are as follows:

in 1 000 CHF	Right-of-use buildings	Right-of-use plant and machinery	Right-of-use other equipment	Total
Net book value at 01/01/2019	68 950	6 810	10 993	86 753
Cost				
Balance at 01/01/2019	72 940	7 973	12 381	93 294
Foreign exchange differences	- 867	- 662	- 462	- 1 991
Additions	2 320	1 073	5 881	9 274
Disposals and remeasurements	471	- 39	- 576	- 144
Balance at 31/12/2019	74 864	8 345	17 224	100 433
Foreign exchange differences	- 179	- 95	- 224	- 498
Additions	2 110	849	5 946	8 905
Disposals and remeasurements	2 403	- 6	- 1 178	1 219
Reclassification to assets held for sale	- 21 414	- 460	- 6 287	- 28 161
Reclassifications		- 2 538	- 733	- 3 271
Balance at 31/12/2020	57 784	6 095	14 748	78 627
Accumulated depreciation				
Balance at 01/01/2019	3 989	1 164	1 388	6 541
Foreign exchange differences	- 82	- 203	- 198	- 483
Depreciation	7 622	1 154	5 000	13 776
Impairment	100			100
Disposals	- 270	- 4	- 340	- 614
Balance at 31/12/2019	11 359	2 111	5 850	19 320
Foreign exchange differences	- 24	- 23	- 80	- 127
Depreciation	7 930	1 041	5 632	14 603
Disposals	- 47		- 1 090	- 1 137
Reclassification to assets held for sale	- 5 637	- 369	- 3 133	- 9 139
Reclassifications		- 983	- 367	- 1 350
Balance at 31/12/2020	13 581	1 777	6 812	22 170
Net book value at 31/12/2019	63 505	6 234	11 374	81 113
Net book value at 31/12/2020	44 203	4 318	7 936	56 457

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

in 1 000 CHF	2020	2019 restated ¹
Expenses relating to short-term leases	1 752	2 742
Expenses relating to leases of low-value assets (excluding short-term leases)	325	277
Expenses for variable lease payments	675	643
Total	2 752	3 662

¹ see note 36

Total cash outflows for leases amounted to CHF 20.2 million in 2020 (2019: CHF 21.0 million). Of this amount, CHF 14.3 million (2019: CHF 14.8 million) was attributable to continuing operations.

Some of Arbonia's rental leases include renewal options. The determination of the lease term of these leases requires judgement. The assessment of whether it is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. In its assessment, Arbonia considers the facts and circumstances that create an economic incentive to exercise such options. The assessment is reviewed if a significant event or a significant change in circumstances occurs. As of 31 December 2020, possible future cash outflows of CHF 1.2 million (2019: CHF 1.8 million) were not included in the lease liability as it is not reasonably certain that the lease agreements will be renewed.

39. Investment property

in 1 000 CHF	Investment property - land	Investment property - buildings	Total
Net book value at 01/01/2019	4 341	2 474	6 815
Cost			
Balance at 01/01/2019	4 840	27 965	32 805
Foreign exchange differences	– 6	– 27	– 33
Additions		61	61
Reclassification to assets held for sale	– 445	– 2 294	– 2 739
Balance at 31/12/2019	4 389	25 705	30 094
Disposals	– 2 786	– 977	– 3 763
Balance at 31/12/2020	1 603	24 728	26 331
Accumulated depreciation			
Balance at 01/01/2019	499	25 491	25 990
Depreciation		203	203
Reclassification to assets held for sale		– 233	– 233
Balance at 31/12/2019	499	25 461	25 960
Depreciation		52	52
Disposals		– 977	– 977
Balance at 31/12/2020	499	24 536	25 035
Net book value at 31/12/2019	3 890	244	4 134
Net book value at 31/12/2020	1 104	192	1 296
Fair values of investment properties at 31/12/2019			11 302
Fair values of investment properties at 31/12/2020			8 516

In 2020, an investment property in Switzerland was sold, resulting in a sales gain of CHF 2.1 million. The net cash inflow of CHF 4.9 million is included in the consolidated statement of cash flows under proceeds from sale of investment properties.

Rental income from investment properties amounted to CHF 1.3 million (2019: CHF 1.6 million) and is included in other operating income. Related direct operating expenses were CHF 0.1 million (2019: CHF 0.3 million) and are included in other operating expenses.

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

40. Intangible assets

in 1 000 CHF	Brands	Customer relationships	Technologies	Other intangible assets from business combinations	Other intangible assets	Total	Goodwill
Net book value at 01/01/2019	78 192	101 818	16 152	4 042	9 355	209 559	204 068
Cost							
Balance at 01/01/2019	116 450	143 698	20 984	18 962	41 881	341 975	284 784
Foreign exchange differences	- 3 193	- 4 174	- 763	- 381	- 623	- 9 134	- 6 730
Change in scope of consolidation					- 33	- 33	
Additions					3 361	3 361	
Disposals					- 2 159	- 2 159	
Reclassifications					3 917	3 917	
Balance at 31/12/2019	113 257	139 524	20 221	18 581	46 344	337 927	278 054
Foreign exchange differences	- 1 353	- 2 441	- 95	- 67	- 191	- 4 147	- 2 237
Change in scope of consolidation					8 266	8 266	
Additions					3 295	3 295	
Disposals					- 3 287	- 3 287	
Reclassification to assets held for sale	- 27 897	- 17 073		- 14 008	- 29 925	- 88 903	- 67 718
Reclassifications					4 733	4 733	
Balance at 31/12/2020	84 007	120 010	20 126	4 506	29 235	257 884	208 099
Accumulated amortisation							
Balance at 01/01/2019	38 258	41 880	4 832	14 920	32 526	132 416	80 716
Foreign exchange differences	- 758	- 1 063	- 200	- 244	- 413	- 2 678	
Change in scope of consolidation					- 33	- 33	
Amortisation	7 242	9 883	1 104	413	4 437	23 079	
Disposals					- 2 162	- 2 162	
Balance at 31/12/2019	44 742	50 700	5 736	15 089	34 355	150 622	80 716
Foreign exchange differences	- 516	- 1 448	- 20	- 46	- 131	- 2 161	
Amortisation	6 963	7 744	1 060	397	4 949	21 113	
Disposals					- 3 275	- 3 275	
Reclassification to assets held for sale	- 25 634	- 16 160		- 11 015	- 19 098	- 71 907	- 50 215
Balance at 31/12/2020	25 555	40 836	6 776	4 425	16 800	94 392	30 501
Net book value at 31/12/2019	68 515	88 824	14 485	3 492	11 989	187 305	197 338
Net book value at 31/12/2020	58 452	79 174	13 350	81	12 435	163 492	177 598

Expenses for research and development in the amount of CHF 16.3 million (2019: CHF 15.3 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. Of this amount, CHF 13.3 million (2019: CHF 12.1 million) was attributable to continuing operations. The additions to intangible assets consist of CHF 0.6 million (2019: CHF 0.3 million) of own development costs and CHF 2.7 million (2019: CHF 3.1 million) of purchased or acquired items.

Goodwill

As of 31 December 2020 goodwill from business combinations is allocated to the Group's five cash-generating units (CGUs) Doors, Sanitary, Wertbau, Sabiana and Slovaktual.

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

in 1 000 CHF	Doors	Sanitary	Wertbau	Sabiana	Slovaktual	Total
Balance at 31/12/2019	141 417	14 647	3 130	23 700	14 444	197 338
Foreign exchange differences	- 2 072		- 12	- 94	- 59	- 2 237
Reclassification to assets held for sale			- 3 118		- 14 385	- 17 503
Balance at 31/12/2020	139 345	14 647		23 606		177 598

Goodwill impairment tests 2020

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

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations used cash flow projections covering a five-year period. Cash flows beyond the five-year period were extrapolated using estimated growth rates. The underlying financial data consisting of one budget year and four plan years form part of the Group's medium term plan approved by the Board of Directors in autumn 2020 and were used for the impairment tests.

The value in use calculation for the annual 2020 impairment tests assumed the following key assumptions:

in %	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
Budgeted gross margin	57.1	66.4	51.5	42.0	41.8
Growth rate	1.6	1.3	1.0	2.0	1.0
Discount rate	9.8	9.2	10.1	11.6	9.5

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

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2020 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 57.1% to 55.1% would result in an impairment of the CGU Doors amounting to CHF 48.6 million. At a budgeted gross margin of 56.1%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.6% to 1.1% would lead to an impairment of CHF 43.6 million. At a reduction of 5.3% in EBITDA and

a simultaneous reduction of eternal growth to 1.3%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2019

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

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

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

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2019 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 56.2% to 54.2% would have resulted in an impairment of the CGU Doors amounting to CHF 48.1 million. At a budgeted gross margin of 55.1%, the recoverable amount would have been equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.7% to 1.2% would have led to an impairment of CHF 31.2 million. At a reduction of 7.2% in EBITDA and a simultaneous reduction of eternal growth to 1.4%, the recoverable amount would have been equal to their carrying amount.

41. Acquisitions

The following fair value of assets and liabilities had arisen from acquisitions in 2020 as mentioned under note 3:

Webcom

in 1 000 CHF	Fair Value
Assets	
Cash and cash equivalents	3 342
Accounts receivables	95
Other current assets	77
Inventories	422
Property, plant and equipment	496
Intangible assets	474
Financial assets	14
Total assets	4 920
Liabilities	
Accounts payable	405
Other liabilities	2 654
Financial debts	97
Current income tax liabilities	141
Provisions	31
Deferred income tax liabilities	136
Total liabilities	3 464
Net assets acquired before remeasurement	1 456
Intangible assets/Goodwill	7 792
Net assets acquired	9 247
Fair value of initial interest	- 2 595
Acquisition price	6 652
Net cash outflow was as follows:	
Purchase price	6 652
Cash and cash equivalents acquired	- 3 342
Net cash outflow on acquisition	3 310

As of 1 December 2020, Arbonia acquired the remaining 65% of the German online retailer Webcom Management Holding GmbH, DE-Bad Liebenstein. The purchase price amounted to CHF 6.7 million and is allocated to the discontinued operation windows. Therefore, in accordance with the provisions of IFRS 5, Arbonia has refrained from determining the fair value of the acquired assets and there in particular the intangible assets. Similarly, certain disclosures on individual balance sheet items and the income statement have been omitted. Certain information is disclosed in note 35 under associated companies.

42. Financial debts

On 3 November 2020, Arbonia entered into a syndicated loan for CHF 250 million. This loan, arranged with a consortium of domestic and foreign banks, has a term of five years, with the option to extend the agreement twice for one year each. With the taking out of this new syndicated loan, the syndicated loan concluded on 14 September 2016 for CHF 350 million with a term until 14 September 2021 was replaced prematurely.

On 20 April 2018, Arbonia had taken up a promissory note loan in the amount of EUR 125 million with maturities of five, seven and ten years. In November 2020, Arbonia repaid EUR 4 million of the five-year tranche prematurely.

The financial debts are comprised of the following:

in 1 000 CHF	31/12/2020	31/12/2019
Promissory note loan	130 849	135 713
Syndicated loan		30 000
Mortgages	9 065	10 115
Bank loans	255	675
Total	140 169	176 503

In contrast to the replaced syndicated loan, the new syndicated loan contains the leverage ratio as the only covenant. The syndicated loan concluded in 2016 also contained the minimum net worth and the interest coverage ratio as additional covenants. In the event of non-compliance, the banks may at any time at their option, declare the amounts then outstanding to be immediately due and payable. Arbonia was in compliance with the covenants in 2020 and 2019.

The maturities of the financial debts are as follows:

in 1 000 CHF	31/12/2020	31/12/2019
within 1 year	1 265	31 352
between 1 and 5 years	124 078	69 538
after 5 years	14 826	75 613
Total	140 169	176 503

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

	31/12/2020	
	CHF	EUR
Financial debts		1.7%

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

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

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

in 1 000 CHF	31/12/2020	31/12/2019
CHF		30 000
EUR	140 169	146 503
Total	140 169	176 503

43. Financial instruments

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

in 1 000 CHF	31/12/2020						
	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	92 947	92 947	92 947				
Other liabilities (without derivatives)	17 127	22 197	1 114	433	650		20 000
Lease liabilities	39 324	42 512	5 388	4 945	8 746	15 840	7 593
Accruals and deferred income	40 705	40 705	39 141	1 564			
Financial debts	140 169	151 110	3 371	1 050	3 146	127 871	15 672
Derivative financial instruments							
Interest rate swaps	1 485						
Cash outflow		1 485	139	141	256	569	380
Total	331 757	350 956	142 100	8 133	12 798	144 280	43 645

in 1 000 CHF	31/12/2019						
	Book value	Contractual cash flows	up to 6 months	7 to 12 months	between 1 and 2 years	between 2 and 5 years	after 5 years
Non-derivative financial instruments							
Accounts payable	125 844	125 844	125 265	579			
Other liabilities (without derivatives)	17 002	22 965	1 826	9	1 103	27	20 000
Lease liabilities	62 444	68 274	7 582	7 131	11 970	23 774	17 817
Accruals and deferred income	46 868	46 868	46 102	766			
Financial debts	176 503	189 587	33 531	1 158	3 316	74 916	76 666
Derivative financial instruments							
Interest rate swaps	1 565						
Cash outflow		1 565	142	136	249	576	462
Forward foreign exchange contracts	189						
Cash outflow		23 612	23 612				
Cash inflow		- 23 423	- 23 423				
Total	430 415	455 292	214 637	9 779	16 638	99 293	114 945

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

44. Additional disclosures on financial instruments

The relation between the relevant balance sheet items and the measurement categories in accordance with IFRS 9 and the disclosure of fair values of financial instruments is shown in the following table. The table does not contain information on fair value for financial assets and financial liabilities that are not measured at fair value if the carrying amount is a reasonable approximation of fair value. Similarly, no information is required on the fair value of lease liabilities.

in 1 000 CHF	31/12/2020					
	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value	Fair Value Level 2
Cash and cash equivalents		52 107			52 107	
Accounts receivable		82 357			82 357	
Other current assets		2 793			2 793	
Deferred expenses		3 263			3 263	
Other financial assets		71			71	
Assets		140 591			140 591	
Accounts payable				92 947	92 947	
Derivative financial instruments			1 485		1 485	1 485
Other liabilities (without derivatives)				17 127	17 127	
Lease liabilities				39 324	39 324	
Accruals and deferred income				40 705	40 705	
Promissory note loan				130 849	130 849	133 540
Loans				255	255	
Mortgages				9 065	9 065	10 386
Liabilities			1 485	330 271	331 756	

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

Abbreviations in the header of this table are explained in note 9 "Financial Instruments" on page 131.

The derivative financial instruments measured at fair value through profit or loss relate to interest rate and currency swap transactions. The fair value of level 2 is the present value of expected payments, which are discounted at market rates. The determination of the fair value of these transactions is made by the banks. The investments < 20% measured at fair value through profit or loss in 2019, related to the minority interest in the German KIWI-KI GmbH, DE-Berlin acquired in 2018. KIWI-KI GmbH was granted a convertible loan at the beginning of October 2019, which was also measured

at fair value through profit or loss. The fair value as at 31 December 2019 corresponded to the original purchase price of CHF 3.7 million or the original loan amount of EUR 1.5 million. In April 2020, Arbonia increased its minority interest to over 20% (see note 35).

In 2020 and 2019, no gains/losses resulted from level 3 financial instruments. Furthermore, no reclassifications occurred between the levels 1 and 2.

45. Provisions

in 1 000 CHF	Warranty	Personnel Restructuring	Onerous contracts project business	Other provisions	Total	
Balance at 01/01/2019	14 063	10 066	7 894	93	5 291	37 407
Foreign exchange differences	- 350	- 323	- 101		- 53	- 827
Additional provisions	10 126	1 803	4 753	794	1 028	18 504
Used during the year	- 8 852	- 2 189	- 9 399	- 514	- 1 878	- 22 832
Unused amounts reversed	- 523	- 826	- 683	- 33	- 397	- 2 462
Balance at 31/12/2019	14 464	8 531	2 464	340	3 991	29 790
Foreign exchange differences	- 124	- 60	- 15		- 27	- 226
Change in scope of consolidation	14	12			6	32
Additional provisions	10 574	1 615	495	250	1 598	14 532
Used during the year	- 9 106	- 1 950	- 1 227	- 244	- 384	- 12 911
Unused amounts reversed	- 113	- 297	- 190		- 182	- 782
Reclassification to liabilities associated with assets held for sale	- 5 906	- 292	- 1 500	- 307	- 2 550	- 10 555
Balance at 31/12/2020	9 803	7 559	27	39	2 452	19 880
thereof current at 31/12/2019	9 523	2 537	2 464	340	2 885	17 749
thereof current at 31/12/2020	7 307	1 768	27	39	1 277	10 418

The current provision is expected to be fully utilised during 2021. The non-current provision is expected to be utilised as follows:

in 1 000 CHF	Warranty	Personnel Restructuring	Onerous contracts project business	Other provisions	Total
between 1 and 5 years	2 489	4 185		409	7 083
after 5 years	7	1 606		766	2 379

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

On 20 March 2019, the HVAC Division announced a further reorganisation of areas of production at the Dilsen (BE) site. In 2019, costs of CHF 9.4 million incurred for these restructuring measures were booked against the provision and CHF 0.7 million were released to income as a result of voluntary staff departures and risk reduction measures. The restructuring of the radiator business was completed in summer 2020.

Other provisions

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

46. Deferred income taxes

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

in 1 000 CHF	31/12/2020		31/12/2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Assets				
Accounts receivable	1 037	230	1 171	196
Other current assets		208	1	226
Inventories	1 947		2 179	
Non-current assets held for sale		179		2 456
Property, plant and equipment and right-of-use assets	110	24 973	269	28 525
Investment property	61		498	
Intangible assets	45	39 851	396	45 033
Capitalised pension surplus and financial assets		2 368		8 311
Liabilities				
Current liabilities	5 901	3 248	6 448	3 076
Non-current liabilities	5 410	2 462	5 684	1 239
Current and non-current provisions	1 053	425	1 284	395
Employee benefit obligations	9 353		8 864	
Deferred taxes from timing differences	24 917	73 944	26 794	89 457
Deferred tax assets derived from tax loss carryforwards	15 363		15 640	
Valuation allowance	- 8 395		- 7 860	
Net deferred taxes from timing differences	31 885	73 944	34 574	89 457
Offset of deferred tax assets and liabilities	- 24 679	- 24 679	- 26 037	- 26 037
Total deferred taxes	7 206	49 265	8 537	63 420

From the capitalised pension surplus and employee benefit obligations, CHF 1.3 million (2019: CHF 2.4 million) of deferred taxes from continuing operations were recorded in comprehensive income. All other changes of assets and liabilities were recorded through the income statement.

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

There are temporary differences totalling CHF 56.6 million (2019: CHF 63.5 million) in conjunction with investments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12. For continuing operations, there are no deductible temporary differences for both 2020 and 2019 on which no deferred tax assets have been recognised.

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

in 1 000 CHF	2020	2019
Balance at 01/01	54 883	65 293
Change in scope of consolidation	136	
Changes to other comprehensive income for continuing operations	- 1 267	- 2 406
Changes to other comprehensive income for discontinued operations	311	- 89
Changes to the income statement for continuing operations	- 6 316	- 3 350
Changes to the income statement for discontinued operations	1 785	- 2 805
Reclassification to assets held for sale	952	
Reclassification to liabilities associated with assets held for sale	- 8 152	
Foreign exchange differences	- 273	- 1 760
Balance at 31/12	42 059	54 883
Unrecognised tax loss carryforwards in 1 000 CHF	31/12/2020	31/12/2019
Tax loss carryforwards	89 604	125 146
thereof recognised as deferred taxes	- 37 122	- 50 758
Unrecognised tax loss carryforwards	52 482	74 388
Portion expiring:		
within 1 year	546	150

between 1 and 5 years	33 592	61 061
after 5 years	18 344	13 177
Total	52 482	74 388

Tax effect on unrecognised tax loss carryforwards	8 395	7 860
thereof pertaining to tax rates below 15%	6 323	4 911
thereof pertaining to tax rates between 21% and 25%	120	97
thereof pertaining to tax rates between 26% and 30%	1 952	2 852

47. Employee benefit obligations

Pension plans in Switzerland

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

In 2020, two pension foundations were liquidated. Free funds of CHF 6.2 million were distributed to the employees who left the company in the form of one-time payments. The employees who remained in the company received contributions of CHF 2.9 million to their retirement savings as a benefit improvement, which was treated as an actuarial loss.

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:

in 1 000 CHF	31/12/2020	31/12/2019
Present value of funded obligations	121 217	308 231
Fair value of plan assets	132 759	351 394
Overfunding	- 11 542	- 43 163
Present value of unfunded obligations	56 941	54 421
Liability (net) recognised in the balance sheet	45 400	11 258
thereof recorded as employee benefit obligations	57 715	55 941
thereof recorded as capitalised pension surplus	- 12 315	- 44 683

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

in 1 000 CHF	2020	2019
Balance at 01/01	362 652	343 692
Interest cost	1 391	3 408
Current service cost	10 032	8 734
Past service cost		106
Contributions by plan participants	4 744	4 759
Benefits paid	– 18 539	– 12 124
Actuarial losses arising from changes in financial assumptions	6 851	26 891
Actuarial losses/gains arising from experience adjustments	6 765	– 5 096
Settlements/partial liquidation	– 5 644	– 5 773
Administration cost	153	141
Reclassification to liabilities associated with assets held for sale	– 190 033	
Foreign exchange differences	– 213	– 2 086
Balance at 31/12	178 159	362 652
thereof for active members	102 558	218 815
thereof for pensioners	69 517	137 582
thereof for deferred members	6 084	6 255

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

in 1 000 CHF	2020	2019
Balance at 01/01	351 394	338 579
Interest income	736	2 739
Return on plan assets excl. interest income	17 687	14 354
Contributions by the employer	7 601	7 761
Contributions by plan participants	4 744	4 759
Benefits paid	- 18 539	- 12 101
Settlements/partial liquidation	- 4 400	- 4 485
One-time payments to leavers from free funds	- 6 178	
Reclassification to assets held for sale	- 220 260	
Foreign exchange differences	- 26	- 211
Balance at 31/12	132 758	351 394

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

in 1 000 CHF	2020	2019
Actuarial losses	4 553	16 315
Actuarial losses from discontinued operations	9 063	5 480
One-time payments to leavers from free funds	6 178	
Return on plan assets excl. interest income	- 17 688	- 14 355
Remeasurements of employee benefit obligations	2 106	7 440

The amounts recognised in the income statement are as follows:

in 1 000 CHF	2020	2019
Current service cost	10 032	8 734
Past service cost		106
Net interest result	655	669
Administration cost	153	141
Settlements/partial liquidation	- 1 244	- 1 288
Net charges for defined benefit plans	9 595	8 362
thereof recorded under personnel expenses from continuing operations	5 811	4 836
thereof recorded under financial results from continuing operations	711	880
thereof recorded under Group result from discontinued operations after taxes	3 074	2 646

The principal actuarial assumptions used were as follows:

Weighted average		2020	2019
Discount rate at 31/12		0.5%	0.4%
Future salary increases		1.3%	1.1%
Future pension increases		0.5%	0.3%
Mortality tables	Switzerland	BVG 2015 GT	BVG 2015 GT
	Germany	HB 2018 GT	HB 2018 GT

The sensitivity of employee benefit obligations due to changes of principal assumptions for all operations are as follows, whereby only the continuing operations have been taken into account for 2020:

Impact on employee benefit obligations	Change in assumption	2020	2019
Discount rate	– 0.25%	7 309	14 354
	+ 0.25%	– 6 808	– 13 385
Salary increases	– 0.25%	– 749	– 1 418
	+ 0.25%	749	1 431
Life expectancy	+ 1 year	5 044	10 469
	– 1 year	– 5 047	– 10 552
Service cost 2021 with discount rate	+ 0.25%	– 354	– 646

The weighted average duration of employee benefit obligations is 16.7 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:

in 1 000 CHF	quoted	unquoted	31/12/2020 Total	quoted	unquoted	31/12/2019 Total
Cash and cash equivalents		4 490	4 490		25 883	25 883
Equity instruments	38 277		38 277	95 980		95 980
Debt instruments	20 583		20 583	58 505		58 505
Real estate	6 703	49 091	55 794	6 388	134 534	140 922
Others	8 510	5 104	13 614	24 629	5 475	30 104
Total plan assets	74 073	58 685	132 758	185 502	165 892	351 394

The category "Others" contains assets from full insurance contracts that have been terminated some years ago and are therefore expiring.

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

in 1 000 CHF	up to 1 year	between 1 and 2 years	between 2 and 5 years	next 5 years
Benefit payments	1 443	1 554	5 122	10 350

Expected contributions to pension plans for the year 2021 amount to CHF 7.0 million for the continuing operations (2020: CHF 11.9 million for all operations),

of which CHF 4.7 million (2020: CHF 7.3 million for all operations) are attributable to the employer.

48. Share capital

The capital structure is as follows:

Category	31/12/2020			31/12/2019		
	Outstanding shares	Par value in CHF	Share capital in CHF	Outstanding shares	Par value in CHF	Share capital in CHF
Registered shares	69 473 243	4.20	291 787 621	69 473 243	4.20	291 787 621

The proposed distribution per share amounts to CHF 0.47, divided into CHF 0.22 for the 2019 financial year and CHF 0.25 for the 2020 financial year.

On 24 April 2020, the Annual General Meeting of Arbonia AG had approved amongst others the following: To authorise the Board of Directors to create additional share capital by a maximum amount of CHF 29 148 000 through the issue of a maximum of

6 940 000 fully paid registered shares with a par value of CHF 4.20 each until 24 April 2022 (authorised capital increase). To increase the share capital by a maximum amount of CHF 29 148 000 by issuing a maximum of 6 940 000 fully paid up registered shares with a par value of CHF 4.20 (conditional capital increase). The authorised and conditional capital increase together were limited to an additional share capital of CHF 29 148 000.

Earnings per share	2020	2019
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	29 730	22 538
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)	15 184	3 669
Group earnings for the year (in 1 000 CHF)	44 914	26 207
Outstanding shares (average)	69 473 243	69 473 243
Less treasury shares (average)	– 313 454	– 638 438
Average number of shares outstanding for the calculation	69 159 789	68 834 805

There were no dilutive effects impacting the calculation.

49. Treasury shares

	2020			2019		
	Ø market value in CHF	Number of shares	Amount in 1 000 CHF	Ø market value in CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	8.31	532 380	4 426	8.31	854 054	7 101
Transfer for share based payments	8.31	– 355 294	– 2 952	8.31	– 321 674	– 2 674
Purchase	9.33	105 300	983			
Balance at 31/12	8.70	282 386	2 456	8.31	532 380	4 426

50. Other comprehensive income and other reserves

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

in 1 000 CHF	31/12/2020			31/12/2019		
	Other reserves	Retained earnings	Total other comprehensive income	Other reserves	Retained earnings	Total other comprehensive income
Remeasurements of employee benefit obligations		– 2 106	– 2 106		– 7 440	– 7 440
Deferred tax effect		956	956		2 494	2 494
Total items that will not be reclassified to income statement		– 1 150	– 1 150		– 4 947	– 4 947
Currency translation differences	– 25 523		– 25 523	– 24 966		– 24 966
Cumulative currency translation differences transferred to the income statement				111		111
Total items that may be subsequently reclassified to income statement	– 25 523		– 25 523	– 24 855		– 24 855
Other comprehensive income after taxes	– 25 523	– 1 150	– 26 673	– 24 855	– 4 947	– 29 802

Other reserves

in 1 000 CHF	Currency translation	Total
Balance at 31/12/2018	- 58 332	- 58 332
Currency translation differences	- 24 855	- 24 855
Balance at 31/12/2019	- 83 187	- 83 187
Currency translation differences	- 25 523	- 25 523
Balance at 31/12/2020	- 108 710	- 108 710

51. Financial results

in 1 000 CHF	2020	2019 restated ¹
Financial income		
Bank and other interest	167	446
Interest on net pension surplus	31	152
Total interest income	198	598
Impact of exchange rate fluctuations		453
Gains derivative financial instruments	256	1
Foreign currency exchange gain from sale/liquidation of subsidiaries		112
Other financial income	15	
Total other financial income	271	566
Total financial income	469	1 164
Financial expenses		
Bank and other interest	221	672
Interest on leases	1 101	1 210
Interest on non-current financial debts and syndicated loan	3 017	1 263
Interest on net employee benefit obligations	743	1 032
Compounding of liabilities	829	865
Total interest expenses	5 911	5 042
Impact of exchange rate fluctuations	3 695	
Losses derivative financial instruments	8	31
Minority share from associated companies	480	
Impairment on loans/ financial assets		31
Bank charges and other financial expenses	3 307	2 032
Total other financial expenses	7 490	2 094
Total financial expenses	13 401	7 136
Total net financial results	- 12 932	- 5 972

¹ see note 36

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

in 1 000 CHF	2020	2019 restated ¹
Total interest income from financial assets measured at amortised cost (FA AC)	167	446
Total interest expenses from financial liabilities measured at amortised cost (FL AC)	5 168	4 010
Net gain/loss from financial assets/ liabilities measured at fair value through profit or loss (FA/ FL FVTPL)	248	– 30
Impairment expenses recognised in financial expenses from financial assets measured at amortised cost (FA AC)		31
Finance costs recognised in financial expenses from financial assets/ liabilities measured at amortised cost (FA/ FL AC)	3 301	2 020

¹ see note 36

52. Income taxes

in 1 000 CHF	2020	2019 restated ¹
Current income taxes	17 526	14 911
Changes in deferred income taxes	– 6 316	– 3 350
Total	11 210	11 561

¹ see note 36

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	2020	2019 restated ¹
Earnings before income tax	40 940	34 099
Weighted average tax rate in %	26.3	27.0
Expected tax expense	10 773	9 220
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	– 619	– 104
Effect of not capitalised losses for the year	1 622	1 989
Effect of non-tax-deductible expenses and non-taxable income	139	737
Effect of income and expenses taxed at special rates	197	– 39
Effect of tax charges related to prior years	– 241	544
Effect of tax rate changes	– 473	– 723
Change in unrecognised deferred tax assets	– 129	– 52
Other items	– 59	– 11
Effective tax expense	11 210	11 561
Effective tax rate in %	27.4	33.9

¹ see note 36

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 of the continuing operations decreased slightly compared to previous year. Compared to 2019, there were no significant changes in local tax rates with the exception of the tax reform in Switzerland.

Swiss Tax Reform

The Swiss public voted on 19 May 2019 to adopt the Federal Act on Tax Reform. The Federal Act entered into force on 1 January 2020. The cantons implemented the reform autonomously according to their needs. In the canton of St. Gallen, the cantonal tax submission had already been passed during 2019 and the reduction in income tax rate was already taken into account in 2019 for the Arbonia companies domiciled in the canton of St. Gallen. The effects were insignificant and related to discontinued operations. In the canton of Thurgau, the cantonal tax submission was accepted in the public voting of 9 February 2020. The amended cantonal tax law came into force retroactively as of 1 January 2020 and included a reduction in income tax rates. Based on this change, the deferred tax positions of the Arbonia companies domiciled in the canton of Thurgau were revalued in the reporting period. The reduction of the affected net deferred tax liabilities resulted in a deferred tax income of CHF 0.5 million.

53. Financial risk management

Risk management principles

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

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

financial instruments are only entered into with banks which are specifically defined in the treasury policy.

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

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

Credit default risk

Credit risks arise from the possibility that the counterparty of a transaction might not be able or willing to meet its obligations. The credit risk relates to financial assets (see note 44) as well as to contract assets (see note 33).

The credit or default risk in relation to receivables and contract assets is controlled by the individual subsidiaries on a decentralised basis and limited through the assignment of credit limits on the basis of systematic and regular credit ratings. Corresponding guidelines are in place within the Group aiming at an ongoing control and value adjustment of open positions. Due to the broad diversification of the customer portfolio into various business segments and geographic regions but also the possibility to create construction tradesman's liens or the use of credit insurance, the credit risk is limited. The 10 largest debtors of Arbonia's continuing operations as of the balance sheet date accounted for a share of 32.9% (2019: 31.3% for all operations) of existing trade receivables. The 10 largest customers of continuing operations generated 27.1% (2019: 18.4% for all operations) 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 49%/24%/8% of total liquid funds as of the balance sheet date (2019: 61%/9%/7%).

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

Liquidity risk

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

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

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

in 1 000 CHF	31/12/2020	31/12/2019
Cash and cash equivalents	52 107	58 354
+ undrawn credit facilities	260 627	332 093
Total available liquidity	312 734	390 447

The new syndicated loan taken out in the reporting year includes the leverage ratio as the only covenant. The syndicated loan concluded in 2016 and prematurely replaced in the reporting year also contained the minimum net worth and the interest coverage ratio as additional covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2020 and 2019, Arbonia complied with all covenants. Due to restrictions on the leverage ratio, the unused credit limits could not be fully drawn until the new syndicated loan was taken out.

The contractually agreed maturities of financial liabilities within the meaning of IFRS 7 are set forth in note 43.

Market risk**(a) Currency risk**

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

A currency risk arises from transactions that are not settled in the functional currency of the Group companies. The standard policy is that subsidiaries must hedge 80% of the relevant net risk position for the risk horizon

period through hedging transactions via group treasury. Arbonia's risk position equals the sum of the subsidiaries' net risk positions and is hedged by the group treasury with external counterparties using currency forward contracts of the relevant foreign currency. The hedging ratio depends on the maturity and currency risk exposure and is determined on a case by case basis.

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

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

A 5% increase (decrease) of the EUR against the CHF (2019: 5%), a 5% increase (decrease) of the CZK against the CHF (2019: 5%), a 5% increase (decrease) of the PLN against the CHF (2019: 5%) or a 5% increase (decrease) of the RUB against the CHF would have the following effects on Arbonia's Group earnings as of the balance sheet date:

in 1 000 CHF	31/12/2020			
	EUR/CHF	CZK/CHF	PLN/CHF	RUB/CHF
Reasonably possible change	5.0%	5.0%	5.0%	5.0%
Impact of an increase on group earnings	- 439	467	138	299
Impact of a decrease on group earnings	439	- 467	- 138	- 299

in 1 000 CHF	31/12/2019		
	EUR/CHF	CZK/CHF	PLN/CHF
Reasonably possible change	5.0%	5.0%	5.0%
Impact of an increase on group earnings	2 029	671	561
Impact of a decrease on group earnings	- 2 029	- 671	- 561

(b) Interest rate risk

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

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

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

An increase (decrease) in the market interest level as of the balance sheet date by 50 basis points for CHF interest rates (2019: 50 basis points) or by 50 basis points for EUR interest rates (2019: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

in 1 000 CHF	31/12/2020	
	CHF interest rate	EUR interest rate
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	70	129
Impact of a decrease on group earnings	- 70	- 129

Interest rate swaps	
Impact of an increase on group earnings	180
Impact of a decrease on group earnings	- 180

in 1 000 CHF	31/12/2019	
	CHF interest rate	EUR interest rate
Reasonably possible change in basis points	50	50

Variable interest-bearing financial instruments

Impact of an increase on group earnings	- 108	143
Impact of a decrease on group earnings	108	- 143

Interest rate swaps

Impact of an increase on group earnings	204
Impact of a decrease on group earnings	- 204

(c) Other market risks

Fair value risk

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

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

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

Equity management

The objective of Arbonia is a strong equity base to secure the Group's future development. A sustainable equity ratio of between 45% and 55% is the goal. The shareholders' equity corresponds to an equity ratio of 59.0% as of the balance sheet date (2019: 56.9%). The increase in the equity ratio compared to the previous year is due to the high group result. The currency translation differences of the stronger CHF, especially against the Eastern European currencies, had a reducing effect on equity.

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

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

54. Derivative financial instruments

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

in 1 000 CHF	31/12/2020	31/12/2019
Liabilities		
Interest rate swaps without hedges	1 485	1 565
Forward foreign exchange contracts without hedges		189

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

Currency transactions are carried out on the basis of exchange rate fluctuation risk considerations and serve to hedge future cash flows. As a rule, only part of the planned cash flow is hedged. As per 31 December 2019, EUR was hedged against CHF and CZK against EUR.

55. Additional information on the cash flow statements

in 1 000 CHF	2020	2019
<i>Changes in non-cash transactions</i>		
Additional/reversed provisions	13 698	15 655
Changes in capitalised pension surplus/employee benefit obligations	1 358	31
Share based payments	2 709	2 854
Impairment on financial assets	69	34
Minority share from associated companies	379	– 149
Other non-cash effects	1 423	– 5 185
Total changes in non-cash transactions	19 636	13 240
<i>Changes in working capital</i>		
Changes in accounts receivable	4 711	7 990
Changes in inventories	4 659	– 5 862
Changes in contract assets project business	– 1 038	2 366
Changes in other working capital items	– 1 532	4 979
Total changes in working capital	6 800	9 473
<i>Changes in liabilities</i>		
Changes in accounts payable	– 10 672	4 375
Changes in contract liabilities	1 787	1 818
Used provisions	– 12 910	– 22 832
Changes in other current liabilities	11 091	– 2 215
Total changes in liabilities	– 10 704	– 18 854

in 1 000 CHF	Current and non-current finan- cial debts
Balance at 31/12/2018	174 790
Foreign exchange differences	– 445
Proceeds from financial debts	78 082
Repayments of financial debts	– 70 763
Non-cash foreign exchange effects	– 5 161
Balance at 31/12/2019	176 503
Foreign exchange differences	– 53
Change in scope of consolidation	97
Proceeds from financial debts	45 062
Repayments of financial debts	– 80 461
Non-cash foreign exchange effects	– 546
Reclassification to liabilities associated with assets held for sale	– 433
Balance at 31/12/2020	140 169

in 1 000 CHF	Lease liabilities
Balance at 31/12/2018	13 157
Additional leases due to first time adoption of IFRS 16	54 980
Foreign exchange differences	– 1 035
Lease additions	9 274
Lease liability payments	– 14 436
Lease disposals and remeasurements	504
Balance at 31/12/2019	62 444
Foreign exchange differences	– 137
Lease additions	8 905
Lease liability payments	– 14 990
Lease disposals and remeasurements	2 439
Reclassification to liabilities associated with assets held for sale	– 19 337
Balance at 31/12/2020	39 324

56. Share based payments

For Group Management and certain other employees a share based payment plan exists. As part of this plan, Group Management members receive 50% (2019: 50%) and the other employees between 20% and 35% (2019: between 20% and 35%) of their bonus in shares. This equity-settled variable remuneration is measured at fair value and recognised as an increase in equity. The determination of the number of shares is based on the volume weighted average share price of 20 trading days, less a 20% discount for the restriction period. These shares granted have a restriction period of four years. A share based payment plan also exists for members of the Board of Directors. Under this plan, members receive a minimum of 50% of their compensation in shares. This plan has the same features as the one for Group Management.

In 2020, Group Management and certain other employees received for their work in the year 2019 a total of 222 640 (2019: 101 296 shares) allotted shares at a fair value of CHF 1.6 million (2019: CHF 1.1 million) and CHF 7.40 per share respectively (2019: CHF 10.55). The CEO received a larger portion of his base compensation for his employment 2020 in shares. He was allocated 60 000 shares (2019: 60 000) at a fair value of CHF 0.7 million (2019: CHF 0.7 million) and CHF 12.34 per share respectively (2019: CHF 11.66). The members of the Board of Directors received for their work from 13 April 2019 up to the Annual General Meeting on 24 April 2020 a total of 72 654 shares (2019: 47 379 shares) at a fair value of CHF 0.5 million (2019: CHF 0.5 million) and CHF 7.40 per share respectively (2019: CHF 10.55).

Personnel expenses in 2020 for share based payments totalled CHF 2.3 million (2019: CHF 2.9 million).

57. Related party transactions

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

in 1 000 CHF	2020	2019
Salaries and other short-term employee benefits	4 292	3 501
Share based payments	1 740	1 966
Pension and social security contributions	982	930
Total	7 014	6 397

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 112 to 114.

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

in 1 000 CHF	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2020		
Other related parties	28	5 817	73	871	22
Total	28	5 817	73	871	22

in 1 000 CHF	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2019		
Key management personnel		7			
Other related parties	38	4 807	184	667	29
Total	38	4 814	184	667	29

Goods sold in 2020 and 2019 are almost exclusively Arbonia products acquired at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors) and companies in which a non-executive member of the Board of Directors is a director. There were no guarantees granted as of the balance sheet date. Furthermore no provisions were required for receivables. Transactions and outstanding balances with associated companies are disclosed in note 35.

Major shareholders as of 31 December 2020 are disclosed in the notes to the 2020 financial statements of Arbonia AG on page 201.

58. Contingencies

There were no contingencies.

59. Events after the balance sheet date

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021 (see note 36).

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2020 consolidated financial statements.

60. Subsidiaries

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Doors	Services
HVAC Division								
Arbonia Solutions AG	Arbon, CH	4.000 CHF	100%	■	■			
Prolux Solutions AG	Arbon, CH	1.000 CHF	100%	■				
Arbonia HVAC AG	Arbon, CH	0.250 CHF	100%					●
Superia Radiatoren BVBA	Zedelgem, BE	4.498 EUR	100%	▲				
Vasco Group NV	Dilsen-Stokkem, BE	32.500 EUR	100%	■				
Vasco BVBA	Dilsen-Stokkem, BE	20.029 EUR	100%	▲				
Kermi s.r.o.	Stribro, CZ	195.000 CZK	100%	▲	▲			
PZP Heating a.s.	Dobre, CZ	7.200 CZK	100%	▲				
Arbonia Riesa GmbH	Riesa, DE	0.614 EUR	100%	■				
Kermi GmbH	Plattling, DE	15.339 EUR	100%	▲	▲			
Vasco Group GmbH	Dortmund, DE	0.077 EUR	100%	■				
Tecnologia de Aislamientos y climatizacion, S.L.	Algete, ES	0.481 EUR	100%	■				
Arbonia France Sàrl	Hagenbach, FR	0.600 EUR	100%	■				
Vasco Group Sarl	Nogent-sur-Marne, FR	2.000 EUR	100%	■				
Vasco Group Ltd	Horsham, GB	0.025 GBP	100%	■				
Sabiana S.p.A.	Corbetta, IT	4.060 EUR	100%	▲				
Vasco Group Srl	Oderzo, IT	0.485 EUR	100%	■				
Brugman Radiatorenfabriek BV	Tubbergen, NL	4.000 EUR	100%	▲				
Vasco Group BV	Tubbergen, NL	9.518 EUR	100%	■				
Vasco Group ApS	Kolding, DK	0.500 DKK	100%	■				
Brugman Fabryka Grzejników Sp.z o.o.	Legnica, PL	20.000 PLN	100%	▲				
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100%	■	■			
Vasco Group Sp.z o.o.	Legnica, PL	0.500 PLN	100%	■				
AFG RUS	Moskau, RU	454.500 RUB	100%	▲				
Sanitary Equipment Division								
Bekon-Koralle AG	Dagmersellen, CH	1.000 CHF	100%		▲			
Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H	Margarethen am Moos, AT	0.036 EUR	100%		▲			
Koralle Sanitärprodukte GmbH	Vlotho, DE	2.070 EUR	100%		▲			

▲ Production / Sales
■ Trade
● Services / Finances

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Doors	Services
Windows Division								
EgoKiefer AG	Altstätten, CH	8.000	CHF 100%			▲		
Arbonia Windows AG	Diepoldsau, CH	0.250	CHF 100%					●
Wertbau GmbH	Langenwetzendorf, DE	0.025	EUR 100%			▲		
Dobroplast Fabryka Okien Sp.z o.o.	Zambrow, PL	53.355	PLN 100%			▲		
Slovaktual s.r.o.	Pravenec, SK	0.500	EUR 100%			▲		
webcom Management Holding GmbH	Bad Liebenstein, DE	0.100	EUR 100%			■		
Doors Division								
Arbonia Doors AG	Arbon, CH	0.250	CHF 100%					●
RWD Schlatter AG	Roggwil, CH	2.000	CHF 100%				▲	
Prüm-Türenwerk GmbH	Weinsheim, DE	3.500	EUR 100%				▲	
Garant Türen- und Zargen GmbH	Amt Wachsenburg, DE	0.100	EUR 100%				▲	
TPO Holz-Systeme GmbH	Leutershausen, DE	0.025	EUR 100%				▲	
Invado Sp.z o.o.	Ciasna, PL	20.000	PLN 100%				▲	
Coatings								
FLH Holding AG	Arbon, CH	0.650	CHF 100%					●
Schekolin US LLC	Charlotte, US	0.020	USD 100%					
Corporate Services								
Arbonia AG	Arbon, CH	291.787	CHF					●
AFG International AG	Arbon, CH	1.000	CHF 100%					●
Arbonia Schweiz AG	Arbon, CH	1.000	CHF 100%					●
AFG Immobilien AG	Arbon, CH	12.000	CHF 100%					●
Arbonia Management AG	Arbon, CH	0.250	CHF 100%					●
Arbonia Services AG	Arbon, CH	0.250	CHF 100%					●
AFG (Shanghai) Building Materials Co. Ltd.	Shanghai, CN	2.000	USD 100%					●
Arbonia Digital GmbH	Berlin, DE	0.025	EUR 100%					●
Arbonia Deutschland GmbH	Plattling, DE	0.511	EUR 100%					●

▲ Production / Sales

■ Trade

● Services / Finances



Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arbonia AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 122 to 188) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters



Valuation of goodwill and intangible assets

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



Valuation of goodwill

Key Audit Matter

As at 31 December 2020, the carrying amount of the balance sheet line item "Goodwill" amounts to CHF 177.6 million.

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

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

Our response

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

Amongst others, we performed the following audit procedures:

- assessing the forecasting accuracy by back-testing historical forecasts to actual results;
- comparing projected cash flows with the latest forecasts by management and with business plans approved by the board of directors;
- challenging the robustness of the key assumptions used to determine the recoverable amount, including forecast cash flows, margins, growth rates and discount rates by comparing them with publicly available data and our understanding of the commercial prospects of the relevant assets;
- conducting sensitivity analyses, taking into account the historical forecasting accuracy.

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

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

- Note 19 „Intangible assets“, page 134
- Note 20 „Impairment of assets“, page 134
- Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, page 139
- Note 40 „Intangible assets“, page 158



Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 22 February 2021

Financial Statements

Arbonia AG

Income Statement

in 1 000 CHF	Note	2020		2019	
			in %		in %
Dividend income		20 550		30 000	
Financial income	2.7	13 310		12 687	
Other operating income		2		8	
Total income		33 862	100.0	42 695	100.0
Financial expenses	2.8	- 14 106	- 41.7	- 13 131	- 30.8
Personnel expenses		- 1 407	- 4.2	- 960	- 2.2
Other operating expenses	2.9	- 5 427	- 16.0	- 4 803	- 11.2
Total expenses		- 20 941	- 61.8	- 18 894	- 44.3
Net profit		12 921	38.2	23 801	55.7

The notes on pages 198 to 201 are an integral part of these financial statements.

Balance sheet

in 1 000 CHF	Note	31/12/2020		31/12/2019	
			in %		in %
Assets					
Cash and cash equivalents		38 228		35 628	
Other receivables					
Third parties		203		129	
Shareholdings		279 616		273 379	
Deferred expenses				27	
Current assets		318 047	23.5	309 163	22.9
Loans to shareholdings		244 952		250 171	
Investments	2.1	788 812		788 812	
Non-current assets		1 033 764	76.5	1 038 984	77.1
Total assets		1 351 811	100.0	1 348 146	100.0

in 1 000 CHF		31/12/2020		31/12/2019	
	Note	in %		in %	
Liabilities and shareholders' equity					
Accounts payable					
Third parties		123		58	
Shareholdings		950		17	
Interest bearing liabilities	2.2				
Bank loans				30 000	
Shareholdings		179 534		157 115	
Other liabilities					
Third parties		41		214	
Shareholdings				20	
Accruals and deferred income		2 390		2 320	
Current liabilities		183 038	13.5	189 745	14.1
Interest bearing liabilities	2.3				
Promissory note loan		142 272		146 975	
Non-current liabilities		142 272	10.5	146 975	10.9
Total liabilities		325 310	24.1	336 720	25.0
Share capital	2.4	291 788		291 788	
Legal capital reserves					
Capital contribution reserve	2.5	469 402		469 402	
Other capital reserves		42 812		42 812	
Voluntary reserves					
Free reserves		14 328		17 266	
Retained earnings		199 259		175 458	
Net profit		12 921		23 801	
Treasury shares	2.6	- 4 009		- 9 102	
Shareholders' equity		1 026 501	75.9	1 011 426	75.0
Total liabilities and shareholders' equity		1 351 811	100.0	1 348 146	100.0

The notes on pages 198 to 201 are an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1. General information

These financial statements 2020 were prepared under the provisions of the Swiss accounting law (32nd title of the Swiss Code of Obligations).

Since Arbonia AG prepares consolidated financial statements in accordance with a recognised financial reporting standard (International Financial Reporting Standards), the company is not disclosing in accordance with the statutory provisions the audit fees and is not presenting a cash flow statement and a management report.

1.2. Other current receivables

Other current receivables from shareholdings are short term loans, which are accounted for at nominal value and for which if necessary, individual specific valuation allowances have been booked.

1.3. Financial assets

Financial assets consist of short-term loans to third parties and long-term loans to shareholdings and are valued at cost reduced by required impairments. Loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (imparity principle).

1.4. Treasury shares

Treasury shares are recognised at acquisition date at cost as a negative item in equity. In a subsequent sale or delivery in the context of the share based payments, profit or loss arising from the sale of treasury shares is recognised directly in equity under voluntary reserves.

1.5. Share based payments

A share based payment plan exists for members of the Board of Directors. Under this plan, members receive a minimum of 50% of their compensation in shares. The determination of the number of shares is based on the volume weighted average share price of 20 trading days, less a 20% discount for the restriction period. These shares granted have a restriction period of four years. The fair value of the equity compensation instruments is determined at the grant date and recorded to the income statement as personnel expenses with a corresponding offsetting entry to equity.

1.6. Interest bearing liabilities

Interest bearing liabilities are accounted for at nominal value. Long-term loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (imparity principle).

2. Information and notes to the financial statements

2.1. Investments

Company	31/12/2020		31/12/2019	
	Share capital in 1 000 CHF	Capital and voting interest in %	Share capital in 1 000 CHF	Capital and voting interest in %
Arbonia Schweiz AG, Arbon	1 000	100.00%	1 000	100.00%
AFG International AG, Arbon	1 000	100.00%	1 000	100.00%
Arbonia Management AG, Arbon	250	100.00%	250	100.00%
Arbonia Services AG, Arbon	250	100.00%	250	100.00%

All subsidiaries directly or indirectly held by Arbonia AG are disclosed in note 60 in the notes to the consolidated financial statements of Arbonia Group.

2.2. Current interest bearing liabilities

in 1 000 CHF	31/12/2020	31/12/2019
Bank loans – syndicated loan		30 000
Loans to shareholdings	179 534	157 115
Total	179 534	187 115

On 3 November 2020, Arbonia entered into a syndicated loan for CHF 250 million. This loan, arranged with a consortium of domestic and foreign banks, has a term of five years, with the option to extend the agreement twice for one year each. With the taking out of this new syndicated loan, the syndicated loan concluded on 14 September 2016 for CHF 350 million with a term until 14 September 2021 was replaced prematurely.

2.3. Non-current interest bearing liabilities

in 1 000 CHF	31/12/2020	31/12/2019
Promissory note loan	142 272	146 975
Total	142 272	146 975

On 20 April 2018, Arbonia had taken up a promissory note loan in the amount of EUR 125 million with maturities of five, seven and ten years. In November 2020, Arbonia repaid EUR 4 million of the five-year tranche prematurely.

Maturity structure

in 1 000 CHF	31/12/2020	31/12/2019
Within 5 years	130 514	70 548
Over 5 years	11 758	76 427
Total	142 272	146 975

2.4. Share capital

Refer to note 48 in the notes to the consolidated financial statements of Arbonia Group.

2.5. Capital contribution reserve

The capital contribution reserve includes the premium from the capital increases in 2007, 2009, 2015, 2016 and 2017 reduced by previous distributions.

The distribution from capital contribution reserve is fiscally treated like a redemption of share capital. The Swiss Federal Tax Administration (FTA) has confirmed the disclosed capital contribution reserve (balance as of 31 December 2019) as capital contribution within the meaning of article 5 para. 1bis VStG.

2.6. Treasury shares

	2020			2019		
	Ø market value in CHF	Number of shares	Amount in 1 000 CHF	Ø market value in CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	17	532 380	9 102	17	854 054	14 601
Purchase	9	105 300	983			
Transfer for share based payments	9	- 355 294	- 3 137	11	- 321 674	- 3 629
Gain (+) / loss (-)			- 2 938			- 1 870
Balance at 31/12	14	282 386	4 009	17	532 380	9 102

2.7. Financial income

Financial income totals CHF 13.3 million (2019: CHF 12.7 million) and consists mainly of interest income on loans to shareholdings and foreign currency exchange gains.

2.8. Financial expenses

Financial expenses totals CHF 14.1 million (2019: CHF 13.1 million) and consists mainly of bank interest and foreign currency exchange losses.

2.9. Other operating expenses

in 1 000 CHF	2020	2019
Administrative costs	5 046	4 584
Consultancy and audit fees	239	184
Other operating expenses	142	35
Total	5 427	4 803

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:

		31/12/2020	31/12/2019
UBS AG			
in favour of AFG Immobilien AG	in 1 000 CHF	3 455	3 455
in favour of RWD Schlatter AG	in 1 000 CHF	465	
in favour of EgoKiefer AG	in 1 000 CHF	340	
in favour of Prolux Solutions AG	in 1 000 CHF	26	25
St. Galler Kantonalbank			
in favour of EgoKiefer AG	in 1 000 CHF		340
Credit Suisse			
in favour of EgoKiefer AG	in 1 000 CHF	87	
UniCredit Bank			
in favour of Kermi GmbH	in 1 000 EUR	625	659
in favour of Wertbau GmbH	in 1 000 EUR	1 869	1 755
in favour of Kermi sp. z o.o.	in 1 000 EUR	112	

3.2. Contingent liabilities

A joint and several liability exists towards the affiliated subsidiaries under the cash pooling agreement with UniCredit Bank AG and since 2020 with UBS Switzerland AG.

3.3. Major shareholders

	31/12/2020	31/12/2019
	Voting and capital interest	Voting and capital interest
Artemis Beteiligungen I AG	22.09%	22.07%

3.4. Headcount in full-time equivalents

Arbonia AG does not employ any staff.

3.5. Disclosure of shareholding

The following members of the Board of Directors and the Group Management (including related parties) held the following number of shares of Arbonia AG:

	31/12/2020	31/12/2019
	Number of registered shares	Number of registered shares
Alexander von Witzleben (Chairman of the BoD and Group Management)	441 139	359 864
Peter Barandun (Member of the BoD)	56 405	36 888
Peter E. Bodmer (Member of the BoD)	31 436	21 974
Markus Oppliger (Member of the BoD)	31 943	25 184
Heinz Haller (Member of the BoD)	120 000	106 633
Michael Pieper (Member of the BoD)	15 343 312	15 335 202
Thomas Lozser (Member of the BoD)	366 074	366 074
Carsten Voigtländer (Member of the BoD)	5 069	
Daniel Wüest (Group Management)	31 549	10 000
Knut Bartsch (Group Management)	69 495	54 713
Ulrich Bornkessel (Group Management)	42 581	20 659
Claudius Moor (Group Management from 01/07/2020)	8 971	
Nicolas Casanovas (Group Management from 01/07/2020)	5 829	
Harald Pichler (Group Management until 30/06/2020)		35 224
Peter Spirig (Group Management until 30/06/2020)		15 301
Total	16 553 803	16 387 716

Proposal of the Board of Directors

The Board of Directors will propose at the Annual General Meeting of the shareholders on 23 April 2021 the following:

Appropriation of Retained Earnings

in 1 000 CHF	2020	2019
Retained earnings carried forward from previous year	199 259	175 458
Net profit for the year	12 921	23 801
Retained earnings	212 180	199 259
Distribution of a dividend ¹ for the financial year 2019	- 7 642	
Distribution of a dividend ¹ for the financial year 2020	- 8 684	
Retained earnings carried forward	195 854	199 259

Appropriation of capital contribution reserve

in 1 000 CHF	2020	2019
Carry forward from previous year	469 402	469 402
Withholding tax free distribution ¹ for the financial year 2019	- 7 642	
Withholding tax free distribution ¹ for the financial year 2020	- 8 684	
Capital contribution reserve carried forward	453 076	469 402

¹ No distribution for treasury shares at the time of payment.



Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arbonia AG, which comprise the balance sheet as at 31 December 2020, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 196 to 201) for the year ended 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Valuation of investments and loans due from shareholdings

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



Valuation of investments and loans due from shareholdings

Key Audit Matter

The financial statements of Arbonia AG as at 31 December 2020 include investments amounting to CHF 788.8 million and loans due from shareholdings (included in the balance sheet items "Other receivables shareholdings" as well as "Loans to shareholdings") amounting to CHF 524.6 million. The company reviews the individual investments and loans due from shareholdings for impairment annually.

The impairment assessment of investments and loans due from shareholdings requires significant management judgment, and is therefore a key area of audit focus.

Our response

During our audit, we assessed management's impairment review of the investments and the loans due from shareholdings.

Amongst others, we performed the following audit procedures:

- Comparing the carrying amounts of the investments with the equity of the relevant companies, in some cases considering the pro-rata net assets of indirect investments or relying on management's impairment reviews that had already been assessed during the group audit;
- Assessing the recoverability of loans due from shareholdings by analyzing the equity position of the borrower.

For further information on Valuation of investments and loans due from shareholdings refer to the following:

- Note 1.2 „Other current receivables“, page 198
- Note 1.3 „Financial assets/non-current loans“, page 198
- Note 2.1 „Investments“, page 199

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

A handwritten signature in black ink, appearing to read 'K. Stocker', written in a cursive style.

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

A handwritten signature in black ink, appearing to read 'O. Eggenberger', written in a cursive style.

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 22 February 2021

Alternative Performance Measures

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

EBITDA without one-time effects/adjusted

The elimination of one-time effects provides an adjusted and thus better comparable presentation of the operating result over time. Discontinued operations as defined by IFRS 5 are not included. The following one-time effects are eliminated by Arbonia:

- Costs resulting from creation of provisions or income resulting from reversal of provisions for restructurings and reorganisation as well as closure costs
- Ramp-up costs for new production sites
- Consultancy and integration costs from acquisitions
- Consultancy costs from disposal of subsidiaries
- Gains and losses from sale of properties and associated companies
- Real estate development costs
- Costs in connection with personnel changes / leave of absence in Group and Division management

EBITA without one-time effects/adjusted

- Impairments
- Reversal of impairments

EBIT without one-time effects/adjusted

- Impairments on intangible assets from acquisitions

Group result before income tax without one-time effects/adjusted

- Costs for debt refinancing
- Impairments and reversal of impairments on loans granted

Group result after taxes without one-time effects/adjusted

- Tax effect on one-time effects
- Tax consequences from disposal of subsidiaries

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

in 1 000 CHF		2020						
		IFRS	%	Gain from sale of properties	Costs for restructurings and reorganisation	Tax effects on one- time effects	without one-time effects/ adjusted	%
HVAC	EBITDA	59 182	11.2		426		59 608	11.3
	EBITA	33 253	6.3				33 679	6.4
	EBIT	29 607	5.6				30 033	5.7
Sanitary Equipment	EBITDA	16 992	11.7				16 992	11.7
	EBITA	12 820	8.8				12 820	8.8
	EBIT	11 023	7.6				11 023	7.6
Doors	EBITDA	49 149	13.5				49 149	13.5
	EBITA	33 588	9.2				33 588	9.2
	EBIT	24 115	6.6				24 115	6.6
Corporate Services	EBITDA	- 9 031		- 2 248			- 11 279	
	EBITA	- 10 874					- 13 122	
	EBIT	- 10 874					- 13 122	
Group	Net revenues	1 038 421	100.0				1 038 421	100.0
	Other operating income	14 807	1.4	- 2 098			12 709	1.2
	Capitalised own services	6 369	0.6				6 369	0.6
	Changes in inventories of semi-finished and finished goods	3 333	0.3				3 333	0.3
	Cost of material and goods	- 454 017	- 43.7				- 454 017	- 43.7
	Personnel expenses	- 345 604	- 33.3		353		- 345 251	- 33.2
	Other operating expenses	- 147 017	- 14.2	- 150	72		- 147 095	- 14.2
	EBITDA	116 292	11.2				114 470	11.0
	Depreciation, amortisation and impairments	- 47 505	- 4.6				- 47 505	- 4.6
	EBITA	68 787	6.6				66 965	6.4
	Amortisation of intangible assets from acquisitions	- 14 915	- 1.4				- 14 915	- 1.4
	EBIT	53 872	5.2				52 050	5.0
	Financial income	469	0.0				469	0.0
	Financial expenses	- 13 401	- 1.3				- 13 401	- 1.3
	Group result before income tax	40 940	3.9				39 118	3.8
	Income tax expense	- 11 210	- 1.1			213	- 10 997	- 1.1
Group result from continuing operations	29 730	2.9				28 121	2.7	

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

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

		in 1 000 CHF										2019
		IFRS	%	Gain from sale of properties	Costs for restructurings and reorganisation	Ramp-up costs for new production sites	Consultancy and integration costs from acquisitions	Impairments on machinery and right-of-use assets	Various	Tax effects on one- time effects	without one-time effects/ adjusted	%
HVAC	EBITDA	51 565	9.3		4 658	2 359	428				59 010	10.6
	EBITA	26 514	4.8					1 973			35 932	6.5
	EBIT	22 720	4.1								32 138	5.8
Sanitary Equipment	EBITDA	14 669	10.2		471						15 140	10.5
	EBITA	10 823	7.5								11 294	7.9
	EBIT	9 025	6.3								9 496	6.6
Doors	EBITDA	43 954	12.2								43 954	12.2
	EBITA	29 377	8.2					100			29 477	8.2
	EBIT	19 476	5.4								19 576	5.4
Corporate Services	EBITDA	- 9 490		- 1 070					156		- 10 404	
	EBITA	- 11 149									- 12 063	
	EBIT	- 11 149									- 12 063	
Group	Net revenues	1 057 832	100.0								1 057 832	100.0
	Other operating income	17 062	1.6	- 1 070							15 992	1.5
	Capitalised own services	7 422	0.7			- 560					6 862	0.6
	Changes in inventories of semi-finished and finished goods	2 248	0.2			- 199					2 049	0.2
	Cost of material and goods	- 475 227	- 44.9		35	1 300					- 473 892	- 44.8
	Personnel expenses	- 351 978	- 33.3		4 531	1 096	322				- 346 029	- 32.7
	Other operating expenses	- 156 661	- 14.8		563	722	106		156		- 155 114	- 14.7
	EBITDA	100 698	9.5								107 700	10.2
	Depreciation, amortisation and impairments	- 45 133	- 4.3					2 073			- 43 060	- 4.1
	EBITA	55 565	5.3								64 640	6.1
	Amortisation of intangible assets from acquisitions	- 15 494	- 1.5								- 15 494	- 1.5
	EBIT	40 071	3.8								49 146	4.6
	Financial income	1 164	0.1								1 164	0.1
	Financial expenses	- 7 136	- 0.7								- 7 136	- 0.7
	Group result before income tax	34 099	3.2								43 174	4.1
	Income tax expense	- 11 561	- 1.1							- 1 519	- 13 080	- 1.2
Group result from continuing operations	22 538	2.1								30 094	2.8	

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

Acquisition and currency adjusted growth (organic growth)

Acquisition and currency adjusted growth excludes effects from acquisitions and disposals of companies and currency effects.

In the acquisition adjusted growth, revenues of the acquired companies are eliminated in the year of acquisition. For companies acquired in the previous year, revenues of the current year are included for the same period as in the previous year. Discontinued operations within the meaning of IFRS 5 are eliminated.

In the currency adjusted growth, revenues of the current year in the functional currency of the respective company are translated at the average exchange rates of the same previous year period.

Net debt

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

Adjusted net debt

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

Leverage ratio

Net debt divided by EBITDA

Adjusted leverage ratio

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

Free cash flow

Cash flow from operating and investing activities

Operational free cash flow

Cash flow from operating and investing activities without expansion capital expenditures

Capital expenditures

Maintenance and expansion capital expenditures

Supplementary Information for Investors

	2020	2019	2018	2017	2016
Number of shares					
Registered par value CHF 4.20	69 473 243	69 473 243	69 473 243	69 473 243	68 485 790
Registered par value CHF 4.20 average number	69 473 243	69 473 243	69 473 243	69 061 804	47 448 515
Stock market prices in CHF					
Highest	14.2	13.5	18.3	19.1	17.0
Lowest	5.8	10.0	10.5	15.1	8.8
31/12	14.2	12.6	10.8	16.3	16.4
Stock market capitalisation in CHF million (31/12)					
	986.5	875.4	750.3	1 128.9	1 123.2
Per share data					
Gross dividend in CHF ¹	0.47	0.00	0.20	0.00	0.00
Pay-out ratio (in % of Group earnings)	72.4	0.0	29.9	0.0	0.0
Group earnings in CHF	0.7	0.4	0.7	0.7	0.2
Cash flow from operating activities in CHF	2.0	1.6	1.0	1.0	0.7
Shareholders' equity in CHF	12.9	12.6	12.8	12.4	10.5
Price/earnings ratio (highest)	22.0	35.7	27.6	28.4	106.1
Price/earnings ratio (lowest)	8.9	26.5	15.8	22.4	54.6
Price/earnings ratio (31/12)	22.0	33.4	16.3	24.2	102.3
Price/cash flow ratio (highest)	7.0	8.4	18.3	19.1	25.2
Price/cash flow ratio (lowest)	2.8	6.2	10.4	15.1	13.0
Price/cash flow ratio (31/12)	7.0	7.8	10.8	16.3	24.3

¹ 2021 proposal to the Annual General Meeting