



Key Figures

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------|--------|---------|---------|---------|
| in CHF million | | | | | |
| Net revenue ¹ | 995.3 | 941.4 | 1 017.4 | 1 004.0 | 919.3 |
| EBITDA ¹ | 68.7 | 26.6 | 78.3 | 102.9 | 91.1 |
| in % of net revenue | 6.9 | 2.8 | 7.7 | 10.2 | 9.9 |
| EBIT ¹ | 29.1 | -158.4 | 33.4 | 61.5 | 43.2 |
| in % of net revenue | 2.9 | -16.8 | 3.3 | 6.1 | 4.7 |
| Group result ¹ | 7.6 | -177.1 | 11.3 | 33.4 | -0.4 |
| in % of net revenue | 0.8 | -18.8 | 1.1 | 3.3 | 0.0 |
| Total assets | 1 522.7 | 900.5 | 969.5 | 1 020.8 | 1 124.4 |
| Shareholders' equity | 728.8 | 351.8 | 363.0 | 369.0 | 361.2 |
| in % of total assets | 47.9 | 39.1 | 37.4 | 36.1 | 32.1 |
| Net indebtedness | 225.1 | 21.7 | 222.3 | 150.8 | 130.8 |
| Cash flow from operating activities | 32.0 | 54.5 | 39.4 | 64.7 | 55.4 |
| Free cash flow | -67.3 | 16.0 | -51.9 | -19.9 | 37.9 |
| Investments ¹ | 81.0 | 21.9 | 47.7 | 39.6 | 34.5 |
| Average headcount (full-time equivalent) ¹ | 6 325 | 6 186 | 6 057 | 6 004 | 4 166 |

Breakdown of 2016

in CHF million

| | Net revenue | EBITDA | EBIT |
|--------------------------------------|-------------|--------|------|
| Building Technology | 486.8 | 53.4 | 35.2 |
| Windows (formerly Building Envelope) | 350.8 | 8.2 | -5.0 |
| Doors (formerly Building Security) | 156.7 | 5.8 | 2.8 |

Information for investors²

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------|-------|-------|-------|-------|
| Share price on 31/12 in CHF | 16.4 | 10.1 | 18.2 | 23.3 | 17.0 |
| Stock market capitalisation in CHF million ³ | 1 123.2 | 450.0 | 449.3 | 573.2 | 421.0 |
| Earnings per share in CHF | 0.2 | -6.1 | 0.6 | -2.1 | -3.0 |
| Price/earnings ratio per share ³ | 102.3 | -1.7 | 22.0 | -8.5 | -4.3 |
| Gross dividend per share in CHF | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 |

1 Continuing operations for the years 2012–2014.

2 Adjusted for 2015 capital increase.

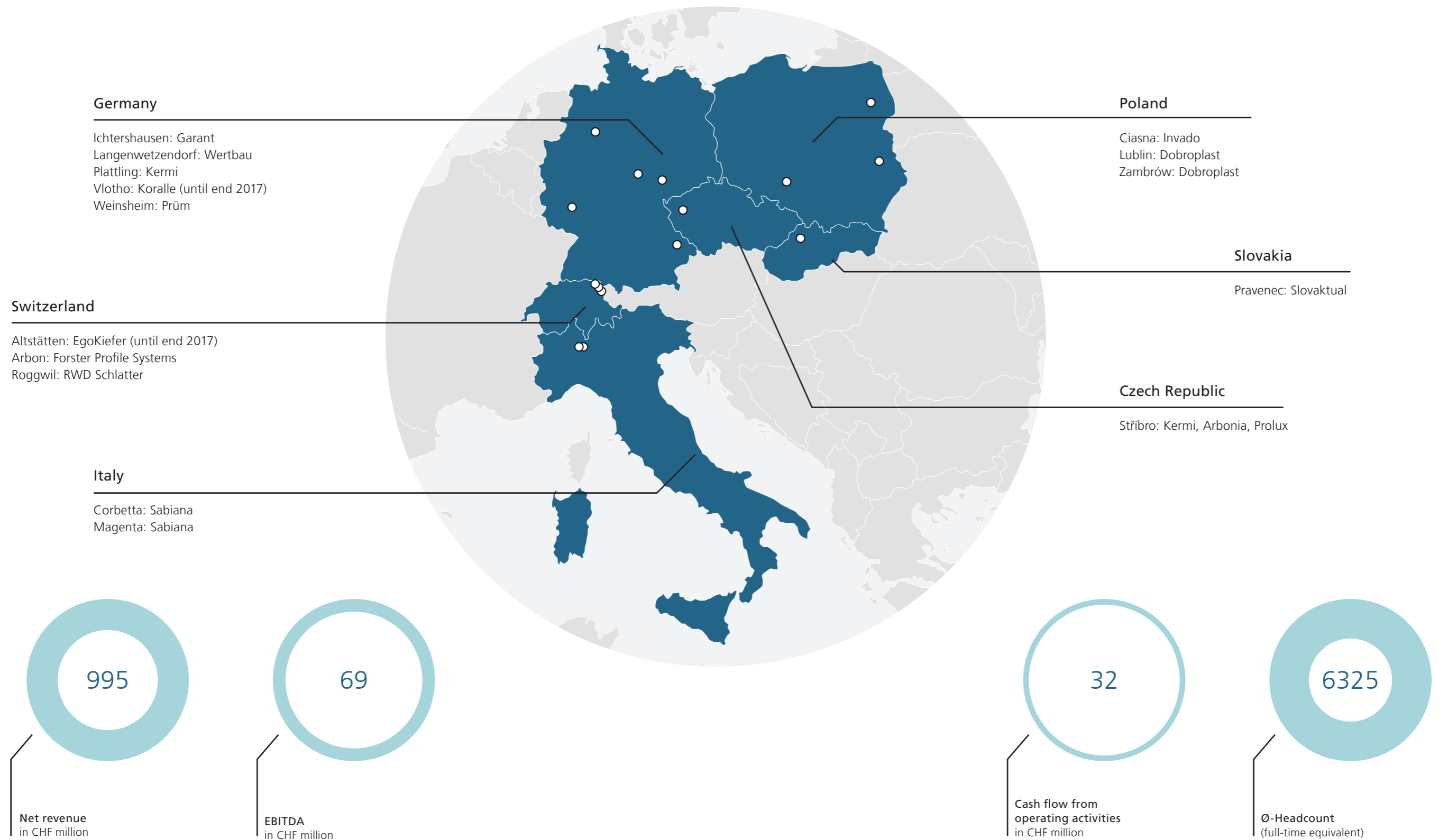
3 Calculated on the basis of the share price on 31 December.

Remark about the cover picture:

Wood windows from Wertbau for the Berlin Palace.

© Stiftung Humboldt Forum im Berliner Schloss/Architekt: Franco Stella.

Production sites



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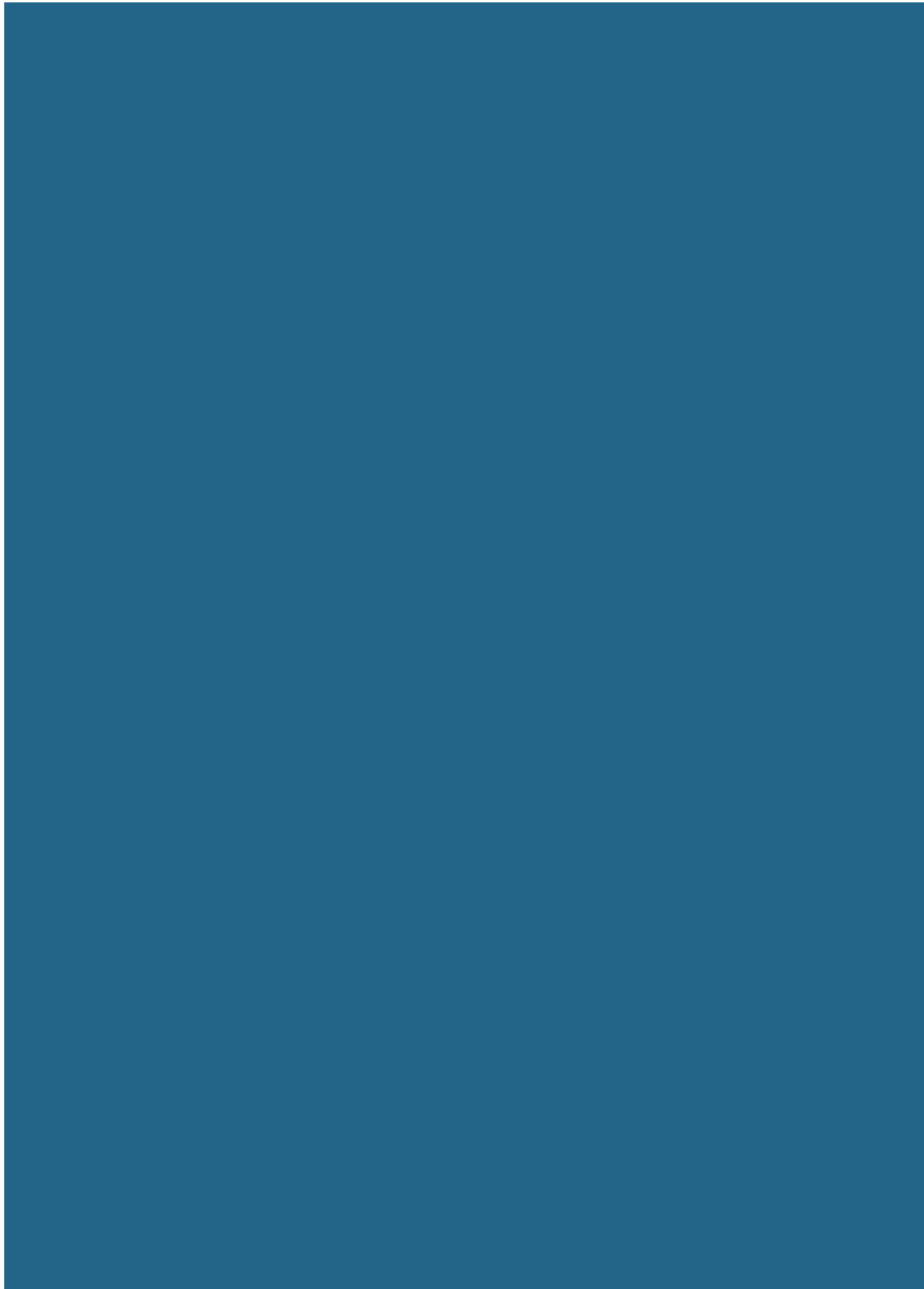
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Letter to the Shareholders

From AFG to the Arbonia Group – after tough measures, the year 2016 brought much more than just a new name for the traditional building supplier. With two key acquisitions – the Koralle Group in summer/autumn and, most notably, the Looser Group at the end of 2016 – Arbonia’s scale took on a whole new dimension. More importantly, however, the Group is now built on a foundation of divisions that are approximately equal to one another in terms of their revenue, market position and future earning power. Beyond this, the public purchase and exchange offer issued to all Looser shareholders and the successful placement of new shares as a means of refinancing the Koralle transaction enabled Arbonia to provide a long-term assurance that net indebtedness would not rise. Arbonia is fully on track to achieving its financial and strategic targets for 2018, which it first announced in 2015 and then adapted following the Looser acquisition.

Dear shareholders

Dear ladies and gentlemen

Over the 2016 financial year, the Arbonia Group saw all its key financial performance indicators follow a healthy trajectory. The company increased both its revenue and operating income, and achieved a positive result after tax. After starting a set of restructuring and repositioning measures in the second half of 2015, we have now been able to reap the first rewards in the form of the improvement we have made in our profitability. In 2016, business was affected by a sideways shift that took place on the domestic market of Switzerland, but it also felt the benefits of the more positive conditions in Germany – Arbonia's second-largest domestic market.

Group revenue rose by 5.7 % compared with the previous year to CHF 995.4 million (2015 figure: CHF 941.4 million). When adjusted for currency and acquisition effects, this represents an increase of 0.9 %. Arbonia achieved a rise in profitability. EBITDA increased to CHF 68.7 million, a result that is more than double that of the previous year (2015: CHF 26.6 million). Without special effects, EBITDA amounted to CHF 66.0 million (previous year: CHF 56.7 million). EBIT with special effects amounted to CHF 29.1 million. EBIT without special effects rose to 2.9 % of Group revenue (previous year: 1.8 %). The Arbonia Group's operating income after tax during the reporting year also yielded a positive result, amounting to CHF 7.6 million. Group result without special effects amounted to CHF 12.2 million (previous year: CHF – 14.5 million).

Risks and opportunities in the market environment

The reporting year saw a continuation of the Swiss domestic market's significant competitive pressure that has been leaving an impact on the construction industry for years now. This, coupled with the effects of many different factors such as the strong Swiss franc exchange rate, resulted in the market shifting sideways. Demand was especially weak in the renovation sector.

By contrast, construction activity in Germany remained at a high level, as it had done in the previous year. This positive trend was mainly seen in projects involving new buildings, the renovation market grew at a less dynamic rate. On the whole, the industry experienced a boost from housing programmes for refugees and immigration into urban areas. The continuation of historically low interest

rates and a lack of alternative investment opportunities were also factors that further increased investment in new homes. Nevertheless, growth was curbed by the fact that the construction sector is already working at full capacity. This affected the second half of 2016 in particular.

Increasing political and financial instability in certain European markets also affected the investment climate, above all in Italy. This market started the year with great promise, but recorded disappointing results as time went on. The Eastern European markets of Slovakia, the Czech Republic and Poland continued to progress with encouraging growth rates in the second semester.

General activities from Arbonia Group

In 2015, with the income situation having dramatically worsened and limited prospects for growth appearing on the horizon, the Board of Directors took the decision to launch a comprehensive set of measures designed to restructure and reposition the company. The primary objectives that Arbonia is hoping to achieve in this process are to become a leading building supplier for Central Europe and attain a stronger position in key markets, thus creating sustainable growth through profitable business activities with a promising future. With the takeover of the Koralle Group in summer/autumn, and the Looser Group at the end of 2016, Arbonia has leveraged external opportunities to make decisive steps towards achieving its strategic goals. Through the Looser takeover, which reached its conclusion in December 2016, Arbonia's scale has taken on a whole new dimension. Further information on the Looser transaction can be found on pages 8 and 9.

During the reporting year, Arbonia also continued its work on three top-priority projects: relocating its production footprint from Switzerland to sites with a more beneficial cost structure; concentrating the divisions' strategies and pursuing internationalisation as part of this; and establishing a lean industrial holding company.

The divisions' strategies and objectives

How are the three divisions – Building Technology, Windows (formerly Building Envelope) and Doors (formerly Building Security) – contributing to this? This section outlines the key points; for detailed information, please refer to the separate division reports on page 13 onwards.

As part of a comprehensive programme of investments to the tune of approximately CHF 45 million, the **Building Technology Division** is rationalising the existing production lines and logistics facilities maintained by its Heating Technology Business Unit in Plattling (D). Its Sanitary Equipment Business Unit is expanding its production and warehousing space at the same site.

Acquiring the Koralle Group in autumn 2016 has made it possible to create a stronger market position in the DACH regions. Integration activities are continuing to run on schedule and are set to reach their conclusion by the end of 2017. Integrating the Koralle Group is opening up a variety of opportunities for tapping into synergy effects, and maintaining Kermi, Koralle and Baduscho as three established brands will allow us to penetrate the market more effectively.

At the end of July 2016, the Air-Conditioning and Ventilation Technology Business Unit took over its French distribution partner Sabiatherm. The acquisition of Sabiatherm and the route into direct sales that accompanies it will enable the Air-Conditioning and Ventilation Technology Business Unit to extend its value chain, and result in more intensive development and penetration of the HVAC markets in France and Luxembourg.

At one of the world's leading trade fairs, ISH 2017 in Frankfurt, the Air-Conditioning and Ventilation Technology Business Unit will be showcasing its new residential ventilation products for the very first time. These are creating an addition to the business unit's existing range of products, which currently covers industrial ventilation and air-conditioning. Among the key features of this latest development is its A+ energy efficiency class.

Beyond this, the division will continue to invest in growth markets for residential ventilation and underfloor heating systems.

The Building Technology Division has also completed the relocation of special radiator production from the Swiss Arbon site to Střibro (CZ), a process that was begun in the previous year. The first radiators were produced at the start of February 2017 in the new Czech production halls built specifically for this purpose.

In 2016, the focus of the **Windows Division** was on maintaining its leading market position in Switzerland and, in parallel with this, completing the extensive process of relocating production. This involved transferring the production of vinyl and vinyl/aluminium windows

from Villeneuve (CH) to Pravenec (SK). In addition, the division invested significant efforts in developing a German market organisation, something that was carried out alongside the process of integrating the company Wertbau, acquired in 2015.

Another area of focus for the division's restructuring activities was on transforming national subsidiaries that had previously been run as independent entities into a Europe-wide business unit with central operation and an organisational concept based on functions. Thanks to this new organisation, 2016 has already seen considerable savings – particularly in the area of purchasing – and more efficient production.

The Slovakian production plant has also set up a line for triple-layer insulating glass. Featuring state-of-the-art technology and full automation, this new line – plus a glass warehouse with automatic feeding to the cutting system and a glass sorting system – will be integrated seamlessly into the process cycle, eliminating any need to depend on supplies from elsewhere. Production is likely to commence in autumn 2017.

For the first time, the companies EgoKiefer and Wertbau joined forces to develop a new wood/aluminium window that takes the form of a modular construction system. This new, shared platform, designed for German-speaking markets, will create synergy effects to be exploited in the areas of development, procurement, production and processing.

During the reporting year, it was the **Doors Division** that experienced the greatest change. The Looser takeover at the end of 2016 was accompanied by not only a significant surge in growth, but also some excellent additions to the product range for the doors business, plus geographical expansion and new opportunities for market development. This significant strategic step forward has resulted in a leading European door manufacturer and full-service provider for interior doors, with a strong market position in Germany and Switzerland as well as outstanding potential for other countries within Central Europe. The integration process began once the transaction was completed on 13 December 2016. Its aim is to create a strong business unit with an organisational concept that is also based on functions, and to tap into the synergy effects that unfold from this in the years to come.

In 2016, the Forster Profile Systems Business Unit achieved some key objectives relating to streamlining its product range and developing new products. A package of meas-

ures for saving costs and improving the operating result were introduced in 2016 as well, and are already having an impact.

Outlook

For the 2017 financial year, Arbonia expects net revenue in excess of CHF 1.3 billion. In total, Arbonia is anticipating an EBITDA in excess of CHF 110 million.

In addition to the results generated by the divisions, the Looser Group's coatings business should contribute positively to the Group result in 2017. We are confident that it will be possible to divest the various units of the coatings business in the near future. The proceeds will be used to reduce the net indebtedness of Arbonia AG.

We continue to be fully on track towards meeting our strategic and financial objectives for 2018 – adjusted for the acquisitions made in 2016. For 2018, the Arbonia Group is anticipating revenue of about CHF 1.4 billion and an EBITDA of about CHF 150 million, with net indebtedness below CHF 100 million. From 2019 onwards, the company is then aiming to generate a substantial free cash flow and is expected to be in a position to pay a dividend again in the same year.

Acknowledgements

The 2016 financial year was extremely challenging for Arbonia's employees and management alike, and required them to be highly flexible. Not only were there significant cost reduction measures to contend with, but it was also necessary to plan and execute large-scale takeovers, as well as quickly start the integration process. On behalf of the Board of Directors and Group Management, we would like to thank all those involved for their outstanding dedication. We would also like to thank our customers and most notably you, our dear shareholders, for your trust in our strategy.

Arbon, February 2017



Alexander von Witzleben
Chairman of the Board of
Directors and CEO



Felix Bodmer
CFO



The Looser Group

The Looser Group is an international industrial holding headquartered in Arbon (CH). Together with its around 20 direct and indirect subsidiaries, it is active in the three segments of Doors, Industrial Services and Coatings. The companies of the Looser Group operate under their own corporate and product brands, which are established and well known in their respective markets. As of 31 December 2016, the Looser Group had 2266 employees worldwide.

Doors

The Doors Business Unit comprises the companies Prüm, Garant and Invado. With their broad product portfolio, the companies occupy leading market positions in their domestic markets of Germany and Poland. The Doors Business Unit manufactures and distributes interior doors and frames. The programme ranges from white finish, ornamental, veneered and laminated doors as well as all-glass doors. The portfolio is completed with fire doors, wet room doors, sound and thermal insulation doors, as well as doors offering protection against smoke, burglary and radiation. The products are sold by specialist distributors. The unit operates plants in Weinsheim (D), Ichtershausen (D) and Ciasna (PL). As of 31 December 2016, the Doors Business Unit of the Looser Group had 1592 employees. In 2016, the business unit recorded revenue of CHF 238.9 million.

Industrial Services

The Condicta Group represents the Industrial Services Business Unit and comprises three companies: Condicta, MobiToil and WMS WC-Mietservice. The Group offers total solutions in the fields of construction, industry, trade, public sector and event services. In Switzerland, the Condicta Group is one of the leading suppliers of self-erecting cranes, modular space systems and sanitation units as well as soil protection and blocking systems. Its headquarter is located in Winterthur (CH) and it has an additional seven sites and warehousing locations both within Switzerland as well as in Germany and Italy. The Industrial Services Business Unit enjoys high levels of profitability and good market penetration in Switzerland. As of 31 December 2016, 177 employees were employed in the Industrial Services Business Unit. The unit's revenue amounted to CHF 61.3 million.

Coatings

The Coatings Business Unit includes Feyco Treffert (Treffert Group, Feyco AG), the Industrielack Group (Ilag) and the Schekolin Group. The companies develop, manufacture and distribute varnishes and coatings for use on materials such as wood, plastic, metal, stone and glass. Their main customers are the construction, parquet, laminate flooring, furniture, food, pharmaceuticals and cosmetics industries. Further customers include carpentry businesses, producers of wood materials as well as pan and baking dish manufacturers. The Coatings Business Unit operates internationally and serves customers in Europe, Asia and the US.

As announced on 9 August 2016 and in agreement with Arbonia, Looser will continue the process of selling the coatings business. It is to be expected that the unit will be able to be sold in 2017.

The takeover of the Looser Group

The strategy

The takeover of the Looser Group and its doors businesses of Prüm-Garant and Invado has, combined with RWD Schlatter, formed the second-largest supplier of interior doors in Central Europe – offering excellent market opportunities and interesting new fields of activity for employees in both companies. The four companies complement ideally in terms of product portfolio, market presence, sales channels and production footprint.

Strong market positions in Central Europe

With its RWD Schlatter brand offering wooden functional doors to meet safety, fire protection and smoke protection requirements, Arbonia was, until now, represented almost exclusively in the Swiss market and was therefore heavily dependent on this one domestic market and its evolution. In contrast, Prüm-Garant and Invado enjoy a strong position with respect to interior doors in the German, Polish, Czech and Slovakian markets. As a result of the merger, Prüm-Garant and Invado are set to obtain access to the Swiss market and RWD Schlatter to the important German market, meaning that the companies will be able to benefit from the existing market position, sales organisations and customer relationships of the respective other businesses.

Expansion of the product range

The product portfolios of RWD Schlatter, Prüm-Garant and Invado perfectly complement each other: RWD Schlatter has comprehensive expertise in functional doors with high safety requirements, while Prüm-Garant and Invado offer a wide range of doors in the medium and lower price segment for the residential construction sector.

Four state-of-the-art production plants

The newly established production network comprising four dedicated plants and the company's expanded purchasing power means that Arbonia, together RWD Schlatter, Prüm-Garant and Invado, will be in a position to offer an even more attractive range of doors.

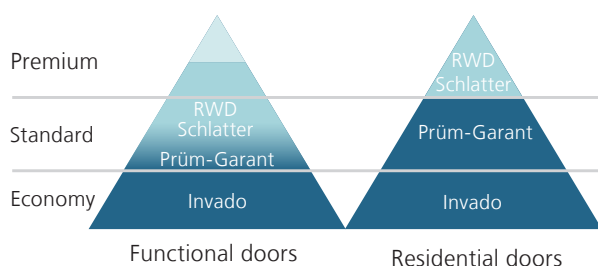
Arbonia is set to continue the planned investment programmes in machinery and production capacity at Prüm in Weinsheim (D), Garant in Ichttershausen (D) and Invado in Ciasna (PL).

A new dimension of scale

This merger has resulted in the second-largest supplier of interior doors in Central Europe, while also seeing the scale of the Arbonia Group take on a whole new dimension.

Integration

The process of integrating Looser's interior doors business into the Doors Division of the Arbonia Group started with the completion of the transaction. A cross-company team will track the progress of the integration process on the basis of a detailed schedule, with the aim of creating a new, strong division within Arbonia and to fully realise the targeted synergies by 2020. As has already been communicated, the Industrial Services unit is to continue as a stand-alone division of the Arbonia Group.

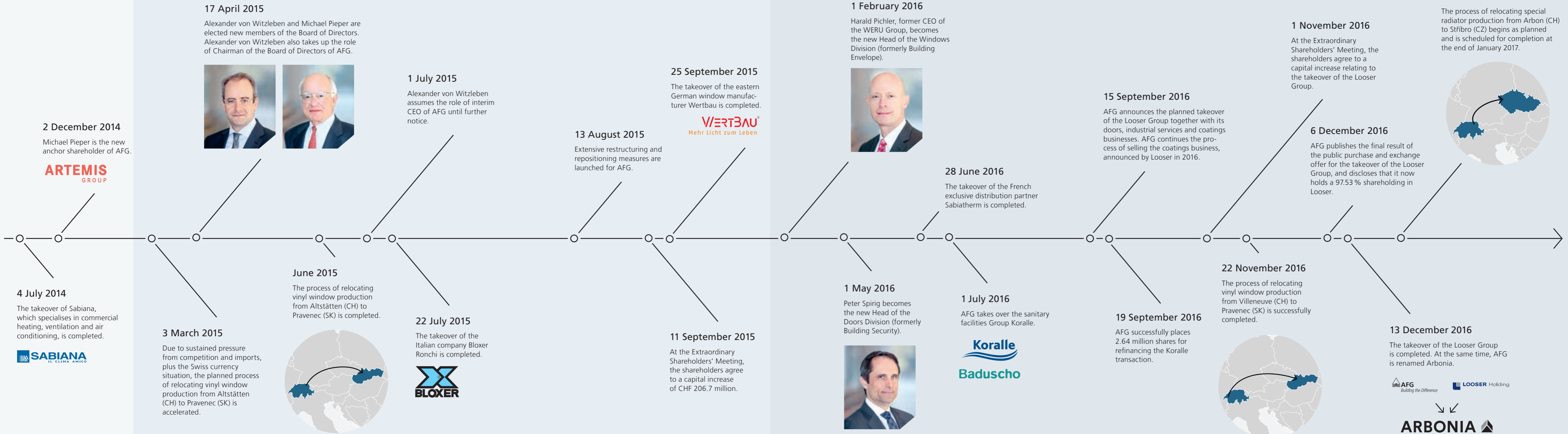


Arbonia's doors business enjoys now completely new foundations on which to build a successful future over the long term.

2014

2015

2016



An eventful time –
The development to
the Arbonia Group



Arbonia
Group Management

Peter Spirig
Head of Doors
Division

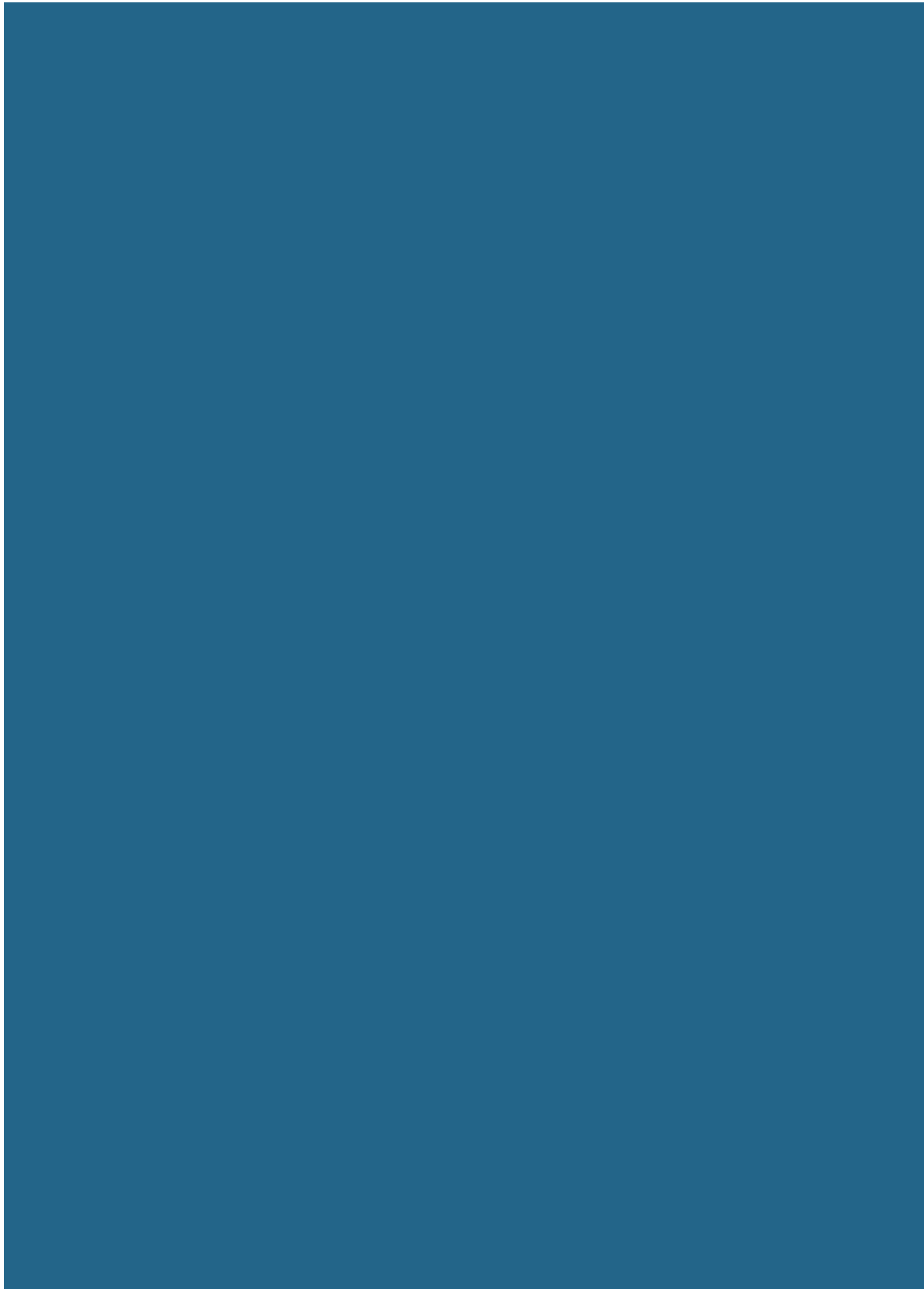
Alexander
von Witzleben
CEO

Harald Pichler
Head of Windows
Division

Knut Bartsch
Head of Building
Technolgy Division

Felix Bodmer
CFO

“We continue to be fully on track towards meeting our strategic and financial objectives for 2018.”



Divisions

| Arbonia AG | | | | | | |
|---|---|---|---|--|---|---|
| Building Technology | | | Windows (formerly Building Envelope) | Doors (formerly Building Security) | | Industrial Services |
| Heating Technology | Air-Conditioning & Ventilation Technology | Sanitary Equipment | Windows/ Exterior Doors | Profile Systems | Interior Doors | |
|  |  |  |  |  |  |  |
|  |  |  |  | |  | |
| | |  |  | |  | |
| | | |  | |  | |

Overview of divisions

Building Technology



Business Units

Heating Technology
Air-Conditioning and
Ventilation Technology

Sanitary Equipment

Areas of activity

Fan coils
Steel radiators
Radiant panels

Unit heaters
Shower enclosures

Revenue in 2016

CHF 486.8 million

Brands

Arbonia
Baduscho
Kermi

Koralle
Prolux
Sabiana

Production sites

Corbetta (I)
Magenta (I)
Plattling (D)

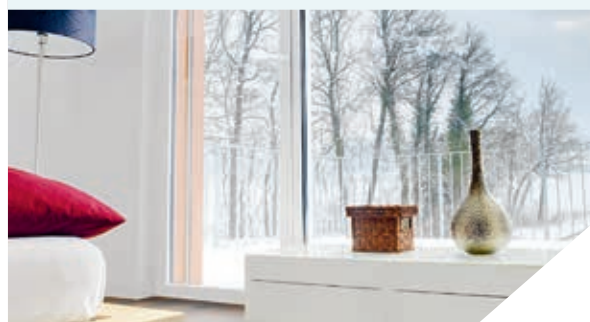
Střibro (CZ)
Vlotho (D) (until the end
of 2017)

Number of employees as of 31.12.2016

3047

Windows

(formerly Building Envelope)



Business Units

Windows
Exterior Doors

Areas of activity

Vinyl windows
Vinyl/aluminium
windows
Wood windows

Wood/aluminium
windows
Aluminium windows
Exterior Doors
Lift-and-slide doors

Revenue in 2016

CHF 350.8 million

Brands

Dobroplast
EgoKiefer

Slovaktual
Wertbau

Production sites

Altstätten (CH) (until
the end of 2017)
Langenwetzendorf (D)

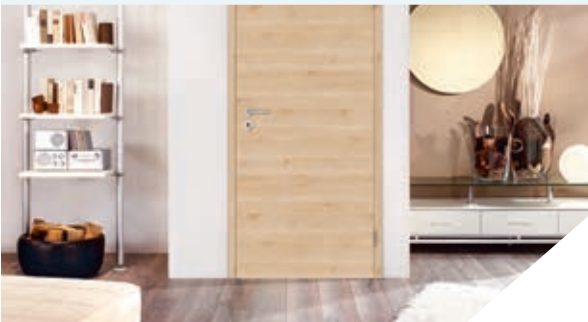
Lublin (PL)
Pravenec (SK)
Zambrow (PL)

Number of employees as of 31.12.2016

2740

Doors

(formerly Building Security)



Business Units

Profile Systems
Interior Doors

Areas of activity

| | |
|------------------|-----------------------|
| Interior Doors | Frames |
| Functional doors | Steel profile systems |

Revenue in 2016

CHF 156.7 million*

Brands

| | |
|---------|---------------|
| Forster | Prüm |
| Garant | RWD Schlatter |
| Invado | |

Production sites

| | |
|-------------------|---------------|
| Arbon (CH) | Roggwil (CH) |
| Ciasna (PL) | Weinsheim (D) |
| Ichtershausen (D) | |

Number of employees as of 31.12.2016

2014**

* without Prüm, Garant and Invado

** with Prüm, Garant and Invado

Industrial Services



Business Unit

Industrial Services

Areas of activity

| | |
|-----------------------|------------------------|
| Modular space systems | Mobile plastic toilets |
| Self-erecting cranes | |

Revenue in 2016

CHF 61.3 million*

Brands

Conducta

Production sites

—

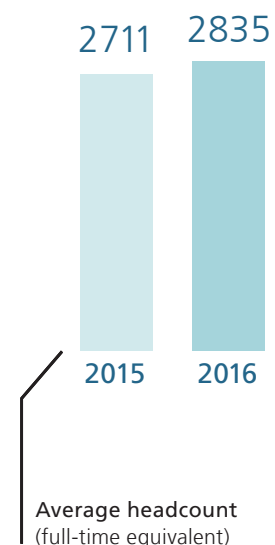
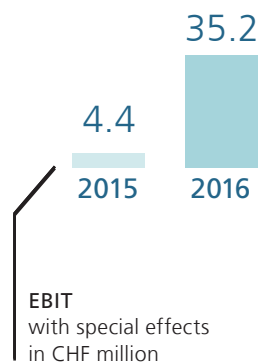
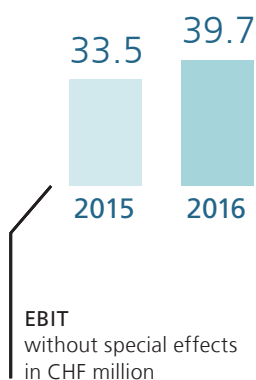
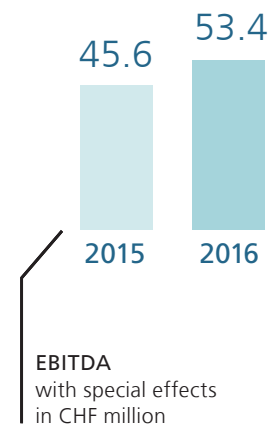
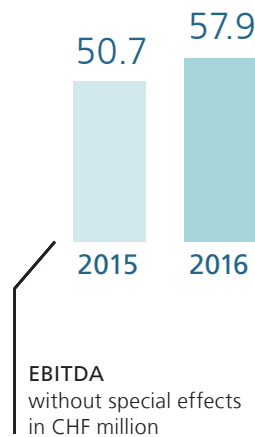
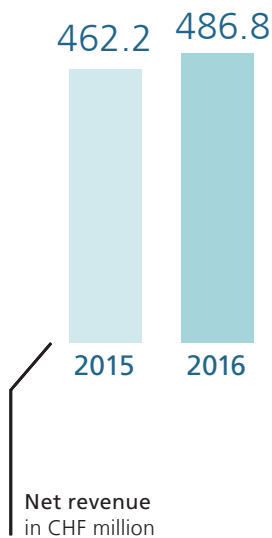
Number of employees as of 31.12.2016

177

* First consolidated in 2017

Building Technology Division

The Building Technology Division is a leading and highly integrated European provider of the heating, air-conditioning, ventilation and sanitary equipment industry. In addition to Kermi, Arbonia, Sabiana and Prolux, since 1 July 2016 the division's main brands have included Koralle and Baduscho from the Koralle Group, which specialises in sanitary facilities. The Division's varied range of products is manufactured at the company's own production plants in Germany, the Czech Republic and Italy, in line with the principles of sustainability, cost-effectiveness and the very highest product quality standards. On an international scale, the division has its own distribution companies in Switzerland, Poland, Russia, France, Austria, China and the United Kingdom.



Market trends

During the reporting year, the Building Technology Division achieved total revenue of CHF 486.8 million (previous year: CHF 462.2 million), a development that was accompanied by the pro rata effect of the two acquisitions that took place. This equates to 5.3 % growth. When adjusted for currency and acquisition effects, revenue rose by 1.1 %. EBITDA grew from CHF 45.6 million in the previous year to CHF 53.4 million. Without special effects, the EBITDA amounted to CHF 57.9 million (previous

year: CHF 50.7 million). EBIT amounted to CHF 35.2 million (previous year: CHF 4.4 million). Without special effects the division reported an EBIT of CHF 39.7 million (previous year: CHF 33.5 million). Again, all three business units – Heating Technology, Air Conditioning and Ventilation Technology, and Sanitary Equipment – made substantial contributions to the division's results.

2016 was marked by a diverse market environment for the Building Technology Division. The positive and negative trends that were seen in the individual product and

country markets partially compensated each other. Against this background the division experienced a satisfactory level of growth during the reporting year, aided in part by the launch of new products, the continued development of its market presence, and further improvements in the area of cost-effectiveness. Two acquisitions had an especially significant effect on the division's key figures. One of these, the Koralle Group, made it possible for the Sanitary Equipment Business Unit to achieve a stronger position in the key markets of Switzerland, Germany and Austria. The second, involving the French sales partner Sabiatherm, led to the division gaining a better line of direct access to distribution channels for air-conditioning and ventilation products. Furthermore, the reporting year was shaped by extensive optimisation and investment projects, that are progressing as planned.

In terms of sales, 2016 demonstrated weaker development in the commercial construction industry across Europe. However, Germany in particular experienced a highly positive trend in the new residential construction sector. This did not, unfortunately, have the same positive effect on all product segments within the division, as capacity levels in the trades sector had become excessively low. The dampening effect that has resulted from this is currently being felt especially keenly in market trends for renovation, a vital sector for the division. The division results were affected by the extremely challenging situation in the domestic market of Switzerland, which experienced a noticeable weakening in demand within the renovation business as well as competitive pressure that continued to be high. While Italy started the year with great promise, it recorded disappointing results as time went on, due to growing political instability that in turn hampered the investment climate. In Russia, increased moves towards protectionism plus a weak performance from the ruble represented significant challenges for the division. By contrast, it was possible to take advantage of the positive stimuli generated by the Middle East, with new sales partners gained in what is a market of interest to the area of air-conditioning and ventilation technology.

Products, technology and innovation

The reporting year was marked by a diverse range of investments made in a bid to boost competitiveness within virtually every production facility in the division. One example was the extensive programme of investments – amounting to more than EUR 25 million – in radiator production at Kermi in Plattling (D). Aiming to raise awareness of the strengths offered by its brands, the division intensi-

fied both its cross-selling activities and its efforts to develop online marketing with a focus on users. It also had a presence at all the major industry trade fairs.

Ongoing process optimisations and forward-looking additions to the product range made formed the basis for further market penetration and a strengthened position for the Heating Technology Business Unit. "Kermi x-well" residential ventilation products, first launched in 2015, began to establish themselves more widely. Gaining a positive response from its three-tiered approach to distribution, Kermi's sustainable "x-optimiert" system was also developed further thanks to innovations in additional system segments – a new form of smart control technology and a significantly improved heat pump. Moreover, practical solutions including "x-net connect" for floor heating and cooling plus additional bathroom radiators represented strong additions to the established business units. The newly launched fan coils are providing a solid basis for the Arbonia range to successfully tap into more opportunities in the public and commercial construction sectors. Also many of the new products designed for new buildings and modernisation projects are providing a stronger position from which to maintain the important business area of the housing industry.

Where the Air-Conditioning and Ventilation Technology Business Unit was concerned, the reporting year represented one of the most successful years in Sabiana's history. Building on a solid foundation of more than 75 distributors worldwide, plus successful efforts to establish a customer network in the Middle East, it was possible to establish an even stronger market position for the business unit in the fan coil sector. Furthermore, the planned revenue gained from the takeover of heating product sales for the Kermi and Arbonia brands in the Italian market has already experienced a positive trajectory, within just the first year of the takeover happening. At the same time, the successful acquisition of the sales partner Sabiatherm has made it possible to expand direct business in France – the second-largest market for fan coils in Europe. New commercial ventilation products, plus the successful launch of a strategy for gaining major customers in the area of air quality – a move that is based on the patented, electromechanical "CRYSTALL™" filter – were other contributors to the business unit's positive development.

In Sanitary Equipment, integrating the Koralle Group makes it possible to take advantage of various synergy effects. The Koralle and Kermi brands continue to be developed independently with the aim of achieving maxi-

mum market coverage. All brands develop products for new buildings and renovation projects, with a focus on both design and demographics. Kermi's communication concept during the spring trade fairs of 2016 was "UNLIMITED//GRENZENLOS", and it showcased cross-generational, safe and convenient shower solutions for new buildings and renovation projects. The Kermi concept won the German Brand Award 2016. Koralle's innovative shower enclosure known as "myDay Comfort", designed to suit all generations and lifestyles, also received the renowned German Design Award 2016.

Sustainability

The principles of sustainability have been an integral part of the corporate philosophy of the Building Technology Division for decades now, and are applied in the areas of development, production and personnel relationships.

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

environmental aspects of the production and development processes within the division. Within the Heating Technology Business Unit, all the production processes for radiators take place at just two sites, making them more efficient and allowing them to use resources more sparingly. The Business Unit has also switched over to an energy-saving form of propulsion technology as part of efforts to modernise production technology for flat-panel radiators. The company's energy programme has introduced a whole host of energy-saving measures for essential consumers at a basic level as well as measures at levels above this.

The obligation to determine suitable employee protection goals is a standard element of corporate policy. Marking its 11th entry in a row, Kermi GmbH participated in the 2016 competition for ideas held by the company's professional association for occupational safety, receiving a successful response which led to an award. Each year, the company introduces prevention campaigns focusing on a range of different subjects, such as back health. Managers also receive training in the area of responsibility for occupational safety, as a means of giving safety-related issues more prominence.

Outlook

Current economic forecasts contain modestly optimistic estimations of how Europe is set to perform in 2017, although these are significantly more moderate than previous forecasts. Brexit and uncertainty about the results of upcoming elections in key economic regions of Europe are just two examples of why a tentative approach is being adopted. The significant increases in raw material prices that had begun to emerge at the end of 2016 are, unfortunately, set to become much more apparent, and this in turn means weakened prospects for the division. Despite this, the division is still expected to overcome these challenges and continue to record profitable growth in the future. The integration of the Koralle Group and the focus on implementing the investment strategy will be the principal themes of the upcoming reporting year. Another important area of focus will be the completion of relocating special radiator production from Arbon (CH) to Stříbro (CZ).

The division will continue to focus on its core areas of expertise. Thanks to its extensive, modern range of products, its sustained focus on maintaining close proximity to the customer, and its continued efforts to improve cost-effectiveness using a high-performance IT structure that focuses on a specific business model, it is well equipped to face the future and will continue to make a lasting contribution to the Arbonia Group achieving its goals.

production plant
covering over
100 000 m²
of space

customised
production

100 000 of
special radiators
each year

excellence
from the
Czech Republic

Special radiator production at Kermi in Stříbro (CZ)

Spanning some 100 000 square metres, this production plant – twice the recipient of the EFQM Award – is where over 700 employees produce 100 000 pieces of high-quality special radiators every year. With a focus on order-specific production that accommodates the needs of each

customer, a high level of production complexity has emerged here. The plant is able to create products with the highest standards of quality and competitive lead times, thanks to a sophisticated organisation and a stable production processes. In 2016, the plant celebrated its twentieth anniversary.



Ondřej Švarc,
specialist in welding
designer residential radiators,
with Kermi since 2015

“Customer satisfaction is
our number-one priority.”

Koralle Group acquisition

For the Sanitary Equipment Business Unit, the acquisition of the Koralle Group and the opportunities that this brought to develop a stronger market position in Switzerland, Germany and Austria was the most significant outcome of the year under review.



Kermi/Koralle – Outstanding products

In 2016, Koralle’s “myDay Comfort” shower enclosure and Kermi’s “LIGA + E 65” renovation concept both received design awards. Both brands offer impressive products for every generation, with a focus on design.



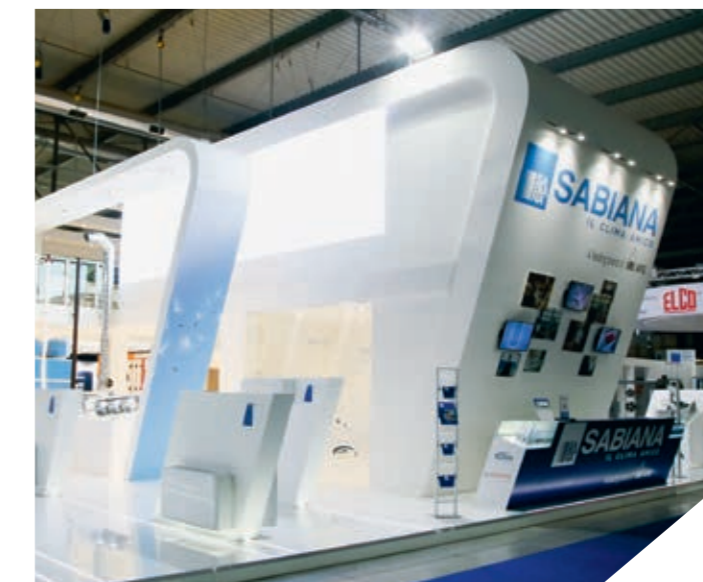
Kermi Stříbro – 20-year anniversary

In June, Kermi s.r.o. in the Czech Republic celebrated 20 years since its opening. Employees had the opportunity to show off their workplace to their families at a family-focused day attended by around 2000 guests. Particularly impressive was the construction site where the plant is being expanded: by the end of the year, it will be equipped with state-of-the-art production facilities.



Arbonia/Prolux – At Swissbau 2016

The first outing for the new market position adopted by Arbonia and Prolux was Swissbau 2016 in Basel (CH). Over a space measuring just under 300 square metres, both companies showcased numerous product innovations with a modern visual concept. These included unit heaters from Arbonia as well as “x-well” comfort ventilation from Prolux.



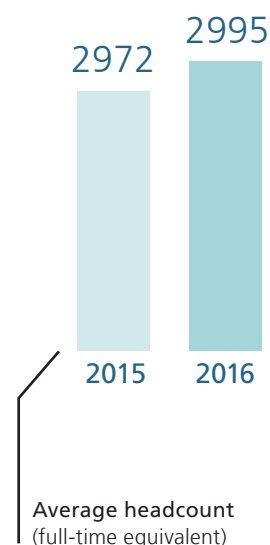
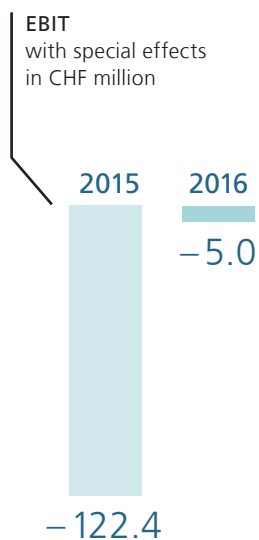
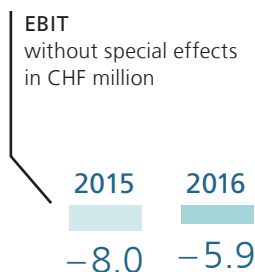
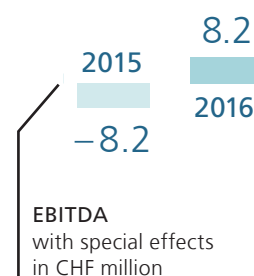
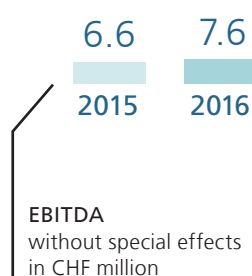
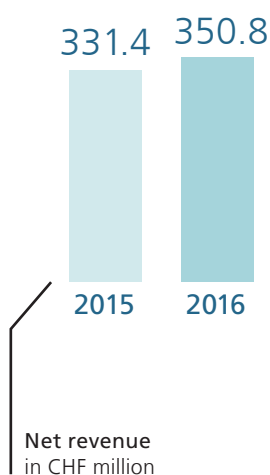
Sabiana – At Mostra Convegno

Comfortable warmth, controlled humidity and clean air, coupled with a wide variety of colours, state-of-the-art design and outstanding efficiency, are the defining values of the Sabiana, Arbonia and Kermi brands. In 2016, they were demonstrated for the first time to visitors at the Mostra Convegno trade fair in Milan (I).



Windows Division

With its companies EgoKiefer, Wertbau, Slovaktual and Dobroplast, the Windows Division is one of Europe's leading window manufacturers. Production takes place in the division's own plants in Germany, Slovakia, Poland and, until the end of 2017, Switzerland. In its target markets, the division operates its own decentralised sales organisations and relies on extensive dealer networks. The four companies offer customised window systems made of wood, wood/aluminium, vinyl, vinyl/aluminium and aluminium, designed to accommodate any need. Complementing the extensive range of window products are lift-and-slide doors, exterior doors as well as ventilation and shade solutions. The products stand out due to their quality, durability as well as extensive design and equipment options. They also ensure maximum energy efficiency thanks to their compliance with state-of-the-art standards for thermal insulation.



Market trends

During the reporting year, the division was able to increase its revenue by 5.9 % from CHF 331.4 million in the previous year to CHF 350.8 million. When adjusted for currency and acquisition effects, however, this represents decline of -1.2 %. The division's EBITDA increased from CHF -8.2 million in the previous year to CHF 8.2 million. Without special effects, EBITDA rose from CHF 6.6 million in the previous year to CHF 7.6 million. EBIT grew

from CHF -122.4 million to CHF -5.0 million, while EBIT without special effect amounted to CHF -5.9 million (previous year: CHF -8.0 million).

The ongoing transformation process and the market environment that continued to be demanding, particularly in Switzerland, once again presented major challenges for the Windows Division in the reporting year. Nevertheless, the division achieved the milestones of the road map announced in August 2015, and key projects advanced significantly.

Although the division was forced to operate in an intense competitive environment with resulting pricing pressure, EgoKiefer was able to increase its sales volume in its domestic market of Switzerland. In addition to the suspension of the euro cap, matters were exacerbated by the fact that Swiss competitors had expanded their production capacity and were making fierce efforts to use as much of it as possible, leading to a further increase in domestic pricing pressure.

During the reporting year, EgoKiefer set a suitable course for positive development in the Swiss market. Following its announcement in 2015, the relocation of vinyl window production from Villeneuve (CH) to Pravenec (SK) was successfully completed; meanwhile, preparations for the 2017 relocation of wood/aluminum window production from Altstätten (CH) to Langenwetzendorf (D) are continuing to proceed as planned. EgoKiefer's sales organisation also underwent optimisation and was altered during the reporting year to achieve sustained success. In addition to these restructuring measures, there was a focus on developing various product innovations that are set to be launched on the market over the course of 2017.

The German market experienced positive growth. However, the moderate market growth is being overcompensated by the ever increasing number of windows that are being imported (primarily from Poland). In the reporting year, volume grew 1–2% to approximately 14 million window units. This was driven by projects involving new buildings, something which in turn had a positive impact on revenue development within Wertbau's direct business. In contrast to the positive trend in the new buildings segment, the renovation market – an area on which many specialist partners are focusing – stagnated in Germany. As a result, this area of Wertbau's business recorded a slightly negative performance during the reporting year.

Revenue in the Slovakian market grew considerably in 2016, with Slovaktual reinforcing its leading position accordingly. The division experienced considerable growth in the area of vinyl and vinyl/aluminium windows in particular.

Sales in Poland stagnated, whereas Dobroplast was able to increase its revenue in export markets, achieving a slight gain overall. For example, Dobroplast made gains in the Czech Republic, while Slovaktual, like many manufacturers in the euro zone, had to endure a decline in revenue in this market as a result of a weak Czech koruna.

Products, technology and innovation

2016 was dominated by the development of the technical platform for the division's new wood/aluminium window system. This represented its first joint cross-company and cross-market product development, with employees from both EgoKiefer and Wertbau contributing expertise in equal measure. This new, shared platform, designed for German-speaking markets, will create synergy effects to be exploited in the areas of development, procurement, production and processing. A consistently implemented platform strategy will boost the range of versions available to customers, but production will also become less complex across all the processes. The new wood/aluminium window system is set to be launched in Switzerland and Germany in 2017. Within these two target markets, the diversity of this system will make it possible to accommodate a wide range of market requirements and segments as effectively as possible. Preparations have also been made for an entirely new range of wood and wood/aluminium doors, which will be presented for the first time during the second quarter of 2017 in Switzerland.

Dobroplast in Zambrow (PL) has established a new production line in order to ensure that it is delivering optimum standards of process reliability and product quality. This new line is making it possible to create stronger links between the processes involved in vinyl window production, and coordinate them more effectively. The first products will be launched on the market in 2017.

Sustainability

Sustainable operations are one of the pillars of the Windows Division: by delivering superior standards of thermal insulation, its products ensure that heating and cooling energy in buildings uses resources as economically as possible.

At every site, window production is carried out with environmental issues taken into consideration. Wertbau, for example, operates its own cogeneration station at the Langenwetzendorf (D) plant. Here, wood waste and chippings are collected in a silo and converted into heat energy. Additionally, a photovoltaics plant with an output of approximately 455 kW covers some of the company's electricity supply.

Dobroplast has installed a coextrusion line for vinyl profiles at its site in Zambrow (PL); this not only manufac-

tures profiles with outstanding efficiency, but also conforms to the very latest sustainability standards. This plant makes it possible to recycle the vinyl waste that is created during window production, protecting the environment more effectively and optimising costs.

Outlook

A Swiss market environment that continued to present demanding conditions, plus the ongoing transformation programme, made 2016 a challenging year. The Windows Division is on course to see its restructuring activities reach their conclusion in 2017. The process of establishing an integrated production network – containing a competence centre for wood and wood/aluminium windows in Germany, two competence centres for vinyl and vinyl/aluminium windows in Slovakia and Poland, and a service shop for special solutions in Switzerland – means that the coming year is once again expected to present additional sources of stress. Despite this, the division believes that the EBITDA margin can be increased considerably in 2017.

approx. 40 000 m² of
space for production
and logistics

customised
production for all
requirements

maximum
quality thanks to
state-of-the-art
production technology

Vinyl competence centre at Slovaktual (SK)

The site in Pravenec (SK) provides 40 000 square metres of space in which customised high-quality windows and doors made from vinyl, vinyl/aluminium and aluminium are manufactured. The modern manufacturing provides the basis for the efficient production equipment of everything from simple

white vinyl windows to complex units made from vinyl/aluminium and aluminium with large lift-and-slide sashes. Since the end of 2016 the competence centre has also been producing all of the vinyl and vinyl/aluminium windows for EgoKiefer in Switzerland.



Ján Gombarček,
shift supervisor, with
Slovaktual since 2014

“The combination of modern equipment and traditional craftsmanship enables us to produce windows and doors for different applications.”

EgoKiefer – Reinforced service offering for windows

In 2016, EgoKiefer's efforts were on enhancing its service business and reinforcing customer relationships. It delivers everything from customised consulting, professional project management, construction site logistics and installation through to its “FensterTürenService” for windows and doors, whose 50 mobile joinery units ensure that the company can attend to customers' needs round the clock also after installation.



Slovaktual – Construction of new insulating glass production facility

At the vinyl production competence centre in Pravenec (SK), planning has begun for a new insulating glass production facility. Over an area of 12 000 square metres, the company is developing one of the most state-of-the-art plants in Central Europe, which is set to commence operation at the end of 2017.



Dobroplast – Installation of a new coextrusion line for vinyl profiles

Thanks to the new extrusion line for vinyl profiles, production capacity is increasing. Moreover, it is now possible to recycle the vinyl waste created during window production, to the benefit of both, the environment and raw materials cost.



Wertbau – Final delivery for the Berlin City Palace

One of the biggest projects in Wertbau's history has reached a successful conclusion. The process of rebuilding the Berlin Palace involved deliveries of oak sections measuring up to 2.8 metres in width and up to 6.6 metres in height.

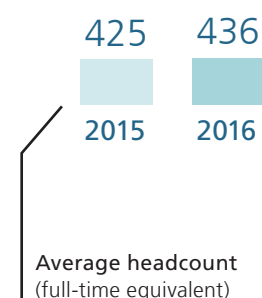
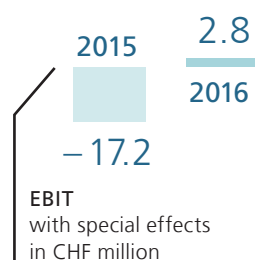
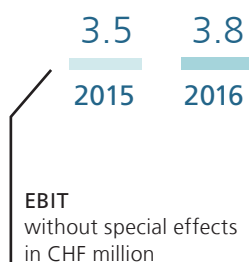
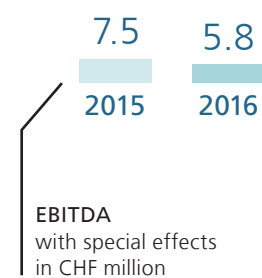
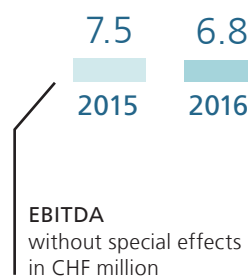
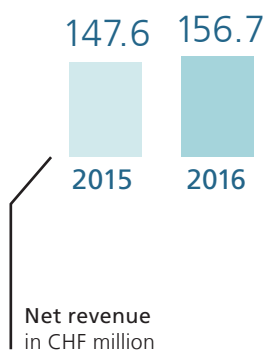
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Architekt: Franco Stella.



Doors Division

The Doors Division consists of two business units: Profile Systems and Interior Doors. Forster develops and manufactures high-quality steel and stainless steel profile systems for doors, windows and facades for safety and security applications such as smoke and fire protection as well as burglar-proof systems, and for energy-efficient exterior applications where requirements are more stringent.

Within the Central European markets, the Interior Doors Business Unit is one of the largest providers in its market segment. The companies Prüm, Garant and Invado, which have been part of the Arbonia Group since end 2016, are market leaders for interior doors and frames in their domestic markets of Germany and Poland. RWD Schlatter is Switzerland's leading provider of sustainable wooden doors for applications in the area of security as well as fire and smoke protection.



Market trends

In a turbulent year 2016, divisional revenue amounted to CHF 156.7 million, 6.2 % above the previous year's level (CHF 147.6 million). When adjusted for currency and acquisition effects this represents a growth of 4.5 %. Due to the substantial price pressure in the domestic market of Switzerland, EBITDA decreased from CHF 7.5 million to CHF 5.8 million. Without special effects, EBIT-

DA amounted to CHF 6.8 million. EBIT grew from CHF -17.2 million to CHF 2.8 million. Without special effects, EBIT amounted to CHF 3.8 million (previous year: CHF 3.5 million). The first-time consolidation of the new companies – Prüm, Garant and Invado – will take place on 1 January 2017.

The key markets of the Profile Systems Business Unit are Switzerland, Germany, France, Italy, Austria and the Unit-

ed Kingdom, followed by other Western and Eastern European markets plus the Middle East. In Switzerland, increased pricing and competitive pressure from foreign competitors had a significant impact – an aftereffect of the minimum euro exchange rate being abolished. The non-residential construction market remained very muted, while the education and healthcare related construction market was much more active. The renovation business also developed positively. Forster's products were able to differentiate in this area, demonstrating adaptability, energy efficiency and sustainability. Residential construction recorded significantly more dynamic activities. Products for construction projects in entrance areas involving stricter safety and security requirements achieved positive outcomes.

The competitive environment in other European countries, where the economy is only gradually getting back on its feet, proved challenging. Significant price reductions had to be deployed in order to win contracts and, in many cases, projects that had been planned using steel were produced using aluminium for cost reasons.

Following the takeover of the direct sales locations in Germany, Forster is now operating independently on this market. This is allowing the company to work directly with the customers and enhanced market presence. The consistently positive feedback that has been received is proof that this move has been the right one for the company. However, delays in many construction projects resulted in a performance below expectations.

In France, the awaited upturn in the economy failed to materialise. Despite this, Forster still achieved its budget within this market and closed 2016 with a healthy result. The declining number of approvals granted in the area of public construction remained a concern. While 40 million square metres received approval in 2008, this figure was just 21.8 million in 2016. However, the decline is assumed to have now bottomed out in France, and a rising number of approvals is expected once the presidential election has taken place.

The market in the United Kingdom recorded a stable performance. In spite of currency fluctuations, the business unit achieved its goals. While there have been no noticeable consequences of Brexit so far, the uncertain mood that is prevailing renders budgeting difficult.

The Austrian market ended the year with a positive result. The increased market share here can be attributed to both the move towards direct sales and an excellent

customer service structure. Revenue objectives were met and margins experienced a slight increase.

By contrast, the Italian construction sector continued its sluggish performance after a seven-year trend. The number of building permits issued reached its lowest point in 100 years. However, the Profile Systems Business Unit was still able to gain ground and additional shares of the market in this challenging environment.

The Interior Doors Business Unit (formerly Special Doors), whose business has been almost entirely Switzerland-related in the past, held up well in a highly competitive environment and market that appears to be on the decline, and increased its market shares. Revenue was 6% above the previous year's figure. RWD Schlatter won contracts primarily for hospital buildings and hotel projects, which compensated for the decline in non-residential construction. As in the previous year, residential construction still accounts for around 50% of revenue.

Products, technology and innovation

Forster launched two new EI30-class fire doors: a burglar-proof RC2 model for interiors and a thermally insulated door for outdoor applications. Both doors are fully wheelchair-accessible and can be ordered with an anti-panic function.

The extension of Forster's facade system has made it possible to carry out construction that meets passive house A (pHA) standards. "Forster thermfix vario Hi" is the ideal solution for highly thermally insulated curtain walls without safety requirements.

Forster is intensively developing a new, multifunctional profile system: a unique, modular system that is used to construct windows, doors, glazing and facades. It meets the very highest demands in the areas of safety, energy efficiency and sustainability. The system will go on show for the first time at the 2017 BAU trade fair in Munich (D).

RWD Schlatter also achieved success with its burglar-proof door featuring resistance class RC4. This recently developed door can be produced at the company's new large-scale facility resulting in lower manufacturing costs. The door element also meets the criteria of class FB4 for ballistic protection.

Featuring the Sanitized® label, the antibacterial door element is now also available with synthetic resin surfaces,

complementing colour paint coatings. More frame options can be obtained too: in addition to the powder coated steel frame, there is also a colour paint coating and a wood frame version with the Sanitized® label available. This now means it is possible to satisfy any requirement in projects involving hospitals and care facilities.

The new EN 16034 product standard for fire doors did not come into force as planned on 1 September 2016, but instead two months later on 1 November 2016. What's more, the new European product standard will only apply to exterior doors. Its introduction for interior doors is set to be delayed further.

In order to reinforce its position in the key German market for interior fire doors, on 1 January 2017, RWD Schlatter acquired TPO, a company specialising in fire protection and offers a complete library of fire protection licences.

Sustainability

Forster has significantly reduced its water consumption in recent years. From 27 000 cubic metres, it has seen a drop of 10 000 cubic metres to 17 000 cubic metres per

year. That approximately equates to the capacity of the outdoor swimming pool in Arbon (CH). During 2016, the waste produced from steel processing fell by around 25 %. This is the equivalent of 66 tonnes or three truck loads. It is thanks to previous investment in process optimisation that this positive result has been achieved.

All ten of Forster Profile Systems' sites (for production and sales) are undergoing testing and recertification in line with ISO 9001 (quality management) and ISO 14001 (environmental management). This takes place in the form of matrix certification. The main plant and three additional sites are audited annually as part of this process. Following a successful audit in 2016, the headquarters in Arbon and three branches achieved certification. The remaining six branches will follow the same process over the next two years.

Outlook

The Doors Division is expecting to see a rise in revenue and sales figures during 2017. Market prospects are improving, and promising new products are being launched too.

To enhance its market presence across the board, the Profile Systems Business Unit is extending its sales network to include new partners and is already in negotiations with new distributors.

During 2017, the focus of the Interior Doors Business Unit will be on ensuring the seamless integration of the new companies that came on board in December 2016: Prüm, Garant and Invado. Together with RWD Schlatter, this will create one of the most powerful door providers in Central Europe, with the ability to offer customers in all three domestic markets (Switzerland, Germany and Poland) a comprehensive range of products from standard doors to complex functional doors. A cross-company team will track the progress of the integration process on the basis of a detailed schedule. This should ensure the pooling of best practices across all units involved. Additional sub-projects focus on the identification and realization of long-term synergies.

For information on the takeover of the Looser Group and a look back at how it progressed, visit pages 8 and 9.

85 000
door elements
per year

europa-
certified
testing facilities

on the edge-forming
and format-shaping
machine, doors are
produced with a maximum
weight of 300 kg

Functional door production at RWD Schlatter in Roggwil (CH)

In a space of 9500 square metres, RWD Schlatter produces approximately 85 000 door elements per year. The sophisticated layout enables efficient production. RWD Schlatter has European-certified testing facilities for smoke protection, sound

protection and durable functions – and now for burglar-proof too. This allows RWD Schlatter in the ideal position to perform testing using its own in-house facilities.



Franz Wechner, blank production, with RWD Schlatter since 1988

“I have worked for RWD Schlatter for nearly 30 years and there is hardly any production job that I haven’t successfully performed. This variety and the positive atmosphere within our team are my main motivation to come to work day by day.”

Forster – Restoration of the listed Arbomec building

The listed Arbomec building on the former Saurer site in Arbon (CH) has been renovated and is now part of the Jumbo Maximo chain. While the windows on the ground floor were fit for restoration, those on the upper floor had to be replaced with new ones. Thanks to “Forster unico XS”, it was possible to create windows with an identical appearance to the original versions on the ground floor.



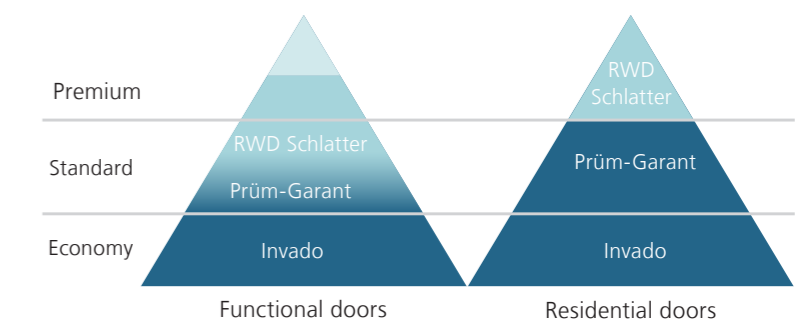
RWD Schlatter – Outstanding safety and security at affordable prices

Before now, wooden doors with intruder resistance conforming to resistance class RC 4 were restricted to only very special applications on account of their cost. Thanks to a complete redesign and radically different materials, RWD Schlatter has managed to develop a door element that offers outstanding safety and security at an affordable price.



Prüm, Garant, Invado – Part of the Arbonia Group since 2016

In December 2016, Arbonia AG completed the takeover of Looser Holding AG, which is also active in the building supply business and has a particular focus on doors, together with its subsidiaries Prüm, Garant and Invado. This has resulted in one of the largest providers of interior doors within the Central European markets.



Industrial Services Division

The Conducta Group, which became part of Arbonia with the Looser takeover in December 2016, represents the Industrial Services Division. The company offers total solutions in the fields of construction, industry, trade, the public sector and event services. In Switzerland, the Conducta Group is one of the leading suppliers of self-erecting cranes, modular space systems and sanitation units as well as soil protection and blocking systems. Its headquarters are located in Winterthur (CH) and it has an additional seven production and warehousing locations both within Switzerland and in adjacent countries.

Market trends

By ramping up its sales activities, the Conducta Group saw an increase of the trade channel involving space systems, cranes and construction equipment over the course of the year. The company's used crane business revenue reached the previous year's level. Although price sensitivity and pressure from competition have both been growing since 2015, the crane and space system rental business recorded a positive performance. Demand was high in the area of event services, as it always has been. The already high levels of revenue and profitability grew even further as a result of the expanded product portfolio, the numerous large-scale events serviced, and the rapid integration of WMS WC-Mietservice GmbH (WMS).

With the purchase of WMS WC-Mietservice GmbH, the division further consolidated its market position and geographical presence in the area of mobile WC systems. This acquisition will enable even more comprehensive coverage for the construction site and event activities that are already offered across Switzerland. With WMS, it will also be possible to launch additional products such as modular space systems, construction site facilities and isolating equipment in new market regions.

The Conducta Group is currently building a new site in central Switzerland, which will clearly optimise the supply chain and lay the foundation for additional growth in that region as well as in the Bern region (CH). The new location will pool two regional sites and warehouse locations that had been used up until now.

For modular space systems, the focus was on ensuring that the Conducta Group's largest project to date ran

seamlessly. In the city of Winterthur (CH), the Group constructed a temporary residential facility providing accommodation for around 120 asylum seekers.

Products, technology and innovation

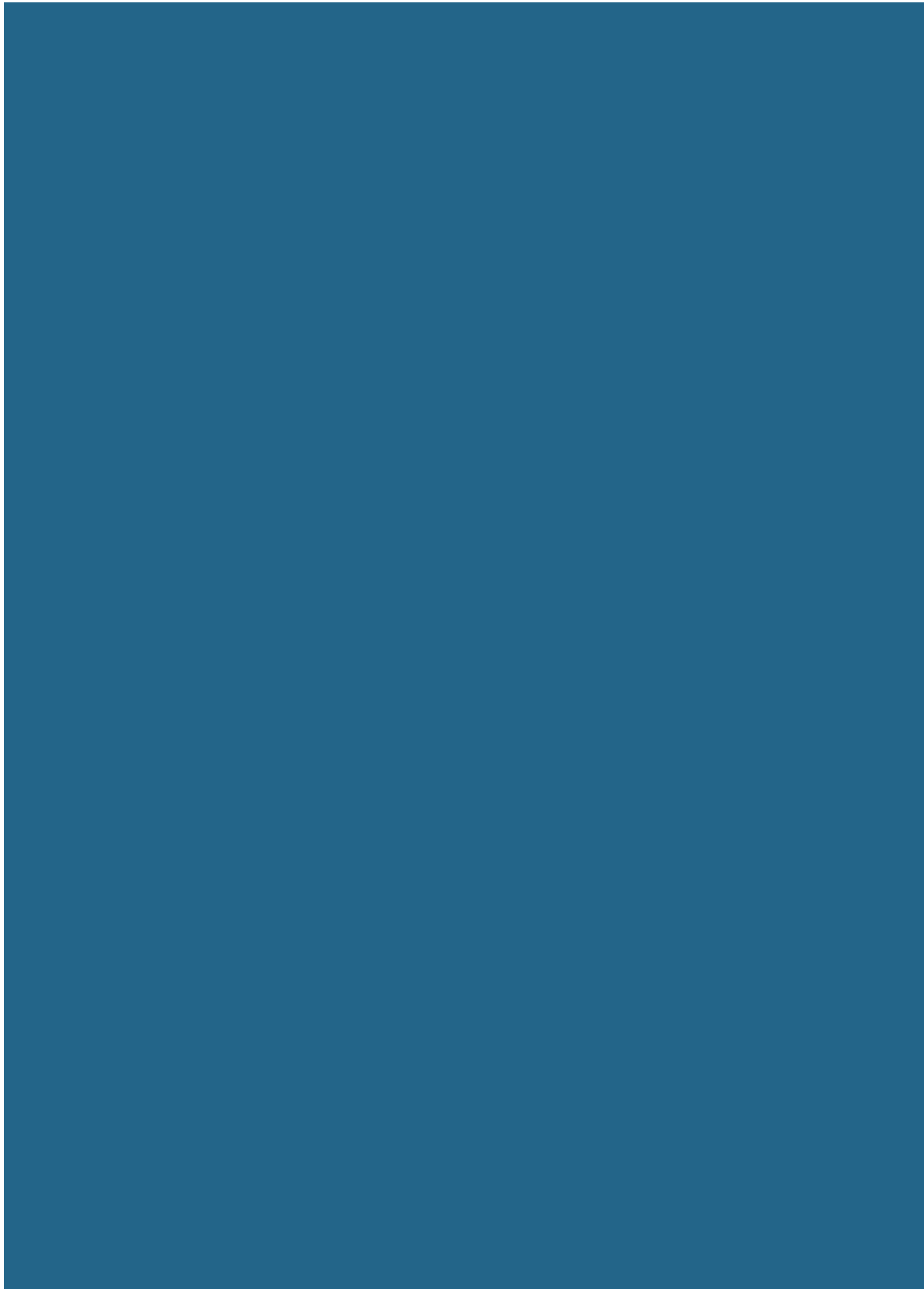
2016 once again focused on delivering solutions and sustainable products tailored to the customers' needs. The new product range for water pollution control, introduced this year, now offers not only the equipment for a self-constructed sedimentation and neutralisation tank, but also a comprehensive consultation and planning service that covers every aspect of plant engineering as well as operations monitoring, maintenance and emergency scenarios.

In the area of cranes for large-scale construction sites, the SSG 160 top slewing crane was successfully introduced to the market. The key advantages of the new tower slewing crane are found in its boom length, spanning up to 65 metres. In February 2017, the Group will present this as well as other new products and services at the Baumag trade fair in Switzerland.

A process-based, efficient method of planning projects and routes is an indispensable part for the service-driven division. This is what led the Group to begin evaluating an integrated system during the reporting year, covering order receipt and management, tracking, as well as scheduling and planning functions – and achieving more efficiency throughout the supply chain in the process. For the time being, the Group is deploying this new automation solution in the area of event services, and intends to roll it out to cranes and space systems during the next stage.

Outlook

The Swiss construction industry is likely to stabilise for reasons relating primarily to residential construction, which points to be moderate growth. The increasing competitive and price pressure are posing a significant challenge. For this reason, the primary focus will be on implementing efficient, customer-oriented processes, systems and structures, with the aim of sustaining the margin over the long term. Over the coming year, the goal is to improve the supply chain and production network, particularly integrating the new site in central Switzerland. Further investment in rental stock should result in increased capacity.



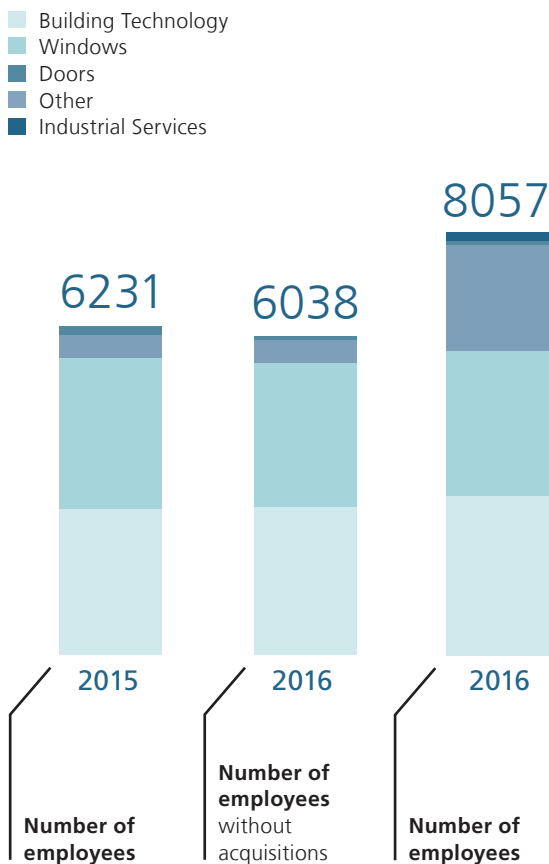
Human Resources

As a group of around 8000 employees, the Arbonia Group assumes its social responsibility to the best of its abilities.

Once again, the reporting year has yielded a variety of examples demonstrating how the Group's size offers employees a great deal of potential for development – both via the conventional route of moving up the ranks into management roles, and through the opportunity to change from one Group company to another.

Increase in employees by 29 percent

At the end of 2016, the Arbonia Group employed a total of 8057 employees, compared to 6231 at the end of 2015. This 29.3 % increase primarily stems from the takeover of the Koralle Group in the summer and the Looser Group at the end of 2016. Without these acquisitions, there would have been a 3.1% decline in the number of employees – something that is chiefly due to the completed relocations of special radiator production from Arbon (CH) to Stříbro (CZ) and vinyl window production from Villeneuve (CH) to Pravenec (SK), plus the downsizing measures carried out as part of this.



Reconciliation of work and family life

A positive working environment has a direct impact on employee performance. The reconciliation of work and family life is also an important contributing factor in this environment. For this reason, the companies in the Arbonia Group offer their employees solutions that are tailored to their family needs. As an example, Kermi is working with a daycare centre near its plant in Plattling (D) in order to provide employees with childcare facilities for preschool-age children.

Outstanding social benefits

In Switzerland, Arbonia's outstanding social benefits make it an attractive place to work. Employees benefit from a tiered holiday entitlement system that can allow them up to 6.5 weeks per year. Private insurance ensures that employees are covered world wide in case of occupational and non-occupational accident. As an employer, Arbonia takes on a bigger proportion of savings contributions in workplace pension schemes. Employees aged 35 and over also have the voluntary option to pay more than the fixed premiums into their retirement savings, and increase their capital as a result. Where retirement provisions are concerned, Arbonia offers customised pension solutions including semi-retirement and bridging pensions.

Area-specific development, education and training options

The Arbonia Group offers its employees a wide range of development opportunities. Thanks to the Group's size, employees are able to not only pursue the conventional route of moving up the ranks into management roles, but also move from one Group company to another. Elevating suitable junior employees from among our own ranks to higher positions, or bringing them into other Group companies, will have a lasting impact on safeguarding the specific knowledge that we possess in-house. Good examples of this include moving the former Head of Strategic Planning at Arbonia Holding to an operational role as Head of Integration in the Doors Division, and the former EgoKiefer employees' transfer to the Shared Service Center at Arbonia Services AG.

With the aim of establishing a sustainable leadership concept focusing on the long term, 2016 saw the formulation of MDP II (Management Development Programme II)

as a follow-up to MDP I. This is set to launch in 2017. The extensive training involved in this is specifically designed to promote team performance, the ability to handle periods of transition, and awareness of emotional intelligence.

In addition to role-specific development, the companies in the Arbonia Group also offer learning opportunities that can be harnessed outside the workplace. As an example, Kermi in Plattling (D) uses its "Mittelpunkt-Mensch" ("People in Focus") platform to provide an extensive range of courses and training on a variety of subjects.

Uniform performance process for the Group

In the past, the approach to employee discussions varied from company to company. For the first time, 2016 saw the Arbonia Group launch a performance process for employee discussions (EDs) that is applied uniformly to all the companies in the Group. The ED is a vital management tool for identifying the stage an employee has reached. The previous year is reviewed by both parties, objectives and tasks are agreed upon, and personal development prospects and measures are discussed. The process focuses particularly on employee development and on any psychosocial risks so that preventative measures can be introduced if necessary. The ED promotes dialogue between employees and supervisors and offers the opportunity for a constructive feedback discussion.

Simplified time recording

During the reporting year, a simplified system of time recording was introduced with the aim of providing more safeguards for middle and lower levels of management. Employees at these levels only record the actual time they spend working, but are required to adhere to statutory break times and maximum working hours. This gives them greater autonomy with regard to their working time, as well as the opportunity to allocate 25 % of this time as they wish.

Further support measures

The downsizing measures announced in 2015 for Arbonia Solutions in Arbon (CH), as well as EgoKiefer in Altstätten (CH) and Villeneuve (CH), were launched and implemented over the past year. The employees affected by this

were given active support. The redundancy programme developed with the Personnel Commission, plus the package of support measures set out, ensured the successful integration into the job market and made it easier for them to find a new position. These measures included an advice service, helping employees to pinpoint where they stood in their professional lives, as well as career counselling and job coaching. An internal job centre was put in place, as were professional education measures for helping employees improve their qualifications.

Cooperation with an external case management partner

With the aim of creating a reduction in both absences due to illness and sick pay insurance premiums over the long term, in 2015 the Group Management initiated cooperation with an external case management partner. Since then, SIZ Care AG has been assisting the Swiss companies in the Arbonia Group in all aspects relating to absence and health management. Over just this short period, the cooperation has already yielded positive, successful results. Employees who have been unable to work for an extended period have in particular viewed this step in a highly positive light, and are pleased with the increased attention it has given them. It has also been possible to reduce the number of employees who are regularly absent. SIZ Care AG provides support not only when it comes to existing absences, however, but also in the area of prevention (for example, avoiding cases of burnout).

Code of Conduct

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

With this in mind, the Group-wide Code of Conduct was developed and brought into force in 2013. It outlines binding guidelines for the activities of all Arbonia employees around the world, including those in the companies that were newly acquired in 2016.

www.arbonia.com/en/company/corporate-governance.



Corporate Governance

This report complies with the Corporate Governance Directive (CGD) of SIX Exchange Regulation of 1 January 2016. Unless otherwise indicated, the disclosures apply as of 31 December 2016.

1. Group structure and shareholders

1.1 Group structure

Board of Directors

Alexander von Witzleben
Chairman of the Board of Directors

Peter Barandun
Vice-Chairman

Christian Stambach

Peter E. Bodmer

Markus Oppliger

Heinz Haller

Michael Pieper

Rudolf Huber

Thomas Lozser

Group Management

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

Felix Bodmer
Chief Financial Officer

Knut Bartsch
Head of the Building Technology Division

Harald Pichler
Head of the Windows Division
(formerly the Building Envelope Division)

Peter Spirig
Head of the Doors Division
(formerly the Building Security Division)

On 14 September 2016, Arbonia AG (formerly AFG Arbonia-Forster-Holding AG) entered into a share purchase agreement with the then-family shareholders, the members of the Board of Directors and the management of Looser Holding AG, Arbon. On 29 September 2016, Arbonia AG issued a public purchase and exchange offer for all publicly held registered shares in Looser Holding AG. On 13 December 2016, both the share purchase agreement and the public purchase and exchange offer were executed, as a result of which Arbonia AG acquired 97.53 % of the voting rights and share capital of Looser Holding AG. As part of the takeover of Looser Holding AG, AFG Arbonia-Forster-Holding AG was renamed Arbonia AG.

In January 2017, Arbonia AG purchased additional shares in Looser Holding AG, increasing its shareholding to 98.15 % of the total share capital in Looser Holding AG.

On 14 February 2017, Arbonia AG filed a lawsuit regarding the invalidation of the remaining Looser shares pursuant to Article 137 of the Swiss Federal Act on Financial Market Infrastructures. As a result of this, Looser Holding AG submitted a request to the SIX Swiss Exchange for the delisting of all Looser shares at the point of the invalidation decision becoming legally binding, and for a

granting of exceptions from certain notification obligations.

1.1.1 Operational Group structure

As of 31 December 2016, the operational Group structure of Arbonia AG comprises (1) the Building Technology Division with the Heating Technology Business Unit, the Sanitary Equipment Business Unit and the Air-Conditioning and Ventilation Technology Business Unit, (2) the Windows Division with the Windows and Exterior Doors Business Unit, (3) the Doors Division with the Profile Systems Business Unit and the Interior Doors Business Unit, and (4) the Industrial Services Division, which is part of the Looser Group (see division structure on page 13). Together with the Finance/Controlling/Reporting area, the four divisions referred to above form the Group's operational structure as of 31 December 2016.

The Arbonia Group Management comprises the interim CEO, the CFO and the heads of the three divisions Building Technology, Windows and Doors. Group Management is supported by Corporate Functions.

The company reports in line with IFRS on the basis of this divisional structure. Descriptions of the divisions can be found on pages 13–41.

1.1.2 Scope of consolidation

The scope of consolidation of Arbonia AG, headquartered in Arbon TG ("Arbonia" or the "company") comprises the Group companies listed in the financial report on page 151 (collectively the "Group". The name, registered office and share capital of the main Group companies, as well as the interests held by the Group, are also detailed on these pages. Arbonia shares are listed at the SIX Swiss Exchange in Zurich under securities number ISINCH0110240600. Information about stock market capitalisation can be found in the Supplementary Information for Investors on page 173 .

As of 31 December 2016, the Arbonia scope of consolidation now also includes, for the first time, the Group companies of Looser Holding AG – headquartered in Arbon TG ("Looser") – which are listed in the financial report on page 151 (collectively the "Looser Group"). Looser shares are listed at the SIX Swiss Exchange in Zurich under securities number ISINCH0026205861. Information about stock market capitalisation can be found in the Supplementary Information for Investors on page 151 As of the end of January 2017, Arbonia has a 98.15 % shareholding in Looser.

Other than Arbonia and Looser, none of the other Group companies included in the scope of consolidation are listed at any stock exchange in Switzerland or abroad.

1.2 Major shareholders

| | 2016-12-31 | | 2015-12-31 |
|----------------------------|---------------------------|---------------------------|---------------------------|
| | Voting and capital shares | Shareholding notification | Voting and capital shares |
| | in % | | in % |
| Artemis Beteiligungen IAG | 20.48 | 2016-12-17 | 27.52 |
| Looser family shareholders | 14.88 | 2016-12-20 | |
| Credit Suisse Funds AG | <3.0 | 2016-09-27 | 3.24 |

As a result of the capital increase that took place on 12 December 2016, and the associated fall below the threshold on 16 December 2016, Artemis Beteiligungen IAG – controlled by Michael Pieper – reported a shareholding of 19.95 %. On 17 December 2016, Artemis Beteiligungen IAG reported a shareholding of 20.02 %. As of 31 December 2016, the shareholding of Artemis Beteiligungen IAG amounts to 20.48 %.

In the context of the share purchase agreement, the former family shareholders of Looser Holding AG (the "family shareholders") reported the formation of a lock-up group – to take effect from the point of the agreement being executed – with a shareholding of 22.41 % on 22 September 2016. As a result of the capital increase on 12 December 2016, which took place as part of the share purchase agreement being executed and the Looser Group being taken over, and the associated fall below the threshold, the family shareholders – in the form of the lock-up group – reported a shareholding of 14.88 % on 20 December 2016. The reason for the lock-up was the obligation assumed by the family shareholders as part of the share purchase agreement concluded on 14 September 2016 to refrain from disposing of any more than 50 000 registered Arbonia shares per person over the period up to and including 15 September 2017, and – over the period leading up to the 2019 General Meeting – to reasonably involve Arbonia in the sale of share packages in excess of 300 000 Arbonia shares. Depending on the extent of their total shareholding, the group members are also entitled to propose a certain number of members of the Board of Directors for election over the period leading up to Arbonia's 2019 ordinary General Meeting, but not beyond this point. As long as the family shareholders have at least 10 % of the Arbonia voting rights, they have the option of proposing two persons for election to the Board of Directors. If this proportion is between 5 % and 10 %, the number of persons reduces to one.

On 27 September 2016, Credit Suisse Funds AG reported that it had fallen below the threshold of 3 %.

On 1 October 2016, Vontobel Fonds Services AG reported a shareholding of 3.0263 % and, on 20 December 2016, reported that it had fallen below the threshold of 3 %.

On 2 November 2016, Norges Bank (the central bank of Norway) reported a shareholding of 3.02 % and, on 8 November 2016, reported that it had fallen below the threshold of 3 %.

Arbonia is not aware of any shareholders' agreements among its shareholders. The existing lock-up group is referred to above.

1.3 Cross-shareholdings

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

2. Capital structure

2.1 Capital

The ordinary capital of Arbonia is CHF 287 640 318, the conditional capital is CHF 13 220 117.40 and the authorised capital is also CHF 13 220 117.40. Additionally, the company has authorised capital amounting to CHF 2 243 866.80 which it may use for a) the public purchase and exchange offer for all registered shares of Looser Holding AG currently distributed to the public and the purchase of those registered shares not covered by the public purchase and exchange offer, b) any cancellation proceedings pursuant to article 137 of the Swiss Federal Financial Market Infrastructure Act (FMIA) and/or c) any merger of Looser Holding AG with a Group company.

The ordinary capital is detailed in point 47 of the notes to the consolidated financial statements on page 138.

| | Number | Nominal value | Share capital |
|------------------------------|------------|---------------|---------------|
| Registered shares 2015-12-31 | 44 557 125 | 4.20 | 187 139 925 |
| Registered shares 2016-12-31 | 68 485 790 | 4.20 | 287 640 318 |

2.2 Authorised and conditional capital

Authorised capital

The General Meeting on 22 April 2016 authorised the Board of Directors to increase the share capital, at any time up to 22 April 2018, by a maximum of CHF 33 600 000 by issuing a maximum of 8 000 000 fully paid-up registered shares with a par value of CHF 4.20 each.

On 22 April 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by 3 841 609.80 by issuing 914 669 fully paid-up registered shares. The authorised capital is therefore reduced to CHF 29 758 390.20. As the authorised and conditional capital are available on an alternative instead of a cumulative basis, the conditional capital decreases by the same amount to CHF 29 758 390.20.

On 14 September 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 11 088 000 by issuing 2 640 000 fully paid-up registered shares. The authorised capital is therefore reduced to CHF 18 670 390.20. As the authorised and conditional capital are available on an alternative

instead of a cumulative basis, the conditional capital decreases by the same amount as the authorised capital.

The Extraordinary General Meeting on 1 November 2016 authorised the Board of Directors to increase the share capital for the purpose of the combination with Looser Holding AG, at any time until 30 October 2018, by CHF 87 814 650 by issuing a maximum of 20 908 250 fully paid-up registered shares with a par value of CHF 4.20 each. At the same time, the Extraordinary General Meeting resolved to reduce the existing conditional share capital of CHF 18 670 390.20 by CHF 5 450 272.80 to CHF 13 220 117.40 and the existing authorised share capital of CHF 18 670 390.20 by CHF 5 450 272.80 to CHF 13 220 117.40.

On 12 December 2016, as part of the public purchase and exchange offer, the ordinary share capital – including authorised capital – that was created with a view to the combination with Looser Holding AG was increased by CHF 85 570 783.20 by issuing 20 373 996 fully paid-up registered shares.

As of 31 December 2016, the authorised capital that was created with a view to the combination with Looser Holding AG amounts to CHF 2 243 866.80, with a maximum of 534 254 fully paid-up registered shares with a par value of CHF 4.20 each able to be issued. As of the same date, the authorised capital that is not associated with the combination with Looser Holding amounts to a maximum of CHF 13 220 117.40, with a maximum of 3 147 647 fully paid-up registered shares with a par value of CHF 4.20 each able to be issued.

Conditional capital

The share capital may be increased by a maximum of CHF 13 220 117.40 by issuing a maximum of 3 147 647 fully paid-up registered shares with a par value of CHF 4.20 each. These registered shares are to be issued upon exercise of option rights granted in conjunction with convertible bonds, bonds with option rights or similar forms of financing offered by Arbonia or one of its subsidiaries.

The group of beneficiaries and the terms and conditions for issuing authorised and conditional capital, which is available on an alternative instead of a cumulative basis, are described in Art. 3a and Art. 3b of the Articles of Association. Art. 3c of the Articles of Association describes the purpose and the terms and conditions of the authorised capital that was created with a view to the combination with Looser Holding AG (www.arbonia.com/en/company/corporate-governance).

2.3 Changes in capital

In the past three years, share capital has increased five times as a result of an ordinary capital increase and four authorised capital increases. On 11 September 2015, the extraordinary General Meeting authorised an increase in the ordinary share capital by issuing 25 515 845 new registered shares with a par value of CHF 4.20 per share, from CHF 76 547 532.60 to CHF 183 714 081.60. On 19 November 2015, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 3 425 843.40 by issuing 815 677 new registered shares with a par value of CHF 4.20 each. On 22 April 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 3 841 609.80 by issuing 914 669 new registered shares with a par value of CHF 4.20 each. On 14 September 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised share capital, by CHF 11 088 000 by issuing 2 640 000 new registered shares with a par value of CHF 4.20 each. On 12 December 2016, as part of the public purchase and exchange offer, the ordinary share capital – including authorised capital – that was created with a view to the combination with Looser Holding AG was increased by CHF 85 570 783.20 by issuing 20 373 996 new registered shares with a par value of CHF 4.20 each.

As of 31 December 2016, the share capital of Arbonia is CHF 287 640 318; this is fully paid up and divided into 68 485 790 registered shares with a par value of CHF 4.20 each.

2.4 Shares and participation certificates

The company has issued 68 485 790 registered shares at a par value of CHF 4.20. Each registered share grants the same entitlement to receive dividends and represents one vote at the General Meeting. No preferential rights have been granted. The company has not issued any participation certificates.

2.5 Dividend right certificates

The company has not issued any dividend right certificates.

2.6 Limitations on transferability and nominee registrations

2.6.1 Limitations on transferability

On request, purchasers and beneficiaries of registered shares are registered in the share register as shareholders with voting rights if they expressly declare that they have purchased the shares in their own name and for their own account.

2.6.2 Granting of exceptions

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

2.6.3 Nominee registrations

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

2.6.4 Procedure and requirements for limitations on transferability

Under Art. 13 of the Articles of Association, limitations on the transferability of registered shares require the approval of at least two thirds of the voting shares represented and the absolute majority of the nominal share value represented.

2.7 Convertible bonds and options

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

3. Board of Directors

The Board of Directors of Arbonia consists of experts who cover the key subject areas of Arbonia as a building supplier. Since 13 December 2016, the Arbonia Board of Directors has had two new members: Dr Rudolf Huber and Thomas Lozser. Both new members were elected during the course of the year as part of the Looser Holding AG takeover.

As part of the takeover of the Looser Group, Arbonia committed to reducing the number of proposed members of the Board of Directors to a maximum of eight at the 2017 General Meeting, and to a maximum of seven at the 2018 General Meeting.

The Board of Directors attaches due importance to the diversity of the body, reflecting one of Arbonia's corporate principles. When positions on the Board of Directors are filled in the future, women will be included in the list of potential nominations.

3.1 Members of the Board of Directors

On 31 December 2016, the Board of Directors consisted of the following members:

Alexander von Witzleben



1963, German citizen, resident in Weimar (D), degree in business management, from 17 April 2015 to 30 June 2015 Chairman of the Board of Directors and, since 1 July 2015 Chairman and delegate of the Board of Directors. 1990–1993 KPMG Deutsche Treuhand Gesellschaft, Munich (D); 1993–1995 Head of Central Finance/Controlling JENOPTIK AG, Jena (D); 1996–2003 member of the Board of Directors, CFO, JENOPTIK AG, Jena (D); 2003–2007 Chairman of the Board of Directors, CEO, JENOPTIK AG, Jena (D); 2007–2008 member of the Board of Directors of Franz Haniel & Cie. GmbH, Duisburg (D); since 2009 Chairman of the Board of Directors at Feintool International Holding AG, Lyss and interim CEO in 2009. Since 20 May 2015, Alexander von Witzleben has been a member of the Board of Directors of Artemis Holding AG, Hergiswil, which has a shareholding of 20.48 % in Arbonia and a shareholding of 50.32 % in Feintool Holding AG, Lyss. Since 13 December 2016, Alexander von Witzleben has been Chairman of the Board of Directors of Looser Holding AG, in which Arbonia has a shareholding of 98.15 %. Since 1 July 2015, Alexander von Witzleben has been part of the executive management of Arbonia on an interim basis. Aside from this, he has no material business relationships with Arbonia or its subsidiaries.

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

Peter Barandun

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



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

Christian Stambach



1970, Swiss citizen, resident in Thal SG, lic. iur., attorney-at-law, non-executive member of the Board of Directors since 17 April 2015 (2009–2011 non-executive member of the Board of Directors; 2011–2015 non-executive Vice-Chairman of the Board of Directors). 2000–2002 attorney at Bär & Karrer, Zurich; 2002–2003 Group Vice President, Chief Risk Officer and Chief Legal Counsel, General Secretary, Member of Group Management of Centerpulse Ltd; 2004–2006 Group General Counsel at Adecco SA; partner of the law firm Bratschi Wiederkehr & Buob AG, St.Gallen, since 2004. Christian Stambach has never been part of the executive management of Arbonia or its subsidiaries. In connection with the activity of the law firm Bratschi Wiederkehr & Buob AG on behalf of Arbonia and its subsidiaries, material business relationships exist with the company (see pages 149/150)

Other activities and vested interests: Member of the Board of Directors of ABD Holding AG, Rorschacherberg SG; member of the Board of Directors of Les Couleurs Suisse AG, Kloten ZH; member of the Foundation Board of the Sport-Up Foundation, Lausanne VD; member of the Board of Directors of Soplar SA, Altstätten SG; member of the Board of Directors of Namics AG, St. Gallen SG; member of the Advisory Board of SCHOELLERSHAMMER GmbH & Co. KG, Düren (D); member of various other boards of directors in Switzerland; active in an advisory capacity as a lawyer for various Swiss and foreign companies.

Peter E. Bodmer

1964, Swiss citizen, resident in Küsnacht ZH, lic. oec. publ., Executive MBA IMD, non-executive member of the Board of Directors since 19 April 2013. 1993–1994 Head of Sales at Kaiser Precision Tooling Ltd., Rümliang; 1995–1998 Deputy Director, Head of Integration and CFO Europe of GKN Sinter Metals GmbH; 1998–2005 COO and CFO of Maag Holding AG; 2005–2012 member of the Group Management of the Implenia Group; since 2011 various management and consulting mandates as Chairman and CEO of the BEKA Group. Peter E. Bodmer has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationship with Arbonia or its subsidiaries



Other activities and vested interests: Vice-Chairman of the Board of Directors of Peach Property Group AG, Zurich ZH; member of the Board of Directors of Kuratle Group AG, Leibstadt AG; member of the Board of Directors of Brüttsch/Rüegger Holding AG, Urdorf ZH; Vice-President of Helvetica Property Investors AG, Zurich ZH; member of the Board of Directors of Inovex Holding AG, Baar ZG; delegate of the government council of the canton of Zurich for strategic development planning of the university hospital of Zurich and general coordination of the university district; member of the Board of the Foundation of the innovation park Zurich, Zurich ZH; active as an advisor for various companies.

Markus Oppliger



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

Other activities and vested interests: Chairman of the Board of Directors of Siga Ausstellungen AG, Mels SG; member of the Board of Directors of Pizolbahnen AG, Bad Ragaz SG; active as an advisor for various companies.

Heinz Haller

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



Other activities and vested interests: Chairman of the Board of DowAksa Advanced Composites Holdings B.V., Amsterdam (NL); member of the Board of BioAmber Inc., Montreal (CA); member of the Board of Directors of South Pole Holding AG, Zurich ZH.

Michael Pieper



1946, Swiss citizen, resident in Hergiswil NW, lic. oec. HSG, non-executive member of the Board of Directors since 17 April 2015. Owner and CEO of the Franke/Artemis Group since 1989; 1989–2012 CEO of the Franke Group, CEO of the Artemis Group since 2013. Michael Pieper has never been part of the executive management of Arbonia or its subsidiaries. Michael Pieper controls the largest shareholder in Arbonia (see 1.2) and, through companies under his ownership, has material business relationships with a subsidiary of Arbonia (see pages 149/150).

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

Dr Rudolf Huber

1955, Swiss citizen, resident in Pfäffikon SZ, Dr. oec. publ., non-executive member of the Board of Directors since 13 December 2016. 1982–1985 assistant at the Institute for Research in Business Administration of the University of Zurich; 1986–1987 assistant to the management and Head of Controlling, Sibir AG, Schlieren; 1987–1992 Director of Finance and IT, Head of Finance unit, Bucher Guyer AG (now Bucher Industries), Niederweningen; 1992–2004 member of the Group Management and CFO of the Geberit Group, Chairman of the Foundation Board for the Geberit pension fund and the Geberit welfare fund, Rapperswil-Jona; owner and managing director of Axega GmbH, business consultancy, Zurich, since 2005. From 2005, Dr Rudolf Huber has also been a member of the boards of directors of numerous private and listed companies, including Georg Fischer AG (2009–2015) and Forbo Holding AG (2005–2009). In 2008, Dr Rudolf Huber was elected to the Board of Directors of Looser Holding AG and acted as Chairman of this from the General Meeting in 2009 until stepping down in December 2016. Between September 2015 and December 2016, he was also Acting CEO of Looser Holding AG, in which Arbonia has had a shareholding of 98.15% since the end of January 2017. Dr Rudolf Huber has never been part of the executive management of Arbonia. He has no material business relationships with Arbonia or its subsidiaries.



Other activities and vested interests: Chairman of the Board of Directors of Fageb Verwaltungs AG, Rapperswil-Jona (SG); member of the Board of Directors of Hoerbiger Holding AG, Zug (ZG); member of the Foundation Board of the Hoerbiger Foundation, Zug (ZG); member of the Board of Directors of Wicor Holding AG, Rapperswil-Jona (SG); member of the Board of Directors of Swiss Prime Site AG, Olten (SO); member of the Board of Directors of Christ & Heiri Holding AG, Zug (ZG); Chairman of the Advisory Board of Peri GmbH & Co. KG, Weissshorn (D); lecturer at the University of St. Gallen (SG).

Thomas Lozser



1961, Swiss and US citizen, resident in Novi, Michigan (USA), Dipl. -Ing. ETH, MBA, non-executive member of the Board of Directors since 13 December 2016. 1987–1988 Quality Assurance Assistant, Elco, Vilters; 1988–1989 Manufacturing Engineer, MPI International, Deerfield, Wisconsin (USA); 1989–1992 Assistant to the President and Manager Computer Systems, MPI International, Rochester Hill, Michigan (USA); 1992–1998 General Manager and President/Plant Manager, Kautex Textron, Avilla, Indiana (USA); 1998–2000 Senior Vice President Operations, Kautex Textron, Troy, Michigan (USA); 2000–2002 President and shareholder, Magnetic USA Inc., Olney Illinois (USA); following the takeover by SKF USA Inc., 2002–2005 Vice President Sales Lineartechnik, SKF USA Inc. Bethlehem, Pennsylvania (USA); 2005–2010 CEO of the Coatings division, Looser Holding AG, Arbon; independent entrepreneur since 2010. Thomas Lozser has never been part of the executive

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

Other activities and vested interests: Chairman until 31 December 2016 and member since 1 January 2017 of the Board of Directors of Mopec Inc., Oak Park, Michigan (USA); member of the Board of Directors of Custom Profile Inc., Grand Rapids, Michigan (USA).

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

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

3.3 Election and term of office

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

At the Extraordinary General Meeting on 1 November 2016, Dr Rudolf Huber and Thomas Lozser were elected as new members of the Board of Directors on condition that Arbonia acquire more than 50% of the shares in Looser Holding AG and with effect from the time of that acquisition. On 13 December 2016, Arbonia acquired 97.53% of Looser Holding AG, whereupon the Arbonia Board of Directors expanded to include the two new members on the same day.

The Extraordinary General Meeting on 1 November 2016 revoked the age restriction that had been in place in the Articles of Association up to that point, which stated that persons who had reached the age of 70 could not be elected or re-elected as members of the Board of Directors.

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

| Board of Directors | Year of birth | First election | End of the term of office |
|-----------------------------------|---------------|-------------------------|---------------------------|
| Alexander von Witzleben, Chairman | 1963 | 2015 | 2017 |
| Peter Barandun, Vice-Chairman | 1964 | 2014 | 2017 |
| Christian Stambach ¹ | 1970 | 2009 | 2017 |
| Peter E. Bodmer | 1964 | 2013 | 2017 |
| Markus Oppliger | 1959 | 2013 | 2017 |
| Heinz Haller | 1955 | 2014 | 2017 |
| Michael Pieper | 1946 | 2015 | 2017 |
| Rudolf Huber | 1955 | 13.12.2016 ² | 2017 |
| Thomas Lozser | 1961 | 13.12.2016 ² | 2017 |

¹ Christian Stambach will not be standing for re-election to the Board of Directors at this year's Annual General Meeting on 28 April 2017.

² The election took place on 1 November 2016 and the appointment began on 13 December 2016.

3.4 Internal organisation

3.4.1 Allocation of tasks within the Board of Directors

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

3.4.2 Committees of the Board of Directors

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

3.4.2.1 Audit Committee

The Audit Committee is convened by the Chairperson as often as business requires, but at least three times a year. It consists of three members. Two members of the Audit Committee are non-executive and independent. Alexander von Witzleben, member of the Audit Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. All members of the Audit Committee have experience in finance and accounting.

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

Reporting to the Audit Committee is Internal Audit, which performs an independent, Group-wide auditing and monitoring role (see 3.6 below). The Audit Committee is authorised to make decisions regarding the tasks entrusted to it provided that the respective matter does not concern a non-delegable duty of the Board of Directors pursuant to Art. 716 a of the Swiss Code of Obligations. The committee may submit issues within the scope of its decision-making powers to the Board of Directors.

The Audit Committee consists of the following members:

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

The Audit Committee met three times during the year under review. The interim CEO was present at two of the meetings; the CFO, the external auditors and Internal

Audit were present at all three of the meetings. At the subsequent meeting of the full Board of Directors, the Chairperson reports on the meetings of the Audit Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors. The meetings of the Audit Committee lasted two hours on average. The Chairman of the Audit Committee and the Head of Internal Audit regularly held additional meetings to discuss the findings of Internal Audit and its duties in detail.

3.4.2.2 Nomination and Compensation Committee

The members of the Compensation Committee were elected by the General Meeting on 22 April 2016. The members of the Compensation Committee also take care of the duties of the Nomination Committee. Two members of the Nomination and Compensation Committee are independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015.

The Nomination and Compensation Committee is convened by the Chairperson of the committee as often as business requires, but at least three times a year. The Nomination and Compensation Committee gives the Board of Directors recommendations regarding the Group's salary policy and compensation system. For the attention of the General Meeting, it submits requests to the Board of Directors concerning the total amount of the maximum compensation of the members of the Board of Directors, concerning the total amount of the maximum fixed and variable compensation of the members of Group Management, and concerning the determination of the salary of the individual members of Group Management within the limits of the maximum total amount approved by the General Meeting. Moreover, the Nomination and Compensation Committee approves bonus programmes and employee participation schemes as well as pension fund solutions and benefit plans in principle. The Nomination and Compensation Committee is also responsible for the preparation of the compensation report and the request to the full Board of Directors for approval. Furthermore, the committee determines the principles for the selection of candidates for election to the Board of Directors and Group Management. It identifies suitable candidates for the Board of Directors and Group Management and conducts the needed selection procedures. During the year under review, the Nomination and Compensation Committee was concerned with the succession plan for the Head of the Doors Division (formerly the Building Security Divi-

sion), who stepped down at the end of April 2016. Additionally, the Nomination and Compensation Committee approved a new set of bonus regulations for the years 2016/2017 and submitted a proposal to the Board of Directors concerning switching to a system of retrospective votes on compensation for members of the Board of Directors and Group Management in the future.

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

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

The Nomination and Compensation Committee consists of the following members:

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

The Nomination and Compensation Committee met three times during the year under review. The interim CEO attended all three of the meetings and the CFO attended two of the meetings. At the subsequent meeting of the full Board of Directors, the Chairman reports on the meetings of the Nomination and Compensation Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors.

The meetings of the Nomination and Compensation Committee lasted one and a half hours on average.

3.4.3 Working procedures of the Board of Directors

The Chairperson convenes the Board of Directors as often as business requires, but at least four times a year. In the year under review, the Board of Directors held four ordinary and two extraordinary meetings. A circular reso-

lution was also passed as part of the Looser Group takeover. In the year under review, the Board of Directors performed most of its duties directly. Ordinary meetings of the Board of Directors usually last one day, and extraordinary meetings usually last one hour. In the year under review, the interim CEO and the CFO attended all ordinary and extraordinary meetings. All members of Group Management attended the ordinary meetings of the Board of Directors and individual members of Group Management also attended the extraordinary meetings. Managers as well as representatives of Internal Audit are usually invited to meetings to discuss issues that fall within their field of responsibility or scope of activities.

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

3.5 Regulation of powers

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

- Guidance of the Group and issue of necessary instructions;
- Establishment of the Group's organisational structure;
- Appointment and dismissal of persons entrusted with management;
- Supervision of persons entrusted with company management, specifically with regard to following legislation, Articles of Association, rules and instructions;
- Structuring of the accounting system, financial control and financial planning;
- Preparation of the annual report and the compensation report, as well as preparation for the General Meeting and implementation of its resolutions;
- Preparation of compensation requests for the General Meeting;
- Determination of the capital structure of the company;
- Issue of bonds, participation certificates, convertible bonds and options as well as determination of the terms and conditions;
- Determination of the strategy of the company, the divisions and the business units;
- Decisions concerning investments, joint ventures, real estates and participations, where these are of particu-

lar importance to the company and exceed a certain level;

- Annual risk assessment for the company;
- Notification of the court in the event of over-indebtedness.

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

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

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

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

The principal role of Internal Audit is to monitor processes and structures throughout the Group. Internal Audit summarises the audits it is to carry out in an annual audit plan. This audit plan also incorporates the risks identified by Corporate Treasury as part of the risk management process it performs every year in each of the divisions and in Corporate Functions. Each audit plan is approved by the Audit Committee. The Audit Committee also assigns special audit mandates to Internal Audit as and when required. The respective audit findings are discussed with the Audit Committee and communicated to the Board of Directors in writing. During the year under review, Internal Audit provided the members of the Board of Direc-

tors with twelve audit reports. If material risks are identified, measures are defined to reduce them. Internal Audit adopts a systematic approach to monitoring risks and measures and carries out its work in accordance with the international standards governing internal auditors' professional duties. It regularly reports to the Audit Committee and Board of Directors on the scale of risks and any changes to the risk situation as well as the status of measures implemented. The Board of Directors received a total of four written reports on the implementation of measures during the year under review. The external auditors also have access to all audit reports and the reports from the ongoing monitoring of risks and measures. Additionally, Internal Audit issued three Internal Audit status reports informing the Audit Committee and the Board of Directors about the key findings from the audits and the current status of the ICS.

4. Group Management

4.1 Members of Group Management

On 31 December 2016, Group Management consisted of the following members:

Alexander von Witzleben



(see 3.1).

Delegate of the Board of Directors and interim CEO since 1 July 2015.

Other activities and vested interests: (see 3.1)

Felix Bodmer

1955, Swiss citizen, lic. oec. HSG, Chief Financial Officer (CFO) since 2003. Since 13 December 2016, Felix Bodmer has been a member of the Board of Directors of Looser Holding AG, in which Arbonia has a shareholding of 98.15%. 1986–1992 various positions at Hilti Group in finance and controlling, most recently Head of Finance at a German subsidiary; 1993–2000 ABB/Alstom, Commercial Director/CFO of group companies, most recently CFO/Head of Shared Services at Alstom Power (Schweiz) AG; 2000–2003 CFO of Steiner Group.

Other activities and vested interests: Member of the Board of Directors of the Bernet-Wirona Group, St.Gallen, since June 2012; member of the Board of Directors of Looser Holding AG, Arbon TG.



Knut Bartsch

1968, German citizen, Dipl. -Wirtsch. -Ing., Head of the Building Technology Division since 2015; 2004–2014 Divisional Spokesman of the Building Technology Division; 1996–1997 Assistant Corporate Manager at Preussag AG/TUI AG; joined Kermi GmbH in 1997, Director since 1999, Chairman of Group Management since 2015.

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



Harald Pichler



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

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

Peter Spirig

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

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



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

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

4.3 Management contracts

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

5. Compensation, shareholdings and loans

5.1 Content and determination procedure for compensation and shareholding programmes

The basis and elements of remuneration and the shareholding programmes as well as the procedure for their determination are presented in the compensation report on pages 67–74.

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

The variable remuneration of members of the Group Management depends on the company results. The success criteria comprise business-related and/or personal targets. 100 % of the bonus amount determined in the individual agreement is paid out if the targets are fully achieved. If the targets are exceeded, the variable compensation may exceed the bonus amount determined by individual agreement up to a maximum amount. If achievement of the targets lies below a particular threshold, no variable compensation is paid. The variable compensation amounts to a maximum of 150 % of the fixed compensation. More details on performance-related remuneration can be found in Art. 24 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

The Board of Directors determines the details of the assignment of shares to the members of the Board of Directors and Group Management in a share-based payment programme. Art. 25 of the Articles of Association contains

information on what the share-based payment programme covers (www.arbonia.com/en/company/corporate-governance).

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

5.3 Loans, credit and pension benefits

According to Art. 26 of the Articles of Association, Arbonia shall not grant the members of the Board of Directors and Group Management any loans, credit or pension benefits outside the occupational pension scheme or securities. Exempt from this are advances of social security and tax charges for persons subject to withholding tax.

5.4 Rules concerning voting at the General Meeting on compensation

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

6. Shareholders' participation

6.1 Voting right restriction and representation

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

According to Art. 12 of the Articles of Association, the Board of Directors determines the requirements for the power of attorney and instructions for the independent proxy. Under this regulation, the Board of Directors is also entitled to determine the requirements for electronic voting.

6.2 Statutory quorums

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

6.3 Convocation of the General Meeting

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

6.4 Inclusion of items on the agenda

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

6.5 Entries in the share register

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

7. Change of control and defence measures

7.1 Duty to make an offer

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

7.2 Change-of-control clauses

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

8. Statutory auditors

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

8.1.1 Date of assumption of the existing mandate
PricewaterhouseCoopers AG, St.Gallen, has served as statutory auditor since the financial year 2006. It audits the annual financial statements and the consolidated financial statements of Arbonia.

8.1.2 Assumption of office of the lead auditor

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

8.2 Auditing fees

In 2016, the auditors billed a total of CHF 923 000 (previous year: CHF 913 000) for auditing the annual financial statements and consolidated financial statements of Arbonia as well as the annual financial statements of the Group companies. Of this amount, the statutory auditor PricewaterhouseCoopers AG accounted for CHF 703 000 (previous year: CHF 674 000).

8.3 Additional fees

In 2016, the statutory auditor PricewaterhouseCoopers AG and other auditors of Group companies billed CHF 628 000 (previous year: CHF 348 000) for additional services, CHF 551 000 of which (previous year: CHF 281 000) was attributable to PricewaterhouseCoopers AG. Of the additional services performed by PricewaterhouseCoop-

ers AG in 2016, CHF 240 000 was for tax advice, CHF 160 000 was for work relating to due diligence, CHF 98 000 was for work in conjunction with the takeover of the Looser Group, and CHF 53 000 was for other services.

8.4 Informational instruments pertaining to the external audit

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

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

9. Information policy

Arbonia pursues an open information policy towards the public and financial markets, based on the principles set out in the SIX Exchange Regulation listing rules and directives and in the Swiss Code of Best Practice for Corporate Governance. By means of the annual report, Arbonia provides information about business performance, organisation and strategy. Integral components of the annual report are the management report on page 3 onwards and the compensation report on page 67 onwards. Arbonia's First Semester Financial Report contains the consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement

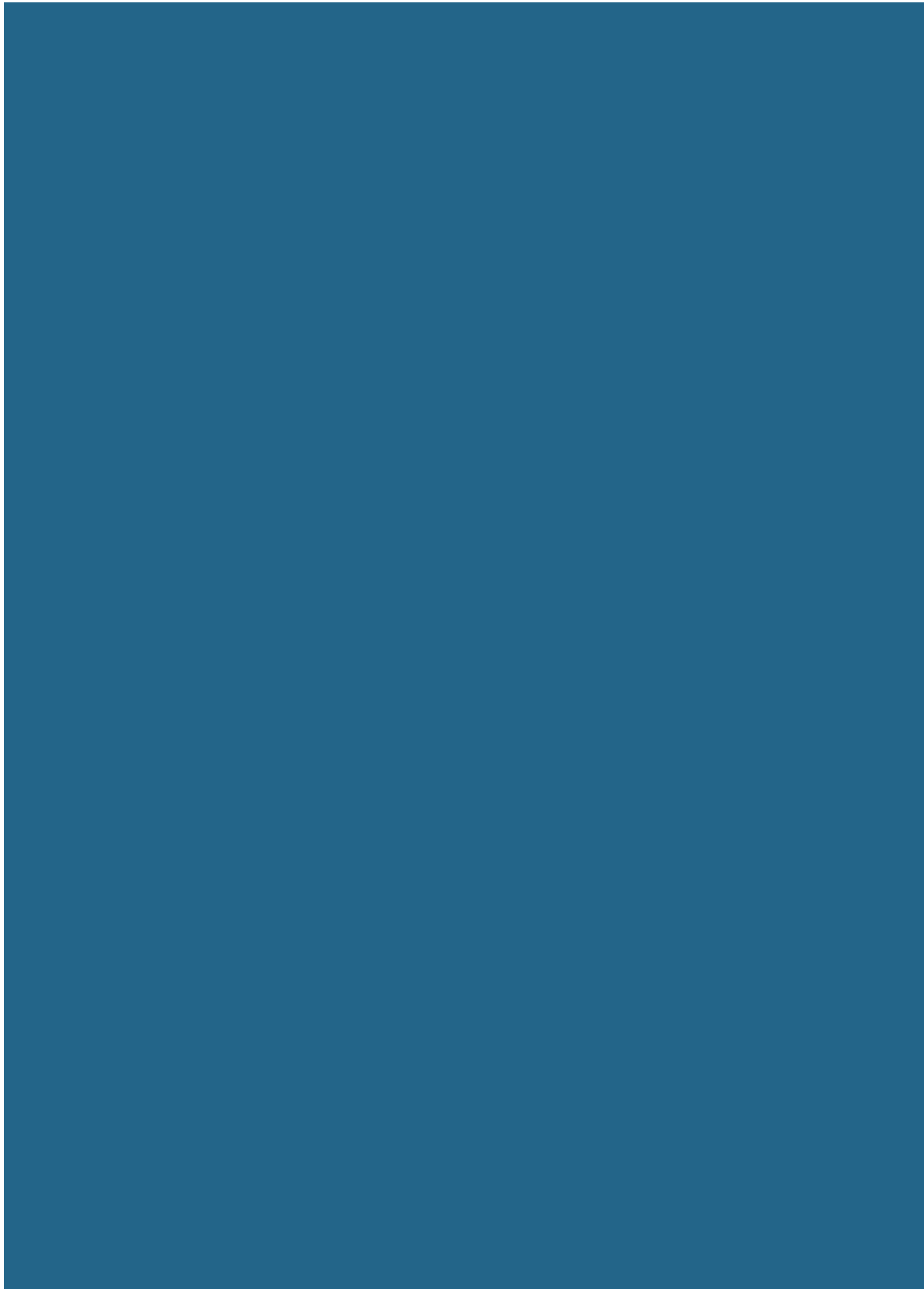
and statement of changes in equity. In the year under review, Arbonia published 16 press releases. In addition to this, Arbonia gives comprehensive reports on its operating activities at its annual financial media and analysts' conference and at the General Meeting. Arbonia also fosters dialogue with investors and the media at special events and roadshows.

Arbonia's contact details are as follows:

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

The timetable can be found on page 180 of the annual report and on the Arbonia website www.arbonia.com/en/investors.



Compensation Report

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2016 (chapter B). The compensation report complies with current corporate governance standards and has been compiled in accordance with the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (OaEC) and Appendix 1 to the Swiss Code of Best Practice for Corporate Governance. The quantitative disclosures pursuant to Art. 14–16 OaEC are presented in chapter B. These disclosures were audited by the statutory auditor of Arbonia. The audit confirmation is presented on page 75.

A The compensation system of Arbonia

1 Principles of the compensation system

The compensation system and the structure of the occupational pension scheme are based on the conviction that the success of a company depends to a considerable extent on the quality and dedication of its personnel. Arbonia wants to leverage its compensation system and the

total compensation paid on this basis to attract and retain people with the necessary skills and qualities and to motivate them to deliver a consistently high level of performance. The compensation system is designed to ensure that the interests of top managers are consistent with the interests of the Group and its shareholders.

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

| | Board of Directors | Group Management |
|---------------------------------|--|---|
| Fixed compensation | Basic fee plus extra pay for committee chairmanship and membership in committees. ¹⁾ At least 50 % of the fee in shares restricted for four years ²⁾ | Basic salary including fringe benefits in cash ³⁾ on the basis of individual classification (function, experience, skills) |
| Variable compensation | None | Compensation in % of the basic salary depending on the financial and personal targets. One third of the variable compensation in shares restricted for four years ^{4,5)} |
| Pension scheme/ fringe benefits | Lump-sum allowances | Lump-sum allowances, company car regulation, retirement planning |

1 The Chairman of the Board of Directors waives remuneration for his activity on both committees (see 2.1)

2 The two members of the Board of Directors who have only been members since 13 December 2016 shall receive their fees (on a pro rata basis) in cash only (see paragraph 2.4).

2 In his function as interim CEO, the Chairman and delegate of the Board of Directors receives fixed compensation containing both a cash element and an element in temporarily restricted shares (see 3.1).

4 In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 3.2).

5 A member of the Group Management receives half of the variable compensation in shares restricted for four years.

2 Compensation of the Board of Directors

At the ordinary General Meeting of 22 April 2016, the shareholders approved a maximum total sum amounting to CHF 960 000 of compensation for members of the Board of Directors for the 2016/2017 year of office. At the Extraordinary General Meeting held on 1 November 2016, the shareholders approved an increase of CHF 100 000 in the maximum total, amounting to a total of CHF 1 060 000. This increase is related to the takeover of Looser Holding AG by Arbonia AG and the election of two new members of the Board of Directors during the year, who took up office on 13 December 2016.

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

2.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. In the 2015/2016 year of office, the basic fee for the office of the Chairman of the Board of Directors was CHF 240 000. The basic fees of the other members of the Board of Directors remain unchanged. The Vice-Chairman receives a fee of CHF 80 000, with the other members of the Board of Directors receiving a fee of CHF 60 000 each. In addition to this remuneration, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20 000 for their activity on the respective committee. Every other committee member is entitled to CHF 10 000 per year of office. The Chairman of the Board of Directors waives remuneration for his activity on both committees and considers it to be included in his aforementioned fee of CHF 240 000.

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

2.2 Variable compensation

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

2.3 Allowances and in-kind benefits

The members of the Board of Directors are paid lump-sum allowances. The Chairman of the Board of Directors receives a lump-sum allowance of CHF 15 000 per annum, members of the Board of Directors who are resi-

dent in Switzerland receive a lump-sum allowance of CHF 6 000 per annum and members of the Board of Directors who are resident outside of Switzerland receive a lump-sum allowance of CHF 12 000 per annum.

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

2.4 Shares and options

At least 50 % of the compensation paid to the members of the Board of Directors, including the compensation paid to committee members, is paid in the form of restricted Arbonia shares. The remaining 50 % can either be paid out in cash or up to another 30 % in restricted Arbonia shares. Making the Board of Directors take their fees in the form of restricted shares is designed to ensure that the incentive system is consistent with the long-term prosperity of the company, encourage a management philosophy which takes due account of risk, and reflect shareholder interests. Pursuant to the Board Member Share Plan, dated 24 November 2016, and approved by the Board of Directors, at least 50 % of the net fees for the Board of Directors, i.e. the Board of Directors fees minus lump-sum allowances and withholding taxes, takes the form of restricted Arbonia shares. When members of the Board of Directors are domiciled abroad, the Swiss withholding tax is treated as compensation paid in cash. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20 % discount for the vesting period. Shares allocated in this way are subject to a vesting period of four years, which can, however, be lifted for those leaving the Board of Directors.

The two new members of the Board of Directors, who were elected to the Board of Directors of Arbonia in the course of the takeover of Looser Holding AG, and who took up office on 13 December 2016, shall receive their fees (on a pro rata basis) entirely in cash.

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

2.5 Attendance fees

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

dit Committee and the Nomination and Compensation Committee.

2.6 Loans and credit

According to Art. 26 of the Articles of Association, no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of the Board of Directors. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The Chairman of the Board of Directors exercised this exemption in the reporting year, with no advance payments outstanding as of 31.12.2016.

2.7 Compensation, loans and credit to related parties

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

2.8 Signing bonus and termination benefits

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

3 Compensation of Group Management

At the ordinary General Meeting of 17 April 2015, the shareholders approved a maximum total of the fixed compensation in the amount of CHF 2 780 000 and a maximum total of the variable compensation in the amount of CHF 2 200 000 for the members of the Group Management for the 2016 financial year.

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

3.1 Fixed compensation

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

The fixed compensation for the members of Group Management is paid out in cash, while the fixed compensation for the delegate of the Board of Directors and inter-

im CEO is paid out in cash and in shares. In the reporting year, the fixed compensation paid out to the delegate of the Board of Directors was made up of a cash element amounting to CHF 120 000 as well as 60 000 in shares. The shares are subject to the provisions of the share-based payment programme (see 3.4) and are restricted for four years.

3.2 Variable compensation

In the reporting year, the variable compensation (nominal bonus) accounted for up to 80 % of the fixed compensation for members of Group Management. In his function as interim CEO, the current Chairman of the Board of Directors and delegate of the Board of Directors waives any variable compensation.

According to the bonus regulations valid for the reporting year, the amount of the variable compensation depends on the achievement of financial and personal targets. In the event of 100 % target achievement, a member of Group Management receives the variable compensation (nominal bonus) laid down in the individual agreement. The financial and personal targets are rated according to their degree of achievement. In the case of financial targets, 150 % of the relevant bonus component can be achieved at most. Failure to meet at least 75 % in the case of a financial target will mean that none of the respective bonus component is paid. In the reporting year, quantitative targets relating to the EBIT margin/EBITDA margin, free cash flow/cash flow from operations, group result and growth were determined for the members of Group Management.

The personal targets can be fulfilled up to a maximum of 100 %; up to 40 % must be fulfilled in the case of a target of this kind, otherwise the corresponding bonus component is completely eliminated. The financial and personal targets are weighted at a ratio of 80 % (financial targets) to 20 % (personal targets).

3.3 Allowances and in-kind benefits

The members of Group Management receive lump-sum allowances amounting to CHF 21 600 p.a. The lump-sum allowances for the delegate of the Board of Directors and interim CEO are CHF 6600 p.a.

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

3.4 Shares and options

During the reporting year, a maximum of 60 % was paid out in cash and a maximum of 50 % was paid out in the form of an allocation of shares under the share-based payment programme approved by the Board of Directors on 1 May 2014. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20 % discount for the vesting period. The restricted shares are subject to a four-year vesting period. The vesting period applies even if the employee leaves the company. The Board of Directors may, however, lift the restriction on the transfer of shares allocated under the share-based payment programme in certain cases, such as in the event of a change of control.

In accordance with the bonus regulations, a member of Group Management received the bonus in cash instead of in restricted shares due to his departure from Group Management in the reporting year.

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

3.5 Privileges

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

3.6 Loans and credit

According to Art. 26 of the Articles of Association, no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of the Group Management. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The delegate of the Board of Directors and interim CEO exercised this exemption in the reporting year, with no advance payments outstanding as of 31.12.2016.

3.7 Contract term

The contracts of the members of Group Management have, with one exception, been concluded for an unlimited term with a notice period of 6 months. A member of Group Management has a contract that has been concluded for an unlimited term and has a notice period of twelve months.

3.8 Compensation, loans and credit to related parties

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

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

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

3.10 Pension benefits

Group Management members with Swiss employment contracts are insured under the Arbonia pension scheme (formerly AFG pension scheme) and under the Arbonia senior management pension scheme (formerly AFG senior management pension scheme). The Arbonia senior management pension scheme covers the fixed salary not covered under the basic scheme and 80 % of the contractual nominal bonus against old age, death and incapacity risks. According to the Swiss Occupational Pensions Act (OPA), the maximum salary including bonus to be considered is limited to CHF 846 000 (as of 1 January 2016, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 648 600 (as of 1 January 2016). The employer contribution is the same for all three available plans and amounts to 27.3 % of the insured salary. The delegate of the Board of Directors and interim CEO is not insured under the Arbonia senior management pension scheme. The only member of Group Management with a German employment contract has a pension commitment according to the regulations of the "Essener Verband".

B Compensation paid to members of the Board of Directors and Group Management in 2016

Otherwise, there were no changes for the reporting year, i.e. Alexander von Witzleben is Chairman and Peter Barandun is Vice-Chairman of the Board of Directors. Alexander von Witzleben has been delegate of the Board of Directors and interim CEO since 1 July 2015.

4 Board of Directors

4.1 Changes in the Board of Directors

Dr Rudolf Huber and Thomas Lozser joined the Board of Directors during the year, i.e. on 13 December 2016. Their accession during the course of the year was part of the Looser Holding AG takeover by Arbonia.

Fees for the two members who joined during the course of the year shall be paid out on a pro rata basis and entirely in cash.

4.2 Table

| | | | | | | 2016 |
|--|--|------------|------------|-------------------------------|---------------------------------|------------|
| | Functions exercised in 2016 | Fee Cash | Fee Shares | Pension expenses ¹ | Other Compensation ² | Total |
| | | in TCHF | in TCHF | in TCHF | in TCHF | in TCHF |
| Alexander von Witzleben | Chairman Interim CEO Member of the AC Member of the NCC | 120 | 148 | 14 | 15 | 297 |
| Peter Barandun | Vice-Chairman Chairman of the NCC | 20 | 99 | 6 | 6 | 131 |
| Christian Stambach ⁴ | Member | 30 | 37 | 4 | 6 | 77 |
| Peter E. Bodmer ⁵ | Member Member of the AC | 25 | 55 | 0 | 6 | 86 |
| Markus Oppliger | Member Chairman of the AC | 39 | 49 | 5 | 6 | 99 |
| Heinz Haller | Member Member of the NCC | 14 | 69 | 4 | 6 | 93 |
| Michael Pieper | Member | 12 | 59 | 2 | 6 | 79 |
| Thomas Lozser | Member from 13.12.2016 | 3 | 0 | 0 | 0 | 3 |
| Rudolf Huber | Member from 13.12.2016 | 3 | 0 | 0 | 0 | 3 |
| Total compensation to members of the Board of Directors | | 266 | 516 | 35 | 51 | 868 |

1 Employer contributions to social insurances

2 Lump-sum allowances and services

3 The compensation paid to Alexander von Witzleben in 2016 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his service as interim CEO totalling CHF 733'873 is included in the compensation paid to Group Management in chapter 5.2.

4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for Arbonia at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 149/150.

5 The compensation for Peter E. Bodmer for the period of office 2016/2017 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

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

1 Employer contributions to social insurances and to occupational pension schemes in the case of Rudolf Graf.

2 Lump-sum allowances and services

3 The compensation paid to Alexander von Witzleben in 2016 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his service as interim CEO totalling CHF 369'637 is included in the compensation paid to Group Management in chapter 5.2.

4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for Arbonia at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 149/150.

5 The compensation for Peter E. Bodmer for the period of office 2015/2016 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

5 Group Management

5.1 Changes in Group Management

Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015. Harald Pichler, head of the Windows Division (formerly Building Envelope Division), has been a new member of Group Management since 1 February 2016, and Peter Spirig, Head of the Doors Division (formerly Building Security Division) has been a new member since 1 May 2016.

In the year under review, Group Management reduced the total amount of compensation slightly compared with 2015. This is attributable to the departure of the former CEO in 2015, or rather to the comparatively much lower salary paid to current interim CEO and delegate of the Board of Directors Alexander von Witzleben. The fact that the total amount of compensation was, however, only slightly below the previous year's level is attributable primarily to the resignation of a former member of Group Management and the accession of a new member. This led to a partly simultaneous payment of the respective compensation owed under the contracts.

5.2 Table

| | 2016 | | | 2015 | | |
|---------------------------------|-------------------------------|--|----------------------------|-------------------------------|--|---------------------------------------|
| | Group Management ³ | there of Alexander von Witzleben, interim CEO ⁴ | there of Felix Bodmer, CFO | Group Management ³ | there of Alexander von Witzleben, interim CEO ⁴ | there of William J. Christensten, CEO |
| | in TCHF | in TCHF | in TCHF | in TCHF | in TCHF | in TCHF |
| Annual salary (cash) | 1 995 | 120 | 552 | 2 281 | 60 | 904 |
| Annual salary (shares) | 560 | 560 | | 283 | 283 | |
| Variable compensation (cash) | 611 | | 133 | 779 | | 540 |
| Variable compensation (shares) | 381 | | 111 | 135 | | |
| Pension expenses ¹ | 713 | 47 | 157 | 819 | 23 | 329 |
| Other compensation ² | 160 | 7 | 28 | 180 | 3 | 77 |
| Total | 4 420 | 734 | 981 | 4 477 | 369 | 1 850 |
| Number of members | 6 | | | 6 | | |

1 Employer contributions to social insurances, occupational pension schemes, accident and health insurance

2 Comprises lump-sum allowances, private use of company car/car allowance and other services and in-kind benefits

3 The compensation of Knut Bartsch is paid in euros. The underlying translation rate 1.09 for 2016 and 1.07 for 2015.

4 Alexander von Witzleben's compensation as interim CEO has been disclosed for reasons of transparency, even though he was not the highest-earning member of Group Management in 2016

Report of the statutory auditors on the compensation report

To the General Meeting of Arbonia AG

We have audited pages 67–74 of the accompanying compensation report dated 17 February 2017 of Arbonia AG (formerly: AFG Arbonia-Forster-Holding AG) for the year ended 31 December 2016.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report of Arbonia AG (formerly: AFG Arbonia-Forster-Holding AG) for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

St.Gallen, 17 February 2017



Beat Inauen
Audit expert
Auditor in charge

Martin Knöpfel
Audit expert



Financial report

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Financial Commentary by Felix Bodmer

In the 2016 financial year, Arbonia recorded net revenue of CHF 995.3 million, equating to an increase of 5.7 % in comparison to the previous year. When adjusted for currency and acquisition effects, growth came to 0.9 % (previous year: -4.4 %). The positive acquisition effect arising from Wertbau and Koralle was 4.1%, while the currency effect amounted to 0.7 %. This was not enough to compensate for the negative currency effect of -7.9 % that came about in 2015 as a result of the minimum euro exchange rate being abolished, but the Swiss franc did at least weaken slightly in relation to other currencies, particularly the euro. Organic growth during the first half of 2016 amounted to 2.3 %, while it was slightly negative in the second half, at -0.3 %. As was the case with other building suppliers, this was primarily due to weakening in some western European markets during the third quarter of 2016.

In the annual financial statements as of 31 December 2016, Koralle had been included for three months, but not the Looser Group (acquired in December 2016) for materiality reasons. In the balance sheet as of 31 December 2016, the Looser Group was included with provisional figures.

Following the record loss in the previous year, the 2016 financial year saw a small profit of CHF 7.6 million. Without one-time effects, the Group result amounts to CHF 12.2 million (previous year: CHF -14.5 million). The strategic measures introduced in 2015 were implemented as planned. In particular, these related to the window production relocations from Altstätten (CH) and Villeneuve (CH) to Slovakia and eastern Germany respectively, and the relocation of special radiator production from Arbon (CH) to Stříbro (CZ). We expect the process of restructuring the Group to have been largely completed by the end of 2017, allowing us to take as much advantage as possible of the positive effects arising from this in 2018.

Group restructuring on course

The 2016 financial year yielded the first rewards from the measures we have introduced, especially where our relocation projects were concerned. As a result of this, material expenses, personnel expenses and other operating expenses improved as a percentage of net revenue compared with the difficult previous year. Lower raw materi-

als prices also contributed to the improvement in the materials ratio.

As a result of cost reductions, EBITDA increased during the 2016 financial year to 6.9 % of net revenue (previous year: 2.8 %) or CHF 68.7 million in absolute terms (previous year: CHF 26.6 million). Even EBITDA without one-time effects – at 6.6 % of net revenue – represented a significant improvement over the previous year (6.0 %). However, the EBITDA figures reported by the Windows (formerly Building Envelope) Division and the Doors (formerly Building Security) Division remained unsatisfactory. The Building Technology Division, on the other hand, is on course towards achieving its aim for 2018 – something that has been aided by the acquisition of Koralle. EBIT without one-time effects rose to 2.9 % of net revenue (previous year: 1.8 %). Expressed in absolute figures and with one-time effects factored in, EBIT amounts to CHF 29.1 million. It does not make sense to compare this with the previous year's figure (CHF -158.4 million) due to the 2015 impairments posted to goodwill and restructuring costs.

The net financial expense figure of CHF 13.5 million (previous year: CHF 23.2 million) performed significantly better during the 2016 financial year due to the markedly lower net indebtedness that prevailed on average over the year, and the bond repayment in May 2016. While the Looser Group takeover did have a negative impact on interest expenses, this result was tempered by the fact that it did not occur until mid-December. The accumulation of liabilities from the early takeover of the remaining shares in Sabiana, plus the bank charges associated with restructuring financing activities following the takeover of the Looser Group, must be taken into account as special effects that had a negative impact on the net financial expense figure for the 2016 financial year. Without these special effects, the net financial expense figure for the 2016 financial year would have been 2016 CHF 7.3 million (previous year: CHF 18.7 million).

Under IFRS, there was a tax charge of CHF 8.0 million compared with a tax income of CHF 4.5 million in the previous year. The weighted average tax rate for the 2016 financial year amounts to 34.1 %. This is primarily the result of the high proportions of profits contributed by foreign companies subject to significantly higher tax rates, offset against losses incurred by some Swiss com-

panies subject to much lower tax rates. The weighted average tax rate of around 25 % is not likely to normalise until 2018 onwards.

High shareholders' equity ratio following Looser takeover

Arbonia's total assets as of 31 December 2016 rose as a result of the Looser Group takeover and the associated capital increase to CHF 1 522.7 million (previous year: CHF 900.5 million). This led to the equity ratio on the balance sheet date rising to 47.9 % (previous year: 39.1 %). At the same time, goodwill and intangible assets increased to CHF 226.0 million (previous year: CHF 41.1 million) and CHF 215.1 million (previous year: CHF 57.9 million) respectively. Additional amortisation of intangible assets is set to impair EBIT in the future.

Free cash flow (cash flow from operating activities and investing activities) for the 2016 financial year amounts to CHF –67.3 million (previous year: CHF 16.0 million). The major influences on this were the acquisitions of Looser and Koralle, plus the sale of property at Industriestrasse in Arbon (CH). Without these, plus some smaller-scale one-time effects, the free cash flow would have been CHF –25.8 million. The net cash outflow was the result of the relatively weak cash flow from operating activities and the significantly higher investment figure of CHF 57.7 million (previous year: CHF 20.9 million). Investments for 2017 and 2018 are likely to rise considerably once again.

Thanks to the financing activities for the Koralle acquisition through share placement and the payment of the major part of the Looser transaction using treasury shares, it was possible to limit net indebtedness to CHF 225.1 million (previous year: CHF 21.7 million). Without the acquisition of the Looser Group, Arbonia's net indebtedness would have been CHF 45.2 million. The net indebtedness ratio (net indebtedness / EBITDA) on 31 December 2016 amounted to –1.91 (previous year: –0.77). All key financial indicators are maintained. Through the sale of Looser's coatings business, announced in August 2016, it is likely that Arbonia will achieve a significant improvement in both net indebtedness and the net indebtedness ratio.



Consolidated Financial Statements Arbonia Group

Consolidated Income Statement

| | Note | 2016 | | 2015 | |
|--|-----------|----------------|--------------|-----------------|--------------|
| | | in 1000 CHF | in % | in 1000 CHF | in % |
| Net revenues | 31 | 995 347 | 100.0 | 941 424 | 100.0 |
| Other operating income | | 16 288 | 1.6 | 12 944 | 1.4 |
| Capitalised own services | | 2 369 | 0.2 | 1 801 | 0.2 |
| Changes in inventories of semi-finished and finished goods | | -14 705 | -1.5 | 11 316 | 1.2 |
| Cost of material and goods | | -435 908 | -43.8 | -431 326 | -45.8 |
| Personnel expenses | 46 | -347 910 | -35.0 | -351 998 | -37.4 |
| Other operating expenses | | -146 794 | -14.7 | -157 571 | -16.7 |
| EBITDA | | 68 687 | 6.9 | 26 590 | 2.8 |
| Depreciation, amortisation and impairments | 37-39 | -39 607 | -4.0 | -185 009 | -19.7 |
| EBIT | 31 | 29 080 | 2.9 | -158 419 | -16.8 |
| Financial income | 50 | 2 224 | 0.2 | 2 254 | 0.2 |
| Financial expenses | 50 | -15 682 | -1.6 | -25 404 | -2.7 |
| Group result before income tax | | 15 622 | 1.6 | -181 569 | -19.3 |
| Income tax expense | 51 | -8 019 | -0.8 | 4 463 | 0.5 |
| Group result | | 7 603 | 0.8 | -177 106 | -18.8 |
| Attributable to: | | | | | |
| Shareholders of Arbonia AG | | 7 603 | | -177 106 | |
| Non-controlling interests | | | | | |
| Earnings per share in CHF | 47 | 0.16 | | -6.05 | |

Basic and diluted earnings are identical.

The notes on pages 88 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

| | 2016 | 2015 |
|---|---------------|-----------------|
| | in 1000 CHF | in 1000 CHF |
| Group result | 7 603 | -177 106 |
| Other comprehensive income | | |
| <i>Items that will not be reclassified to income statement</i> | | |
| Remeasurements of employee benefit obligations | 7 835 | -12 598 |
| Deferred tax effect | -992 | 2 180 |
| Total items that will not be reclassified to income statement | 6 843 | -10 419 |
| <i>Items that may be subsequently reclassified to income statement</i> | | |
| Currency translation differences | -2 706 | -28 302 |
| Cumulative currency translation differences transferred to the income statement | 15 | |
| Total items that may be subsequently reclassified to income statement | -2 691 | -28 302 |
| Other comprehensive income after taxes | 4 152 | -38 721 |
| Total comprehensive income | 11 755 | -215 827 |
| Attributable to: | | |
| Shareholders of Arbonia AG | 11 755 | -215 827 |
| Non-controlling interests | | |

The notes on pages 88 to 152 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

| | Note | 31/12/2016 | | 31/12/2015 | |
|--------------------------------|------|------------------|--------------|----------------|--------------|
| | | in 1000 CHF | in % | in 1000 CHF | in % |
| Assets | | | | | |
| Cash and cash equivalents | 32 | 111 754 | | 201 440 | |
| Securities | | 2 360 | | 2 240 | |
| Accounts receivable | 33 | 115 777 | | 85 361 | |
| Other current assets | | 21 746 | | 17 484 | |
| Inventories | 34 | 173 033 | | 151 431 | |
| Deferred expenses | | 4 856 | | 5 414 | |
| Current income tax receivables | | 1 841 | | 1 706 | |
| Financial assets | 35 | 1 200 | | 1 200 | |
| Assets held for sale | 36 | 156 643 | | | |
| Current assets | | 589 210 | 38.7 | 466 276 | 51.8 |
| Property, plant and equipment | 37 | 458 063 | | 305 362 | |
| Investment property | 38 | 11 308 | | 11 399 | |
| Intangible assets | 39 | 215 115 | | 57 901 | |
| Goodwill | 39 | 226 014 | | 41 085 | |
| Deferred income tax assets | 45 | 8 949 | | 6 898 | |
| Capitalised pension surplus | 46 | 5 933 | | 9 424 | |
| Financial assets | 35 | 8 126 | | 2 180 | |
| Non-current assets | | 933 508 | 61.3 | 434 249 | 48.2 |
| Total assets | | 1 522 718 | 100.0 | 900 525 | 100.0 |

| | Note | 31/12/2016 | | 31/12/2015 | |
|--|------|------------------|--------------|----------------|--------------|
| | | in 1000 CHF | in % | in 1000 CHF | in % |
| Liabilities and shareholders' equity | | | | | |
| Accounts payable | | 91 913 | | 81 668 | |
| Advance payments by customers | | 26 740 | | 36 960 | |
| Other liabilities | | 26 797 | | 20 951 | |
| Financial debts | 41 | 322 217 | | 207 095 | |
| Finance lease liabilities | 37 | 2 115 | | 1 669 | |
| Accruals and deferred income | | 65 053 | | 38 112 | |
| Current income tax liabilities | | 12 686 | | 7 953 | |
| Provisions | 44 | 23 371 | | 23 258 | |
| Liabilities associated with assets held for sale | 36 | 30 145 | | | |
| Current liabilities | | 601 037 | 39.5 | 417 666 | 46.4 |
| Financial debts | 41 | 20 213 | | 17 367 | |
| Finance lease liabilities | 37 | 12 221 | | 2 621 | |
| Other liabilities | | 12 217 | | 8 487 | |
| Provisions | 44 | 11 067 | | 21 508 | |
| Deferred income tax liabilities | 45 | 74 595 | | 17 026 | |
| Employee benefit obligations | 46 | 62 618 | | 64 033 | |
| Non-current liabilities | | 192 931 | 12.7 | 131 042 | 14.6 |
| Total liabilities | | 793 968 | 52.1 | 548 708 | 60.9 |
| Share capital | 47 | 287 640 | | 187 140 | |
| Share premium | | 518 043 | | 262 022 | |
| Treasury shares | 48 | -8 576 | | -7 553 | |
| Other reserves | 49 | -86 979 | | -84 288 | |
| Retained earnings | | 8 489 | | -5 504 | |
| Shareholders' equity attributable to equity holders of Arbonia AG | | 718 617 | 47.2 | 351 817 | 39.1 |
| Non-controlling interests | | 10 134 | | | |
| Shareholders' equity | | 728 751 | 47.9 | 351 817 | 39.1 |
| Total liabilities and shareholders' equity | | 1 522 718 | 100.0 | 900 525 | 100.0 |

The notes on pages 88 to 152 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

| | | 2016 | 2015 |
|--|-------|----------------|-----------------|
| | Note | in 1000 CHF | in 1000 CHF |
| Group result | | 7 603 | -177 106 |
| Depreciation, amortisation and impairments | 37-39 | 39 607 | 185 009 |
| Profit/loss on disposal of non-current assets | | -3 929 | -795 |
| Changes in non-cash transactions | 54 | 4 297 | 14 944 |
| Changes in working capital (excluding cash and cash equivalents) | 54 | 11 724 | 5 738 |
| Changes in current liabilities | 54 | -27 336 | 26 671 |
| Cash flows from operating activities – net | | 31 966 | 54 461 |
| To investment activities | | | |
| Purchases of property, plant and equipment | 37 | -56 805 | -18 981 |
| Purchases of investment properties | 38 | -227 | -60 |
| Purchases of intangible assets | 39 | -699 | -1 874 |
| Acquisition of subsidiaries/businesses (net of cash acquired) | 40 | -61 824 | -21 802 |
| Issuance of financial assets | 35 | -4 414 | |
| From divestment activities | | | |
| Proceeds from sale of property, plant and equipment | | 24 730 | 1 571 |
| Proceeds from sale of investment properties | 36/38 | 2 | 1 979 |
| Proceeds from sale of intangible assets | | | 371 |
| Repayment of financial assets | | 8 | 330 |
| Cash flows from investing activities – net | | -99 229 | -38 466 |
| From financing activities | | | |
| Proceeds from financial debts | 41 | 419 219 | 60 046 |
| Net proceeds from issuance of share capital | 47 | 31 349 | 198 338 |
| Proceeds from sale of treasury shares | 48 | 2 535 | 3 547 |
| To financing activities | | | |
| Repayments of financial debts | 41 | -453 277 | -145 257 |
| Finance lease liability payments | | -2 132 | -2 106 |
| Purchase of treasury shares | 48 | -2 564 | -6 641 |
| Cash flows from financing activities – net | | -4 870 | 107 927 |
| Effects of translation differences on cash and cash equivalents | | 13 | -1 994 |
| Change in cash and cash equivalents | | -72 120 | 121 928 |
| Reconciliation of change in cash and cash equivalents | | | |
| Cash and cash equivalents as of 01/01 continuing operations | 32 | 201 440 | 79 512 |
| Cash and cash equivalents as of 31/12 continuing operations | 32 | 111 754 | 201 440 |
| Cash and cash equivalents as of 31/12 discontinued operations | | 17 566 | |
| Change in cash and cash equivalents | | -72 120 | 121 928 |
| Supplementary information for operating activities: | | | |
| Interest paid | | 8 785 | 9 124 |
| Interest received | | 814 | 1 524 |
| Income tax paid | | 9 699 | 7 399 |

The notes on pages 88 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

| | | Share capital | Share premium | Treasury shares | Other reserves | Retained earnings | Attribu- table to equity holders Arbonia | Non- controlling interests | Total share- holders' equity |
|---|------|------------------|------------------|--------------------|-------------------|----------------------|--|----------------------------------|---------------------------------------|
| | Note | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Balance at 31/12/2014 | | 76 547 | 166 037 | -8 261 | -55 986 | 184 616 | 362 953 | | 362 953 |
| Group result | | | | | | -177 106 | -177 106 | | -177 106 |
| Other comprehensive income after taxes | 49 | | | | -28 302 | -10 419 | -38 721 | | -38 721 |
| Total comprehensive income | | | | | -28 302 | -187 525 | -215 827 | | -215 827 |
| Issuance of share capital (net) | 47 | 110 593 | 95 985 | | | | 206 578 | | 206 578 |
| Changes in treasury shares | 48 | | | -448 | | -2 645 | -3 093 | | -3 093 |
| Share based payments | 55 | | | 1 156 | | 50 | 1 206 | | 1 206 |
| Total transactions with owners | | 110 593 | 95 985 | 708 | | -2 595 | 204 691 | | 204 691 |
| Balance at 31/12/2015 | | 187 140 | 262 022 | -7 553 | -84 288 | -5 504 | 351 817 | | 351 817 |
| Group result | | | | | | 7 603 | 7 603 | | 7 603 |
| Other comprehensive income after taxes | 49 | | | | -2 691 | 6 843 | 4 152 | | 4 152 |
| Total comprehensive income | | | | | -2 691 | 14 446 | 11 755 | | 11 755 |
| Changes in scope of consolidation | | | | | | | | 10 134 | 10 134 |
| Issuance of share capital (net) | 47 | 100 500 | 256 021 | | | | 356 521 | | 356 521 |
| Changes in treasury shares | 48 | | | -3 773 | | -792 | -4 565 | | -4 565 |
| Share based payments | 55 | | | 2 750 | | 339 | 3 089 | | 3 089 |
| Total transactions with owners | | 100 500 | 256 021 | -1 023 | | -453 | 355 045 | 10 134 | 365 179 |
| Balance at 31/12/2016 | | 287 640 | 518 043 | -8 576 | -86 979 | 8 489 | 718 617 | 10 134 | 728 751 |

The notes on pages 88 to 152 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

A – Accounting principles

1 General information

Arbonia Group (Arbonia) is a focused building supplier, whose innovative solutions and services provide for the efficient use of energy as well as for safety, security and well-being. Arbonia is divided into three main divisions, namely Building Technology, Building Envelope and Building Security as well as the business unit Industrial Services. Manufacturing plants are located in Switzerland, Germany, Italy, the Czech Republic, Poland and Slovakia. Arbonia owns major brands such as Kermi, Arbonia, Pro-lux, Koralle, Sabiana, EgoKiefer, Slovaktual, Dobroplast, Wertbau, Forster Profile Systems, RWD Schlatter, Prüm, Garant, Invado and Conecta and possesses a strong position in its home markets in Switzerland and Germany. The Group focuses mainly on the development of existing markets in Central and Eastern Europe. Arbonia is represented in over 70 countries worldwide.

The ultimate parent company, Arbonia AG (previously AFG Arbonia-Forster-Holding 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 17 February 2017 and require approval from the Annual General Meeting on 28 April 2017. The publication of the consolidated financial statements occurred on 28 February 2017 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 effective in 2016

Arbonia has adopted in 2016 the following amended standards and annual specifications with smaller amendments on various standards and interpretations:

- Amendments to IAS 1 "Presentation of financial statements" – disclosures
- Annual improvements to IFRSs 2012–2014 cycle

The adoption of these amendments did not significantly affect the Group's financial statements for 2016.

Published standards that are not yet effective nor adopted early

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

| Standard | effective date |
|--|-----------------|
| Amendments to IAS 7 "Statement of cash flows" – disclosures | 01 January 2017 |
| IFRS 9 "Financial instruments: classification and measurement" | 01 January 2018 |
| Amendments to IFRS 9 "Financial instruments" – mandatory effective date of IFRS 9 and transition disclosures | 01 January 2018 |
| Amendments to IFRS 9 "Financial instruments" – hedge accounting | 01 January 2018 |
| IFRS 15 "Revenue from contracts with customers" | 01 January 2018 |
| IFRS 16 "Leases" | 01 January 2019 |

The amendment to IAS 7 introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

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

IFRS 15 prescribes when and at what amount to recognise revenue from contracts with customers. This follows a five-step model, which is applied to all customer contracts: (1) identification of contracts with customers (2) identification of separate performance obligations in the

contract (3) determination of the transaction price (4) allocation of the transaction price to the separate performance obligations (5) revenue recognition when a performance obligation is satisfied. The standard also requires extensive disclosures.

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

The application of IFRS 15 and IFRS 16 will affect the Group's financial statements. Arbonia will soon systematically analyse and assess the impact of these standards on its financial statements. The adoption of the remaining new or amended standards will not significantly affect the Group's financial statements.

3 Reporting entity

The consolidated financial statements are based on the financial statements of the individual Group companies prepared as of 31 December. Subsidiaries are fully consolidated from the date on which control is transferred to 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 2016

- As of 15 June 2016, Arbonia acquired the remaining 10 % of the shares of Sabiana S.p.A., IT-Corbetta (see note 40).
- As of 28 July 2016, Arbonia acquired 100 % of the shares of Sabiatherm SAS, FR-Tassin-la-Demi-Lune (see note 40).
- As of 20 September 2016, Arbonia acquired 100% of Koralle Group consisting of Bekon-Koralle AG, CH-Dagmersellen, Koralle Sanitärprodukte GmbH, DE-Vlotho, and Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H, AT-Margarethen am Moos (see note 40).
- As of 13 December 2016, Arbonia acquired 97.53% of Looser Holding AG, CH-Arbon, a company listed on the SIX Swiss Exchange (see note 40).

In the financial year 2015

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

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

4 Full consolidation

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

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

5 Capital consolidation

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

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

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

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

B – Summary of significant accounting policies

6 Significant accounting policies

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

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

7 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in comprehensive income as qualifying 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 | 2016 | | 2015 | |
|----------|------|---------------|--------------|---------------|--------------|
| | | Year-end rate | Average rate | Year-end rate | Average rate |
| EUR | 1 | 1.073 | 1.090 | 1.081 | 1.067 |
| GBP | 1 | 1.251 | 1.335 | 1.471 | 1.470 |
| USD | 1 | 1.020 | 0.985 | 0.989 | 0.962 |
| CZK | 100 | 3.973 | 4.033 | 3.999 | 3.912 |
| PLN | 100 | 24.263 | 24.985 | 25.362 | 25.519 |
| CNY | 100 | 14.690 | 14.847 | 15.233 | 15.274 |
| RUB | 100 | 1.682 | 1.477 | 1.373 | 1.585 |

8 Maturities

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

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

9 Financial instruments

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

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

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

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

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

Financial liabilities constitute a claim to redemption in the form of cash or cash equivalents or of another financial asset. Financial liabilities are divided into the following two categories: (1) financial liabilities at fair value through profit or loss (FL FVTPL), with this being subdivided into financial liabilities classified from the beginning

as held for trading purposes (trading) and financial liabilities classified from the beginning as at fair value through profit or loss (designated), and (2) financial liabilities at amortised cost (FL AC). In concrete terms, the financial liabilities of Arbonia comprise trade accounts payable (category 2), other liabilities (2), finance lease liabilities (2), financial debts (1)/(2) and derivative financial liabilities (1).

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

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

10 Derivative financial instruments

The Group uses derivative financial instruments to minimise interest rate 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.

Derivative financial instruments that do not meet the requirements of IAS 39, e.g. documentation, probability, effectiveness and reliability of measurement and therefore do not qualify for hedge accounting are held for trading financial instruments. They are classified as financial instruments at fair value through profit or loss and disclosed in the balance sheet as other current assets or other current liabilities.

11 Fair value estimation of financial instruments

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

The fair value of financial instruments that are not traded in an active market is determined by using appropriate valuation techniques, e.g. comparison with similar at

arm's length transactions, valuation using the discounted cash flow method or other established valuation methods.

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

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).

Level 3 – unobservable market data.

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

12 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with post and banks, other short-term highly liquid investments with original maturities not exceeding three months.

13 Securities

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

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

14 Receivables

Accounts receivable and other current assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that Arbonia will not be able to collect all amounts due. The carrying amount of the asset is reduced through the use of an allowance account. When an account receivable is uncollectible, it is written off against the allowance account for accounts receivable. In connection with a factoring agreement certain accounts receivable are sold. Since 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 as stipulated under the provision of IAS 39. In particular the late payment risk is completely retained by Arbonia up until a certain point in time. Other current assets include WIR credits. They are carried at fair value, which approximates face value less an appropriate provision.

15 Inventories

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

16 Assets held for sale and associated liabilities

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

costs to sell. Potential impairments are directly recorded within the income statement. Starting from the date of reclassification to this category, depreciation is ceased.

16.1 Discontinued operations

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

17 Property, plant and equipment

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

The business unit Industrial Services operates the rental and trading of assets (space systems, cranes, construction equipment and mobile sanitary units), which generates sustained investment and divestment activities.

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

18 Investment property

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

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

19 Intangible assets

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

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

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

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

20 Impairment of assets

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

21 Estimated useful lives

| Asset categories | Useful lives (in years) |
|--|----------------------------|
| Office buildings | 35–60 |
| Factory buildings | 25–40 |
| Investment properties – buildings | 25–50 |
| Production machinery | 8–20 |
| Transport and storage equipment | 8–15 |
| Cranes and space containers for rental park of Industrial Services | 8–15 |
| Intangible assets from business acquisitions except goodwill | 5–20 |
| Vehicles | 5–10 |
| Tools and moulds | 5 |
| Office furniture and equipment | up to 5 |
| IT-hardware | up to 5 |
| Capitalised research and development costs | up to 5 |
| Intangible assets (mainly IT-software) | up to 5 |

Land is not systematically depreciated.

22 Provisions

Provisions are recognised only when 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 syndicated loans, bank loans, mortgages and a bond (until May 2016). 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

Lessee

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

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

Lessor

In the course of its business activities, the business unit Industrial Services sells and rents space systems, cranes, construction equipment and mobile sanitary units to customers. The contracts can be terminated by the customer usually at any time. The majority of the customers have the possibility to purchase the rented equipment. These leases are determined as operating leases.

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 and 2016.

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

29 Income statement

Net revenue

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

Other operating income

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

EBITDA

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

EBIT

EBIT shows earnings before financial results and tax.

Financial income

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

Financial expenses

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

30 Significant accounting judgments, estimates and assumptions

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

Allowances for doubtful debts

Allowances for doubtful debts are recorded for specific known and expected losses as well as for potentially claimed cash discounts. In determining the amount of the allowances, several factors such as ageing of receivables, financial solvency of the customer, changes in payment history, historical experience with receivable losses and existence of credit insurance are considered. As of 31 December 2016, the carrying amount of accounts receivable totalled CHF 115.8 million. Therein an allowance for doubtful debts of CHF 10.5 million is included. A deterioration of the financial situation of the customers could lead to higher than originally expected receivable losses. For further information on allowances for doubtful debts, see note 33.

Inventory provision

In order to determine the adequacy of the inventory provision, factors such as expected sales prices, inventory turnover and coverage days of inventory are considered. As of 31 December 2016, the carrying amount of inventory was at CHF 173.0 million. Therein a provision for inventories of CHF 19.8 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 2016, the carrying amount of property, plant and equipment totalled CHF 458.1 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 2016, the carrying amount of goodwill was at CHF 226.0 million. Arbonia tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as expected future cash flows, margins, discount rates and growth rates. These estimates could change or differ from the actual outcome and therefore lead to additional impairments. For further information on goodwill, see note 39.

Intangible assets acquired in a business combination

Brands, technologies, client relationships and distribution channels are amortised over their estimated useful lives. This involves the use of estimates and assumptions on expected future cash flows such as sales prices, margins, discount rates, attrition rates of clients and technological development which of course are exposed to some uncertainties. As of 31 December 2016, the carrying amount of intangible assets acquired in a business combination amounted to CHF 209.5 million. For further information on such acquired intangible assets, see note 39.

Provisions

Provisions are recognised based on the criteria as set out under note 22. As of 31 December 2016, the carrying amount of the provisions totalled CHF 34.4 million. In estimating the amount of provision, assumptions are used and depending on the outcome of the various business transactions, the actual cash outflow and its timing could significantly differ from the booked provision. For further information on provisions, see note 44.

Employee benefit obligations

Employee benefit obligations for defined benefit plans are based on actuarial valuations, which use statistical calculations and actuarial assumptions (see note 23). Such assumptions include amongst others discount rates, future salary and pension increases, probable turnover rates as well as life expectancy of plan participants. The assumptions underlying these calculations are dependent on a number of prospective factors, therefore actual results could significantly differ from the original valuations and as a consequence impact the carrying amount of capitalised pension surplus and employee benefit obligation. As of 31 December 2016, the underfunding amounted to CHF 56.7 million, thereof CHF 5.9 million recorded in the balance sheet as capitalised pension surplus and CHF 62.6 million as employee benefit obligation. For further information on employee benefit obligation, see note 46.

Income taxes

Arbonia is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Arbonia recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax assets, including those on tax loss carryforwards and expected tax credits, are only recognised if it is probable that they can be used by future taxable profits. The assessment of the recoverability of those deferred tax assets is therefore based on estimates, which could differ from actual results and consequently lead to valuation allowances. As of 31 December 2016, the carrying amount of deferred tax assets before offsetting totalled CHF 24.5 million. For further information on income taxes, see notes 45 and 51.

C – Explanation to certain positions of the consolidated financial statements

31 Segment information

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

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

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

Building Technology Division

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

Building Envelope Division

The Building Envelope Division with the brands EgoKieffer, 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 Switzerland, Slovakia, Poland and Germany.

Building Security Division

The Building Security Division consists of the business units Doors and Profile Systems. The business unit Doors owns the brands RWD Schlatter, Prüm, Garant and Invado. 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. Profile Systems manufacture their systems in steel and stainless steel for glazed doors, windows and facades, used in fire/smoke protection and security applications in public, commercial and industrial buildings. Their products are developed and produced mainly in Switzerland.

Business Unit Industrial Services

The business unit Industrial Services consists of Condicta with locations in Switzerland, Germany and Italy. In Switzerland, it belongs to the leading providers in trading and renting of mobile space systems, construction machinery, construction equipment and mobile sanitary units.

Corporate Services

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

| | 2016 | | | | | |
|---|---------------------|-------------------|-------------------|---------------------|-------------------------|------------------|
| | Building Technology | Building Envelope | Building Security | Industrial Services | Others and eliminations | Total Group |
| | in 1 000 CHF | in 1 000 CHF | in 1 000 CHF | in 1 000 CHF | in 1 000 CHF | in 1 000 CHF |
| Sales with third parties | 486 831 | 350 782 | 156 632 | | 1 102 | 995 347 |
| Sales with other segments | 3 | 39 | 27 | | -69 | |
| Net revenues | 486 834 | 350 821 | 156 659 | | 1 033 | 995 347 |
| Segment results I (EBITDA) | 53 440 | 8 203 | 5 772 | | 1 272 | 68 687 |
| <i>in % of net revenues</i> | <i>11.0</i> | <i>2.3</i> | <i>3.7</i> | | | <i>6.9</i> |
| Depreciation and amortisation | -18 233 | -13 500 | -3 009 | | -2 709 | -37 451 |
| Impairment property, plant and equipment | | | | | -2 460 | -2 460 |
| Reversal of impairment | | 304 | | | | 304 |
| Segment results II (EBIT) | 35 207 | -4 993 | 2 763 | | -3 897 | 29 080 |
| <i>in % of net revenues</i> | <i>7.2</i> | <i>-1.4</i> | <i>1.8</i> | | | <i>2.9</i> |
| Interest income | 169 | 106 | 11 | | 983 | 1 269 |
| Interest expenses | -2 514 | -4 006 | -670 | | -2 133 | -9 323 |
| Minority share from associated companies | | -122 | | | | -122 |
| Other financial result | -3 841 | -1 722 | -1 189 | | 1 470 | -5 282 |
| Result before income tax | 29 021 | -10 737 | 915 | | -3 577 | 15 622 |
| Income tax expense | -8 621 | 1 904 | 87 | | -1 389 | -8 019 |
| Result after income tax | 20 400 | -8 833 | 1 002 | | -4 966 | 7 603 |
| Average number of employees¹ | 2 835 | 2 995 | 436 | | 60 | 6 325 |
| Total assets | 446 753 | 235 402 | 497 981 | 129 823 | 56 116 | 1 366 075 |
| thereof associated companies | | 4 173 | | | | 4 173 |
| Total liabilities | 217 404 | 234 689 | 179 609 | 40 659 | 91 462 | 763 823 |
| Purchases of property, plant and equipment investment properties and intangible assets² | 28 924 | 21 629 | 1 779 | | 28 651 | 80 983 |

¹ without Looser Group

² without acquisition of subsidiaries

The impairment on property, plant and equipment in column "Others and eliminations" relates to the Corporate Center in CH-Arbon and is explained in note 37.

| | 2015 | | | | |
|--|------------------------|----------------------|----------------------|----------------------------|-----------------|
| | Building Technology | Building Envelope | Building Security | Others and eliminations | Total Group |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Sales with third parties | 462 161 | 331 353 | 147 443 | 467 | 941 424 |
| Sales with other segments | 36 | | 122 | -158 | |
| Net revenues | 462 197 | 331 353 | 147 565 | 309 | 941 424 |
| Segment results I (EBITDA before restructuring) | 48 919 | 6 038 | 7 455 | -18 209 | 44 203 |
| <i>in % of net revenues</i> | <i>10.6</i> | <i>1.8</i> | <i>5.1</i> | | <i>4.7</i> |
| Restructuring costs | -3 335 | -14 278 | | | -17 613 |
| Segment results I (EBITDA after restructuring) | 45 584 | -8 240 | 7 455 | -18 209 | 26 590 |
| <i>in % of net revenues</i> | <i>9.9</i> | <i>-2.5</i> | <i>5.1</i> | | <i>2.8</i> |
| Depreciation and amortisation | -17 160 | -14 545 | -3 911 | -4 646 | -40 262 |
| Impairment property, plant and equipment/ investment properties/intangible assets | -3 711 | -50 265 | -12 600 | -352 | -66 928 |
| Impairment goodwill | -20 348 | -50 215 | -8 100 | | -78 663 |
| Reversal of impairment on property, plant and equipment | | 844 | | | 844 |
| Segment results II (EBIT) | 4 365 | -122 421 | -17 156 | -23 207 | -158 419 |
| <i>in % of net revenues</i> | <i>0.9</i> | <i>-36.9</i> | <i>-11.6</i> | | <i>-16.8</i> |
| Interest income | 146 | 47 | 24 | 1 477 | 1 694 |
| Interest expenses | -2 451 | -3 704 | -803 | -4 557 | -11 515 |
| Other financial result | -4 110 | -2 509 | -1 967 | -4 743 | -13 329 |
| Result before income tax | -2 050 | -128 587 | -19 902 | -31 030 | -181 569 |
| Income tax expense | -5 210 | 12 772 | 1 948 | -5 047 | 4 463 |
| Result after income tax | -7 260 | -115 815 | -17 954 | -36 077 | -177 106 |
| Average number of employees | 2 711 | 2 972 | 425 | 77 | 6 186 |
| Total assets | 378 003 | 248 280 | 103 716 | 170 526 | 900 525 |
| Total liabilities | 194 904 | 241 663 | 80 403 | 31 738 | 548 708 |
| Purchases of property, plant and equipment, investment properties and intangible assets¹ | 11 759 | 7 211 | 1 400 | 1 553 | 21 923 |

¹ without acquisition of subsidiaries

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

Information about geographical areas

| | 2016 | | | |
|--|--------------|-------------|-----------------|-------------|
| | Switzer-land | Germany | Other Countries | Total Group |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Net revenues | 343 302 | 319 345 | 332 700 | 995 347 |
| Property, plant and equipment, investment properties, intangible assets and goodwill | 243 681 | 384 479 | 282 340 | 910 500 |
| | | | | |
| | 2015 | | | |
| | Switzer-land | Germany | Other Countries | Total Group |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Net revenues | 346 881 | 282 440 | 312 103 | 941 424 |
| Property, plant and equipment, investment properties, intangible assets and goodwill | 105 500 | 94 805 | 215 443 | 415 748 |

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 52).

32 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

| | 31/12/2016 | 31/12/2015 |
|------------------|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| CHF | 51 578 | 146 513 |
| EUR | 48 211 | 33 564 |
| PLN | 5 774 | 13 700 |
| USD | 212 | 1 290 |
| GBP | 1 093 | 1 630 |
| CZK | 1 816 | 1 422 |
| Other currencies | 3 070 | 3 321 |
| Total | 111 754 | 201 440 |

The effective interest on bank deposits is between 0.0 % and 0.1% (2015: between 0.0 % and 0.2 %).

33 Accounts receivables

| | 31/12/2016 | 31/12/2015 |
|-----------------------------------|----------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| Accounts receivable | 126 233 | 94 411 |
| Allowance for accounts receivable | -10 456 | -9 050 |
| Total | 115 777 | 85 361 |

The ageing analysis is as follows:

| | 31/12/2016 | | 31/12/2015 | |
|--|--|-------------------------|--|-------------------------|
| | Gross amount of accounts receivable | thereof not impaired | Gross amount of accounts receivable | thereof not impaired |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Not yet due | 95 987 | 91 469 | 70 639 | 66 635 |
| Overdue up to 30 days | 13 255 | 13 198 | 11 493 | 11 444 |
| Overdue more than 30, less than 60 days | 4 935 | 4 876 | 2 990 | 2 934 |
| Overdue more than 60, less than 90 days | 1 597 | 1 569 | 1 326 | 1 242 |
| Overdue more than 90, less than 180 days | 3 245 | 2 935 | 1 582 | 1 384 |
| Overdue more than 180, less than 360 days | 1 990 | 1 287 | 1 824 | 1 154 |
| Overdue more than 360 days | 5 224 | 443 | 4 557 | 568 |
| Total | 126 233 | 115 777 | 94 411 | 85 361 |

With respect to accounts receivable that are not impaired, there are no indications as of the balance sheet date that the respective debtors will not meet their payment

obligations. Outstanding accounts receivable amounting to CHF 18.4 million (2015: CHF 9.2 million) were secured and mainly consist of credit insurances.

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

| | 2016 | 2015 |
|-----------------------------------|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Balance at 01/01 | -9 050 | -11 706 |
| Foreign exchange differences | 76 | 748 |
| Changes in scope of consolidation | -937 | -543 |
| Additional allowances | -5 263 | -4 863 |
| Used during year | 4 566 | 7 236 |
| Unused amounts reversed | 152 | 78 |
| Balance at 31/12 | -10 456 | -9 050 |

In the allowance for doubtful debts, specific allowances in the amount of CHF 3.7 million (2015: CHF 4.1 million) are included.

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 as stipulated under the provision of IAS 39. In particular the late payment risk is completely retained by Arbonia up until a certain point in time. As of 31 December 2016 the book value of the

transferred receivables amounted to CHF 9.4 million (2015: CHF 7.3 million). Thereof Arbonia already received from the factor CHF 8.1 million (2015: CHF 7.1 million) of cash and the difference of CHF 1.3 million (2015: CHF 0.2 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2015: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2015: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2016 to CHF 0.001 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.01 million.

34 Inventories

| | 31/12/2016 | 31/12/2015 |
|----------------------------------|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Raw material and supplies | 66 726 | 54 933 |
| Semi-finished and finished goods | 85 294 | 88 026 |
| Goods purchased for resale | 19 695 | 8 388 |
| Prepayments | 1 318 | 84 |
| Total | 173 033 | 151 431 |

A provision of CHF 19.8 million (2015: CHF 14.4 million) has been provided for obsolete and slow-moving items and is deducted from inventories. Inventories written down to net realisable value were CHF 0.2 million (2015: CHF 0.3 million). In 2016 the write-down to net realisable value amounted to CHF 0.02 million (2015: CHF 0.04 million).

35 Financial assets

| | 31/12/2016 | 31/12/2015 |
|---|--------------|--------------|
| | in 1000 CHF | in 1000 CHF |
| Investments in associated companies > 20 % < 50 % | 4 173 | |
| Other financial assets | 411 | 18 |
| Loans | 4 742 | 3 362 |
| Total | 9 326 | 3 380 |
| thereof disclosed as current assets | 1 200 | 1 200 |

Associated companies

| | 2016 |
|--|--------------|
| | in 1000 CHF |
| Balance at 01/01 | |
| Foreign exchange differences | -119 |
| Acquisition of associated companies | 4 414 |
| Minority share from associated companies | -122 |
| Balance at 31/12 | 4 173 |

As of 18 April 2016, Arbonia acquired a minority share of 31% on the Austrian window manufacturer Gaulhofer through payment of CHF 4.4 million. The investment was made in the form of a capital increase of Gaulhofer Industrie-Holding GmbH. Arbonia can exercise a call option to acquire the remaining shares in 2018 or 2019. The hitherto shareholders can exercise in 2019 or 2020 their put option to sell the remaining shares if certain minimum results are achieved.

Subsequently, the financial information of Gaulhofer Group for the financial year 2016 is disclosed in condensed form.

Gaulhofer Industrie-Holding GmbH – Balance sheet

| | 31/12/2016 |
|---|---------------|
| | in 1000 CHF |
| Current assets | 19 952 |
| Non-current assets | 10 167 |
| Total assets | 30 119 |
| Current liabilities | 12 391 |
| Non-current liabilities | 9 750 |
| Shareholders' equity | 7 978 |
| thereof other comprehensive income | 5 |
| Total liabilities and shareholders' equity | 30 119 |

Gaulhofer Industrie-Holding GmbH – Income statement

| | 2016 |
|---------------------------|-------------|
| | in 1000 CHF |
| Net revenues | 60 423 |
| Group results after taxes | -3 310 |

Business transactions with associated companies

| | 2016 |
|---------------------------------|-------------|
| | in 1000 CHF |
| Sale of goods and services 2016 | 1 685 |
| Receivables at 31/12/2016 | 174 |

Loans

Two loans with a book value of CHF 3.3 million originate from the sale of the property of AFG Warendorfer Immobilien GmbH in 2013 as well as from the sale of the kitchen business in 2014. Due to the non-compliance of agreed repayment terms and a general credit rating respectively, these loans were partially impaired during 2015. Further loans relate to the sale of a business within the Looser Group.

The ageing analysis for loans is as follows:

| | 31/12/2016 | |
|--------------|--------------------|----------------------|
| | Gross amount loans | thereof not impaired |
| | in 1000 CHF | in 1000 CHF |
| Not yet due | 8 152 | 4 742 |
| Total | 8 152 | 4 742 |

| | 31/12/2015 | |
|----------------------------|--------------------|----------------------|
| | Gross amount loans | thereof not impaired |
| | in 1000 CHF | in 1000 CHF |
| Not yet due | 7 539 | 3 362 |
| Overdue up to 30 days | 324 | |
| Overdue more than 360 days | 51 | |
| Total | 7 914 | 3 362 |

As of the balance sheet date, Arbonia has secured loans in the amount of CHF 3.8 million (2015: CHF 4.9 million).

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

| | 2016 | 2015 |
|------------------------------|---------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| Balance at 01/01 | -4 552 | |
| Foreign exchange differences | 2 | -34 |
| Additional allowances | | -4 518 |
| Used during year | 1 140 | |
| Balance at 31/12 | -3 410 | -4 552 |

In the impairment of loans, specific impairments of CHF 3.4 million (2015: CHF 4.5 million) are included.

36 Non-current assets held for sale and discontinued operations

Assets held for sale and discontinued operations

| | 31/12/2016 |
|--------------------------------|----------------|
| | in 1000 CHF |
| Assets of the segment Coatings | 156 643 |
| Total | 156 643 |

On 9 August 2016, the Looser Group announced its intention to begin the sales process of the segment coatings. Arbonia therefore discloses the segment coatings in accordance with IFRS 5 as discontinued operations. The assets and liabilities of the discontinued segment are shown in the consolidated balance sheet in one line item in the respective assets held for sale and liabilities held for sale positions. It is expected that the sale of this segment will be realised within one year.

The position included as of 30 June 2016 real estate of CHF 20.2 million consisting of land and production halls in CH-Arbon. After having obtained the approval of the bureau of environment of the canton of Thurgau, the real estate was sold in autumn 2016.

Liabilities associated with asset held for sale and discontinued operations

| | 31/12/2016 |
|-------------------------------------|---------------|
| | in 1000 CHF |
| Liabilities of the segment Coatings | 30 145 |
| Total | 30 145 |

37 Property, plant and equipment

| | Land and buildings | Plant and machinery | Other equipment | Prepayments and assets under construction | Total |
|--|--------------------|---------------------|-----------------|---|----------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Net book value at 01/01/2015 | 214 662 | 117 609 | 13 811 | 12 956 | 359 038 |
| Cost | | | | | |
| Balance at 01/01/2015 | 378 100 | 386 621 | 53 422 | 17 493 | 835 636 |
| Foreign exchange differences | -19 920 | -20 775 | -3 723 | -1 451 | -45 869 |
| Change in scope of consolidation | 9 234 | 8 535 | 3 733 | 8 | 21 510 |
| Additions | 1 009 | 3 620 | 2 273 | 13 087 | 19 989 |
| Disposals | -204 | -21 348 | -3 356 | -253 | -25 161 |
| Reclassifications | 372 | 10 084 | 573 | -11 799 | -770 |
| Balance at 31/12/2015 | 368 591 | 366 737 | 52 922 | 17 085 | 805 335 |
| Foreign exchange differences | -1 779 | -2 152 | -499 | -782 | -5 212 |
| Change in scope of consolidation | 48 067 | 29 093 | 46 766 | 4 904 | 128 830 |
| Additions | 28 047 | 7 462 | 2 874 | 41 674 | 80 057 |
| Disposals | -444 | -6 267 | -3 972 | -170 | -10 853 |
| Reclassification to assets held for sale | -95 331 | -2 200 | -1 455 | -53 | -99 039 |
| Reclassifications | 624 | -2 389 | 1 917 | -976 | -824 |
| Balance at 31/12/2016 | 347 775 | 390 284 | 98 553 | 61 682 | 898 294 |

| | Land and buildings | Plant and machinery | Other equipment | Prepayments and assets under construction | Total |
|--|-----------------------|------------------------|--------------------|--|----------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Accumulated depreciation | | | | | |
| Balance at 01/01/2015 | 163 438 | 269 012 | 39 611 | 4 537 | 476 598 |
| Foreign exchange differences | -7 026 | -15 627 | -2 666 | -389 | -25 708 |
| Depreciation | 8 184 | 18 108 | 3 932 | | 30 224 |
| Impairment | 25 119 | 18 060 | 1 177 | 25 | 44 381 |
| Reversal of impairment | | -844 | | | -844 |
| Disposals | -73 | -20 888 | -3 256 | -10 | -24 227 |
| Reclassifications | | -345 | -311 | 205 | -451 |
| Balance at 31/12/2015 | 189 642 | 267 476 | 38 487 | 4 368 | 499 973 |
| Foreign exchange differences | -580 | -1 361 | -300 | -176 | -2 417 |
| Depreciation | 7 003 | 18 382 | 4 104 | | 29 489 |
| Impairment | 2 460 | | | | 2 460 |
| Reversal of impairment | | -298 | -6 | | -304 |
| Disposals | -444 | -5 911 | -3 867 | | -10 222 |
| Reclassification to assets held for sale | -75 846 | -1 594 | -1 429 | | -78 869 |
| Reclassifications | | -9 912 | 256 | 9 777 | 121 |
| Balance at 31/12/2016 | 122 235 | 266 782 | 37 245 | 13 969 | 440 231 |
| Net book value at 31/12/2015 | 178 949 | 99 261 | 14 435 | 12 717 | 305 362 |
| Net book value at 31/12/2016 | 225 540 | 123 502 | 61 308 | 47 713 | 458 063 |
| thereof under financial lease or with a purchase obligation | 24 694 | 3 466 | 3 077 | | 31 237 |
| | | | | Previous year | 6 688 |

In 2016, property, plant and machinery as well as other equipment in the amount of CHF 28.4 million (2015: CHF 0.9 million of plant, machinery and other equipment) was acquired via finance lease or a purchase commitment.

The other equipment contains the rental park of the business unit Industrial Services with a net book value of CHF 41.8 million.

On 16 June 2016, Arbonia and Credit Suisse Funds AG signed a purchase agreement for the Corporate Center in CH-Arbon with transfer of ownership in around eleven years. The two parties have signed a new lease agree-

ment at a reduced rent which came into effect on 1 July 2016. Arbonia made a payment of CHF 5 million to Credit Suisse Funds AG at the end of June 2016, which is reported in the cash flow statement under "purchases of property, plant and equipment". Due to the commitment to purchase the Corporate Center and the current lease agreement being valid until the moment of the transfer of ownership, this deal qualifies as a finance lease. Accordingly, the fair value of the Corporate Center of CHF 25 million was capitalised, the net present value of the lease payments and the discounted purchase price commitment recorded as liabilities (see note 43). The transaction resulted in an impairment on the Corporate Center of CHF 2.5 million.

Impairments 2015

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

Future aggregate minimum lease payments

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

| 31/12/2016 | | | |
|--|------------------|----------------|---------------|
| | Operating leases | Finance leases | Total |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| within 1 year | 18 607 | 2 791 | 21 398 |
| between 1 and 5 years | 37 432 | 7 554 | 44 986 |
| after 5 years | 13 638 | 7 423 | 21 061 |
| Total | 69 677 | 17 768 | 87 445 |
| Interest charge | | -3 432 | |
| Present value of finance leases | | 14 336 | |

| 31/12/2015 | | | |
|--|------------------|----------------|---------------|
| | Operating leases | Finance leases | Total |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| within 1 year | 12 898 | 1 773 | 14 671 |
| between 1 and 5 years | 21 431 | 2 778 | 24 209 |
| after 5 years | 13 834 | | 13 834 |
| Total | 48 163 | 4 551 | 52 714 |
| Interest charge | | -261 | |
| Present value of finance leases | | 4 290 | |

The income statement contains expenses for operating leases of CHF 15.8 million (2015: CHF 15.7 million).

The largest lease contract in 2016 with a commitment of CHF 23.6 million relates to the rental of a production and office building in Germany and has a duration until 1 June 2027. Operating lease included in 2015 the obligation of the rental agreement concluded in August 2012 by Arbonia for the Corporate Center in CH-Arbon for a fixed but indexed rent for a time period of 15 years. This contract was replaced by a new lease agreement in connection with the purchase of the Corporate Center in 2016.

Leasehold property obligation

| | 31/12/2016 |
|---|--------------|
| | in 1000 CHF |
| Leasehold property obligation within 1 year | 508 |
| Leasehold property obligation between 1 and 5 years | 1 821 |
| Leasehold property obligation after 5 years | 6 101 |
| Total | 8 430 |

The leasehold property obligations exist in the business unit Industrial Services and include only leasehold property interests. The leasehold property obligations have maturities up to years 2036, 2042, 2046, 2049 and 2060.

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

| | 31/12/2016 | 31/12/2015 |
|-------------------------------|---------------|--------------|
| | in 1000 CHF | in 1000 CHF |
| Property, plant and equipment | 40 287 | 6 038 |
| Intangible assets | 123 | 80 |
| Total | 40 410 | 6 118 |

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

| | 31/12/2016 | 31/12/2015 |
|---------------------|------------------|------------------|
| | in 1000 CHF | in 1000 CHF |
| Buildings | 524 016 | 488 849 |
| Plant and machinery | 707 298 | 515 031 |
| Total | 1 231 314 | 1 003 880 |

Land and buildings amounting to CHF 62.7 million (2015: CHF 50.8 million) are pledged to secure mortgages.

38 Investment property

| | Investment property – land | Investment property – buildings | Total |
|---|-------------------------------|------------------------------------|---------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Net book value at 01/01/2015 | 5 404 | 8 255 | 13 659 |
| Cost | | | |
| Balance at 01/01/2015 | 5 904 | 52 953 | 58 857 |
| Foreign exchange differences | -20 | -533 | -553 |
| Additions | | 60 | 60 |
| Balance at 31/12/2015 | 5 884 | 52 480 | 58 364 |
| Foreign exchange differences | -2 | -31 | -33 |
| Additions | | 227 | 227 |
| Disposals | | -73 | -73 |
| Reclassifications | 3 091 | -3 040 | 51 |
| Balance at 31/12/2016 | 8 973 | 49 563 | 58 536 |
| Accumulated depreciation | | | |
| Balance at 01/01/2015 | 500 | 44 698 | 45 198 |
| Foreign exchange differences | 2 | -428 | -426 |
| Depreciation | | 1 306 | 1 306 |
| Impairment | 179 | 708 | 887 |
| Balance at 31/12/2015 | 681 | 46 284 | 46 965 |
| Foreign exchange differences | -1 | -31 | -32 |
| Depreciation | | 368 | 368 |
| Disposals | | -73 | -73 |
| Balance at 31/12/2016 | 680 | 46 548 | 47 228 |
| Net book value at 31/12/2015 | 5 203 | 6 196 | 11 399 |
| Net book value at 31/12/2016 | 8 293 | 3 015 | 11 308 |
| Fair values of investment properties at 31/12/2015 | | | 30 666 |
| Fair values of investment properties at 31/12/2016 | | | 28 703 |

Rental income from investment properties amounted to CHF 2.2 million (2015: CHF 2.4 million) and is included in other operating income. Related direct operating expenses were CHF 0.1 million (2015: CHF 0.1 million) and are included in other operating expenses.

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

39 Intangible assets

| | Other intangible assets | Goodwill | Total |
|-------------------------------------|----------------------------|----------------|----------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Net book value at 01/01/2015 | 88 078 | 125 570 | 213 648 |
| Cost | | | |
| Balance at 01/01/2015 | 147 452 | 127 623 | 275 075 |
| Foreign exchange differences | -8 231 | -8 959 | -17 190 |
| Change in scope of consolidation | 4 903 | 3 137 | 8 040 |
| Additions | 1 874 | | 1 874 |
| Disposals | -4 697 | | -4 697 |
| Reclassifications | 218 | | 218 |
| Balance at 31/12/2015 | 141 519 | 121 801 | 263 320 |
| Foreign exchange differences | -1 342 | -281 | -1 623 |
| Change in scope of consolidation | 163 788 | 185 210 | 348 998 |
| Additions | 699 | | 699 |
| Disposals | -409 | | -409 |
| Reclassifications | 1 020 | | 1 020 |
| Balance at 31/12/2016 | 305 275 | 306 730 | 612 005 |
| Accumulated amortisation | | | |
| Balance at 01/01/2015 | 59 374 | 2 053 | 61 427 |
| Foreign exchange differences | -1 808 | | -1 808 |
| Amortisation | 8 730 | | 8 730 |
| Impairment | 21 660 | 78 663 | 100 323 |
| Disposals | -4 340 | | -4 340 |
| Reclassifications | 2 | | 2 |
| Balance at 31/12/2015 | 83 618 | 80 716 | 164 334 |
| Foreign exchange differences | -642 | | -642 |
| Amortisation | 7 593 | | 7 593 |
| Disposals | -409 | | -409 |
| Balance at 31/12/2016 | 90 160 | 80 716 | 170 876 |
| Net book value at 31/12/2015 | 57 901 | 41 085 | 98 986 |
| Net book value at 31/12/2016 | 215 115 | 226 014 | 441 129 |

Expenses for research and development in the amount of CHF 16.0 million (2015: CHF 16.0 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. In the assets under construc-

tion of property, plant and equipment, there are capitalised development costs of CHF 0.8 million (2015: CHF 0 million) included. All other additions under other intangible assets have been purchased or acquired.

Goodwill

As of 31 December 2016 goodwill from business combinations is allocated to the Group's six cash-generating units (CGUs) Doors, Industrial Services, Sanitary, Wertbau, Sabiana and Slovaktual.

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

| | Doors | Industrial Services | Sanitary | Wertbau | Sabiana | Slovaktual | Total |
|------------------------------|----------------|---------------------|---------------|--------------|---------------|---------------|----------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Balance at 31/12/2015 | | | | 3 116 | 23 592 | 14 377 | 41 085 |
| Acquisition | 145 716 | 24 847 | 14 647 | | | | 185 210 |
| Foreign exchange differences | | | | -21 | -161 | -99 | -281 |
| Balance at 31/12/2016 | 145 716 | 24 847 | 14 647 | 3 095 | 23 431 | 14 278 | 226 014 |

Goodwill impairment tests 2016

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 for the CGUs Wertbau, Sabiana and Slovaktual. For the CGU Sanitary a three-year projection period was applied. Cash flows beyond the five-year period and the three-year period respectively were extrapolated using estimated growth rates. The underlying financial data formed part of the Group's medium term plan approved by the Board of Directors in early summer 2016.

The value in use calculation for the annual 2016 impairment tests and purchase price allocation of the CGUs Doors and Industrial Services respectively assumed the following key assumptions:

| | Doors | Industrial Services | Sanitary | Wertbau | Sabiana | Slovaktual |
|-----------------------|-------|---------------------|----------|---------|---------|------------|
| | in % | in % | in % | in % | in % | in % |
| Budgeted gross margin | 51.0 | 63.4 | 64.1 | 41.3 | 44.0 | 36.8 |
| Growth rate | 2.0 | 0.0 | 1.0 | 1.0 | 1.5 | 1.0 |
| Discount rate | 9.1 | 8.8 | 8.4 | 9.2 | 9.9 | 8.6 |

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

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2016 for the CGUs Sanitary, Wertbau, Sabiana and Slovaktual on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGUs Sabiana and Slovaktual.

A reduction in the budgeted gross margin from 44.0% to 42.5% would result in an impairment of the CGU Sabiana amounting to CHF 4.6 million. At a budgeted gross margin of 42.8%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.5% to 1.0% would lead to an impairment of CHF 4.4 million. At a reduction of 7.5% in EBITDA and a simultaneous reduction of eternal growth to 1.0%, the recoverable amount was equal to their carrying amount.

A reduction in the budgeted gross margin from 36.8% to 35.0% would result in an impairment of the CGU Slovaktual amounting to CHF 3.9 million. At a budgeted gross margin of 35.4%, the recoverable amount was

equal to their carrying amount. At a 10 % reduction in EBITDA and a simultaneous reduction of perpetual growth from 1.0% to 0.5%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2015

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

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations used cash flow projections covering a five-year period. Cash flows beyond the five-year period were extrapolated using estimated growth rates. The underlying financial data formed part of the Group's medium term plan approved by the Board of Directors in early summer 2015.

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

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

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

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

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

The below-expectation growth and earnings as well as a reassessment of the main markets of the CGU Dobroplast led to lower future earnings potential. Due to the numerous changes in personnel since the acquisition of Dobroplast, an in-depth analysis of required capital expenditures could only be carried out time-delayed, with the result that sustainably higher capital expenditures were to be required. These new findings were taken into account in the medium term plan. The underlying value in use calculation resulted for the CGU Dobroplast in an impairment of CHF 18.2 million, which as a first step was allocated to goodwill. The remaining amount of CHF 1.1 million was assigned to intangible assets. A reassessment based on knowledge gained since the acquisition and ongoing integration process of Sabiana led to the awareness that the originally calculated synergies within the Division Building Technology were only to be eventu-

ated with a certain delay and only be achievable with additional personnel expenses. These amended assumptions were incorporated in the medium term plan of the CGU Sabiana. The underlying value in use calculation resulted in an impairment of CHF 20.3 million, which was fully allocated to goodwill of the CGU Sabiana.

In the course of the summer 2015, the CGU RWD Schlatter also increasingly felt the price pressure in the market. In addition it suffered from the missing demand for construction of office and commercial buildings. The underlying assumptions in the initial planning appeared all of a sudden unachievable due to the weak prospects. As a result, a revision of the medium term plan prepared in early summer became necessary. The revised medium term plan, which reflected these new insights, and the resulting value in use calculation showed an impairment of CHF 20.7 million. As a first step the impairment was allocated to goodwill. The remaining amount of CHF 12.6 million was assigned to property, plant and equipment and intangible assets.

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2015 for the two CGUs Wertbau and Slovaktual on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Slovaktual.

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

40 Acquisitions

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

Acquisitions 2016

Looser Group

| | Fair Value |
|--|----------------|
| | in 1000 CHF |
| Assets | |
| Cash and cash equivalents | 43 599 |
| Accounts receivables | 19 083 |
| Other current assets | 3 921 |
| Inventories | 33 241 |
| Deferred expenses | 880 |
| Assets held for sale | 156 643 |
| Property, plant and equipment | 120 267 |
| Intangible assets | 144 037 |
| Financial assets | 1 795 |
| Total assets | 523 466 |
| Liabilities | |
| Accounts payables | 10 381 |
| Other liabilities | 6 072 |
| Financial debts | 154 442 |
| Finance lease liabilities | 161 |
| Accruals and deferred income | 18 021 |
| Current income tax liabilities | 3 442 |
| Liabilities associated with assets held for sale | 30 145 |
| Provisions | 2 166 |
| Deferred income tax liabilities | 53 648 |
| Employee benefit obligations | 5 438 |
| Total liabilities | 283 916 |

| | Fair Value |
|--|----------------|
| | in 1 000 CHF |
| Net assets acquired including non-controlling interests | 239 550 |
| Non-controlling interests | – 10 134 |
| Net assets acquired | 229 416 |
| Goodwill | 170 563 |
| Purchase consideration | 399 979 |
| Cost of acquisition | |
| Purchase price | 85 200 |
| Purchase price in equity instruments | 314 778 |
| Total cost of acquisition | 399 979 |
| Net cash outflow was as follows: | |
| Purchase price | 85 200 |
| Cash and cash equivalents acquired – continuing operations | –43 599 |
| Cash and cash equivalents acquired – discontinued operations | –17 566 |
| Net cash outflow on acquisition | 24 035 |

As of 14 September 2016, Arbonia concluded a purchase agreement with the existing major shareholders, members of the Board of Directors and Group Management for the purchase of 53.32 % of shares of Looser Holding AG, CH-Arbon, a company listed on the SIX Swiss Exchange. On 15 September 2016, Arbonia announced their plan to submit a public purchase and exchange offer to all shareholders. Accordingly, Arbonia published on 29 September 2016 a purchase and exchange offer for all outstanding registered shares. The offer price for one registered share of Looser Holding AG amounted to 5.5 shares of Arbonia AG plus CHF 23 in cash. The offer price was identical for the purchase agreement as well as for the purchase and exchange offer. By 13 December 2016, Arbonia had acquired 97.53 % of the shares of Looser Holding AG. The purchase price amounted in total to CHF 400 million, consisting of 20 373 996 newly issued registered shares of Arbonia AG at a fair value of CHF 15.45 per share, totalling CHF 314.8 million and the cash consideration of CHF 23 per share for the 3 704 363 offered Looser registered shares, totalling CHF 85.2 million. Looser Group is an international industrial holding company and active in the three segments doors, industrial services and coatings with approximately 2260 employees. Since the acquisition took place just a few days before year-end, Arbonia has renounced to consolidate the

income statement of Looser Group based on materiality reasons. Had the acquisition taken place on 1 January 2016, net revenues for the reporting period would have been CHF 434.2 million and profit, including amortisation charges on intangible assets from acquisitions, would have been CHF 1.7 million. The gross carrying amount of accounts receivables amounted to CHF 19.5 million, of which CHF 0.4 million were considered uncollectable. The acquisition-related costs amounted to CHF 7.6 million. Thereof, CHF 2.3 million is included in operating expenses in 2016 and CHF 5.3 million stemming from the capital increase were offset with share premium. The goodwill from this acquisition, which is allocated to the segments Doors and Industrial Services, is due to the fact that certain intangible assets did not meet the criteria of IFRS 3 “business combinations” for the recognition as intangible assets at the date of acquisition. These intangible assets consist mainly of expected synergies within the segment Doors and cost-savings at Corporate level. In addition, goodwill includes the workforce know-how. The fair value of the acquired assets and especially the intangible assets and the fair value of the acquired liabilities could only be determined on a provisional basis, since the acquisition occurred shortly before year-end and therefore not all assessments could be thoroughly carried out or checked.

Koralle Group

| | Fair Value |
|----------------------------------|---------------|
| | in 1000 CHF |
| Assets | |
| Cash and cash equivalents | 11 039 |
| Accounts receivables | 5 432 |
| Other current assets | 50 |
| Inventories | 4 458 |
| Deferred expenses | 386 |
| Property, plant and equipment | 8 517 |
| Intangible assets | 18 114 |
| Deferred income tax assets | 92 |
| Total assets | 48 088 |
| Liabilities | |
| Accounts payables | 2 014 |
| Other liabilities | 880 |
| Financial debts | 873 |
| Accruals and deferred income | 6 777 |
| Current income tax liabilities | 407 |
| Provisions | 1 691 |
| Deferred income tax liabilities | 3 158 |
| Employee benefit obligations | 4 906 |
| Total liabilities | 20 707 |
| Net assets acquired | 27 380 |
| Goodwill | 14 647 |
| Cost of acquisition | 42 027 |
| Cost of acquisition | |
| Purchase price | 42 027 |
| Total cost of acquisition | 42 027 |

| | Fair Value |
|---|---------------|
| | in 1 000 CHF |
| Net cash outflow was as follows: | |
| Purchase price | 42 027 |
| Cash and cash equivalents acquired | –11 039 |
| Repayment of a shareholder loan | 873 |
| Net cash outflow on acquisition | 31 862 |

As of 20 September 2016, Arbonia acquired 100% of the shares of Koralle Group, consisting of Bekon-Koralle AG, CH-Dagmersellen, Koralle Sanitärprodukte GmbH, DE-Vlotho, and Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H, AT-Margarethen am Moos. The Koralle Group operates in the sanitary field and complements the product range of the Building Technology Division. The purchase price amounted to CHF 42 million. From the date of acquisition, Koralle Group contributed CHF 13 million in net revenues and CHF 0.6 million in loss to the Group. Had the acquisition taken place on 1 January 2016, net revenues for the reporting period would have been CHF 48.8 million and loss would have been CHF 0.3 million. The loss includes amortisation charges on intangible assets from

acquisitions as well as the restructuring provision of CHF 2.5 million booked after the acquisition for the German site in Vlotho. The gross carrying amount of accounts receivables amounted to CHF 5.7 million, of which CHF 0.3 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.4 million and are included in operating expenses in 2016. The goodwill from this acquisition is due to the fact that certain intangible assets did not meet the criteria of IFRS 3 “business combinations” for the recognition as intangible assets at the date of acquisition. These intangible assets consist mainly of expected synergies within the Building Technology Division. In addition, goodwill includes the workforce know-how.

Sabiatherm SAS

| | Fair value |
|-------------------------------|--------------|
| | in 1 000 CHF |
| Assets | |
| Cash and cash equivalents | 1 537 |
| Accounts receivables | 1 667 |
| Other current assets | 56 |
| Inventories | 304 |
| Deferred expenses | 18 |
| Property, plant and equipment | 46 |
| Intangible assets | 1 639 |
| Financial assets | 2 |
| Total assets | 5 268 |

| | Fair value |
|---|--------------|
| | in 1000 CHF |
| Liabilities | |
| Accounts payables | 1 432 |
| Other liabilities | 288 |
| Accruals and deferred income | 74 |
| Provisions | 127 |
| Deferred income tax liabilities | 531 |
| Total liabilities | 2 453 |
| Net assets acquired | 2 815 |
| Cost of acquisition | |
| Purchase price | 2 815 |
| Total cost of acquisition | 2 815 |
| Net cash outflow was as follows: | |
| Purchase price | 2 815 |
| Cash and cash equivalents acquired | -1 537 |
| Net cash outflow on acquisition | 1 278 |

As of 28 July 2016, Arbonia acquired 100 % of the shares of Sabiatherm SAS, FR-Tassin-la-Demi-Lune. Sabiatherm currently purchases goods from Sabiana and sells them in the French market. The newly acquired company is allocated to the Building Technology Division. The purchase price amounted to CHF 2.8 million. From the date of acquisition, Sabiatherm contributed CHF 1.2 million in net revenues and CHF 0.06 million in profit to the Group.

Had the acquisition taken place on 1 January 2016, net revenues for the reporting period would have been CHF 2.8 million and profit, including amortisation charges on intangible assets from acquisitions, would have been CHF 0.2 million. The gross carrying amount of accounts receivables amounted to CHF 1.8 million, of which CHF 0.1 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.1 million and are included in operating expenses in 2016.

Sabiana

According to the original purchase contract from 2014, Arbonia had the right to buy the remaining 10 % of Sabiana S.p.A., IT-Corbetta after four years, at the earliest within one year, at a fixed price. The owners had the right to sell their remaining 10 % to Arbonia at any time up to the end of the fifth year at a fixed price. In the first half of 2016, the parties cancelled this call-and-put opti-

on agreement and mutually agreed to already sell the remaining 10% of Sabiana S.p.A. in June 2016 to Arbonia. The purchase price of CHF 10.6 million was settled in the amount of CHF 5.8 million in equity instruments of Arbonia and CHF 4.8 million were paid in cash (see notes 43 and 47).

Acquisitions 2015

Acquisition Wertbau Group

| | Fair value |
|--|---------------|
| | in 1 000 CHF |
| Assets | |
| Cash and cash equivalents | 52 |
| Accounts receivables | 3 590 |
| Other current assets | 173 |
| Inventories | 8 799 |
| Deferred expenses | 109 |
| Current income tax receivables | 296 |
| Property, plant and equipment | 21 312 |
| Intangible assets | 2 525 |
| Deferred income tax assets | 108 |
| Total assets | 36 966 |
| Liabilities | |
| Accounts payables | 1 918 |
| Other liabilities | 4 713 |
| Financial debts | 3 318 |
| Finance lease liabilities | 1 593 |
| Accruals and deferred income | 606 |
| Current income tax liabilities | 117 |
| Provisions | 467 |
| Deferred income tax liabilities | 209 |
| Total liabilities | 12 941 |
| Net assets acquired | 24 025 |
| Goodwill | 3 137 |
| Purchase consideration | 27 162 |
| Cost of acquisition | |
| Purchase price in cash | 18 923 |
| Purchase price in own equity instruments | 8 239 |
| Total cost of acquisition | 27 162 |

| | Fair value |
|---|---------------|
| | in 1000 CHF |
| Net cash outflow was as follows: | |
| Purchase price | 18 923 |
| Cash and cash equivalents acquired | -52 |
| Net cash outflow on acquisition | 18 871 |

As of 1 October 2015, Arbonia acquired 100 % of the shares in German Wertbau GmbH & Co. KG, with its registered seat in DE-Langenwetzendorf. The company employs modern and cost-efficient production processes, strengthening the Building Envelope Division's market access to the biggest European window market in Germany. The purchase price amounted to CHF 27.2 million and was settled in cash and with shares of Arbonia AG (see note 47). From the date of acquisition, Wertbau contributed CHF 11.0 million in net revenues and CHF 0.1 million in loss in 2015 to the Group. Had the acquisition taken place on 1 January 2015, net revenues for 2015 would have been CHF 34.8 million and a loss, inclu-

ding amortisation charges on intangible assets from acquisitions, would have been CHF 0.4 million. The gross carrying amount of accounts receivables amounted to CHF 4.1 million, of which CHF 0.5 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.3 million and were included in operating expenses in 2015. The goodwill from this acquisition was due to the fact that certain intangible assets did not meet the criteria of IFRS 3 "business combinations" for the recognition as intangible assets at the date of acquisition. These intangible assets consisted mainly of workforce know-how. In addition, goodwill included the expected synergies within the Building Envelope Division.

Acquisition Bloxer S.r.l.

| | Fair value |
|-------------------------------|--------------|
| | in 1000 CHF |
| Assets | |
| Cash and cash equivalents | 373 |
| Accounts receivables | 1 374 |
| Other current assets | 55 |
| Inventories | 1 137 |
| Property, plant and equipment | 198 |
| Intangible assets | 2 377 |
| Total assets | 5 514 |

| | Fair value |
|---|--------------|
| | in 1000 CHF |
| Liabilities | |
| Accounts payables | 391 |
| Other liabilities | 320 |
| Accruals and deferred income | 81 |
| Deferred income tax liabilities | 708 |
| Employee benefit obligations | 202 |
| Total liabilities | 1 701 |
| Net assets acquired | 3 813 |
| Cost of acquisition | |
| Purchase price | 3 304 |
| Contingent consideration liability | 509 |
| Total cost of acquisition | 3 813 |
| Net cash outflow was as follows: | |
| Purchase price | 3 304 |
| Cash and cash equivalents acquired | -373 |
| Net cash outflow on acquisition | 2 931 |

As of 1 July 2015, Arbonia acquired 100 % of the shares in Italian Bloxer Ronchi S.r.l., with its registered seat in IT-Villafranca Padovana. Bloxer manufactures glazed fire-protection doors in steel and aluminium and was allocated to the Building Security Division. The purchase price amounted to CHF 3.3 million. Furthermore upon achievement of certain agreed targets based on financial years through 2018, a maximum of CHF 2.1 million (undiscounted) of contingent consideration may become due. The fair value of the contingent consideration liability was determined at CHF 0.5 million by means of a probability-weighted pay out approach. The applied discount rate for the determination of the fair value amount-

ed to 9.2%. Based on IFRS 13 this was a level 3 fair value measurement (see note 43). From the date of acquisition, Bloxer contributed CHF 1.9 million in net revenues and CHF 0.1 million in loss in 2015 to the Group. Had the acquisition taken place on 1 January 2015, net revenues for 2015 would have been CHF 3.4 million and a loss, including amortisation charges on intangible assets from acquisitions, would have been CHF 0.2 million. The gross carrying amount of accounts receivables amounted to CHF 1.4 million, of which CHF 0.02 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.1 million and were included in operating expenses in 2015.

41 Financial debts

On 14 September 2016, Arbonia entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks has a credit tranche of CHF 100 million, with a due date no later than 31 December 2017 and is used to finance the cash settlement of the Looser acquisition. The other credit tranche of 400 million matures on 14 September 2021. As a result of the new borrowing facility the existing syndicated loan of CHF 250 million concluded on 2 December 2013 and maturing on 30 November 2018 was replaced prematurely.

The bond of CHF 200 million at 3.375% with a duration of 6 years was repaid on time by 12 May 2016.

The financial debts are comprised of the following:

| | 31/12/2016 | 31/12/2015 |
|-----------------|----------------|----------------|
| | in 1 000 CHF | in 1 000 CHF |
| Syndicated loan | 311 570 | |
| Bond | | 199 799 |
| Mortgage | 25 215 | 15 568 |
| Bank loans | 5 645 | 4 772 |
| Bank borrowings | | 4 323 |
| Total | 342 430 | 224 462 |

The new as well as the replaced syndicated loan include covenants covering key ratios such as minimum net worth, interest coverage ratio and leverage ratio. In the event of non-compliance, the banks may at any time at their option, declare the amounts then outstanding to be immediately due and payable. Arbonia was in compliance with the covenants in 2016.

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

The maturities of the financial debts are as follows:

| | 31/12/2016 | 31/12/2015 |
|-----------------------|----------------|----------------|
| | in 1 000 CHF | in 1 000 CHF |
| within 1 year | 322 217 | 207 095 |
| between 1 and 5 years | 11 869 | 8 307 |
| after 5 years | 8 344 | 9 060 |
| Total | 342 430 | 224 462 |

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

| | 31/12/2016 | | |
|----------------|------------|-------|-------|
| | CHF | EUR | PLN |
| Financial debt | 1.7 % | 2.0 % | 2.7 % |

| | 31/12/2015 | |
|----------------|------------|-------|
| | CHF | EUR |
| Financial debt | 3.7 % | 3.0 % |

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

| | 31/12/2016 | 31/12/2015 |
|--------------|----------------|----------------|
| | in 1 000 CHF | in 1 000 CHF |
| CHF | 171 808 | 203 799 |
| EUR | 169 090 | 20 663 |
| PLN | 1 532 | |
| Total | 342 430 | 224 462 |

42 Financial instruments

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

| 31/12/2016 | | | | | | | |
|---|----------------|------------------------|----------------|----------------|-----------------------|-----------------------|---------------|
| | Book value | Contractual cash flows | up to 6 months | 7 to 12 months | between 1 and 2 years | between 2 and 5 years | after 5 years |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Non-derivative financial instruments | | | | | | | |
| Accounts payable | 91 913 | 91 913 | 91 828 | 85 | | | |
| Other liabilities (without derivatives) | 37 058 | 45 568 | 25 186 | 20 | 326 | 36 | 20 000 |
| Finance lease liabilities | 14 336 | 17 768 | 1 423 | 1 368 | 3 175 | 4 379 | 7 423 |
| Financial debts | 342 430 | 345 298 | 320 284 | 3 895 | 7 264 | 5 433 | 8 422 |
| Derivative financial instruments | | | | | | | |
| Interest rate swaps | 1 956 | | | | | | |
| Cash outflow | | 1 956 | 157 | 159 | 231 | 587 | 822 |
| Total | 487 693 | 502 503 | 438 878 | 5 527 | 10 996 | 10 435 | 36 667 |

Amounts in foreign currency were each translated at the respective year-end rate. Variable interest payments arising from financial instruments were calculated using the

conditions prevailing at the balance sheet date. Financial liabilities which can be repaid at any time are always assigned to the earliest possible time period.

| 31/12/2015 | | | | | | | |
|---|----------------|------------------------|----------------|----------------|-----------------------|-----------------------|---------------|
| | Book value | Contractual cash flows | up to 6 months | 7 to 12 months | between 1 and 2 years | between 2 and 5 years | after 5 years |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Non-derivative financial instruments | | | | | | | |
| Accounts payable | 81 668 | 81 668 | 81 619 | 49 | | | |
| Other liabilities (without derivatives) | 27 475 | 29 971 | 18 958 | 14 | | 10 999 | |
| Finance lease liabilities | 4 290 | 4 553 | 1 017 | 756 | 2 071 | 709 | |
| Financial debts | 224 462 | 234 787 | 213 568 | 2 484 | 5 531 | 3 495 | 9 709 |
| Derivative financial instruments | | | | | | | |
| Interest rate swaps | 1 962 | | | | | | |
| Cash outflow | | 1 962 | 133 | 129 | 242 | 612 | 846 |
| Total | 339 857 | 352 941 | 315 295 | 3 432 | 7 844 | 15 815 | 10 555 |

43 Additional disclosures on financial instruments

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

| 31/12/2016 | | | | | | | |
|---------------------------|---------------------------|----------------|------------------------|---------------------------|----------------|--------------------------------|--------------------------------|
| | FA FVTPL designated | L&AR | FL FVTPL trading | FL FVTPL designated | FL AC | Book value at 31/12/2016 | Fair value at 31/12/2016 |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Cash and cash equivalents | | 111 754 | | | | 111 754 | 111 754 |
| Securities | 2 360 | | | | | 2 360 | 2 360 |
| Accounts receivable | | 115 777 | | | | 115 777 | 115 777 |
| Other current assets | | 21 325 | | | | 21 325 | 21 325 |
| Other financial assets | | 411 | | | | 411 | 411 |
| Loans | | 4 742 | | | | 4 742 | 4 742 |
| Assets | 2 360 | 254 009 | | | | 256 369 | 256 369 |
| Accounts payable | | | | | 91 913 | 91 913 | 91 913 |
| Other liabilities | | | 11 717 | 1 956 | 25 341 | 39 014 | 39 014 |
| Finance lease liabilities | | | | | 14 336 | 14 336 | 15 595 |
| Syndicated loan | | | | | 311 570 | 311 570 | 311 570 |
| Loans | | | | | 5 645 | 5 645 | 5 667 |
| Mortgage | | | | | 25 215 | 25 215 | 25 353 |
| Liabilities | | | 11 717 | 1 956 | 474 020 | 487 693 | 489 112 |

Abbreviations in the header of this table are explained in note 9 "financial instruments" on page 91.

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

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

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).

Level 3 – Unobservable market data.

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

| | Level 2 | Level 3 | Fair value at 31/12/2016 | Level 2 | Level 3 | Fair value at 31/12/2015 |
|--|--------------|---------------|--------------------------|--------------|--------------|--------------------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Assets | | | | | | |
| Financial assets at fair value through profit or loss – designated (FA FVTPL designated) | | | | | | |
| Investment funds | 2 360 | | 2 360 | 2 240 | | 2 240 |
| Total assets | 2 360 | | 2 360 | 2 240 | | 2 240 |
| Liabilities | | | | | | |
| Financial liabilities at fair value through profit or loss – designated (FL FVTPL designated) | | | | | | |
| Interest rate swaps without hedges | 1 956 | | 1 956 | 1 962 | | 1 962 |
| Financial liabilities at fair value through profit or loss – trading (FL FVTPL trading) | | | | | | |
| Purchase commitment on non-controlling interests | | | | | 7 879 | 7 879 |
| Purchase commitment | | 11 717 | 11 717 | | | |
| Contingent consideration liability | | | | | 554 | 554 |
| Total liabilities | 1 956 | 11 717 | 13 673 | 1 962 | 8 433 | 10 395 |

The fair value of investment funds of level 2 is determined based on market prices in the OTC market. The fair value of interest rate swap transactions of level 2 is the present value of expected interest payments, which are discounted at market rates. The determination of the

fair value of these transactions is made by the banks with which these transactions were entered into.

In 2016 and 2015, no reclassifications occurred between the levels 1 and 2.

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

| | Contingent consideration liability | Purchase commitment | Purchase commitment on non-controlling interests |
|--|------------------------------------|---------------------|--|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Balance 01/01/2015 | | | 7 971 |
| Acquisition Bloxer Ronchi | 509 | | |
| Within financial results recognised unrealised foreign exchange gains | | | -799 |
| Within financial results recognised unrealised foreign exchange losses | 14 | | |
| Within financial results recognised expenses from compounding | 31 | | 707 |
| Balance 31/12/2015 | 554 | | 7 879 |
| Purchase agreement | | 11 322 | |
| Within financial results recognised unrealised foreign exchange gains | -5 | | |
| Within financial results recognised unrealised foreign exchange losses | | | 301 |
| Within financial results recognised expenses from compounding | 59 | 395 | 2 436 |
| Within financial results recognised income from derecognition | -608 | | |
| Settlement | | | -10 616 |
| Balance 31/12/2016 | | 11 717 | |

The contingent consideration liability concerns the acquisition of Bloxer Ronchi S.r.l. in 2015. Based on today's assessment, the achievement of certain agreed targets for the years 2016 to 2018 is considered to be highly unlikely. Consequently, the fair value of the contingent consideration liability was reversed completely by the year-end 2016 (see note 40).

The purchase commitment of CHF 11.3 million relates to the signed purchase agreement on 16 June 2016 bet-

ween Arbonia and Credit Suisse Funds AG for the Corporate Center in CH-Arbon. The purchase commitment was recorded at the balance sheet date at fair value and at the time of transfer of ownership, the purchase price will amount to CHF 20 million (see note 37).

The purchase commitment on non-controlling interests relates to the remaining 10 % of Sabiana S.p.A., IT-Corbetta, which was settled premature in the first half of 2016 (see note 40 and 47).

44 Provisions

| | Warranty | Personnel | Restructuring | Other provisions | Total |
|----------------------------------|---------------|--------------|---------------|------------------|---------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Balance at 01/01/2015 | 11 258 | 4 132 | | 2 692 | 18 082 |
| Foreign exchange differences | -682 | -405 | | -46 | -1 133 |
| Change in scope of consolidation | 453 | | | 14 | 467 |
| Additional provisions | 7 341 | 2 379 | 18 238 | 11 192 | 39 150 |
| Used during the year | -7 059 | -1 408 | -666 | -1 222 | -10 355 |
| Unused amounts reversed | -329 | -198 | -625 | -294 | -1 446 |
| Balance at 31/12/2015 | 10 982 | 4 500 | 16 947 | 12 336 | 44 765 |
| Foreign exchange differences | -77 | -70 | -41 | -23 | -211 |
| Change in scope of consolidation | 710 | 2 842 | | 433 | 3 985 |
| Additional provisions | 7 185 | 2 383 | 3 618 | 1 118 | 14 304 |
| Used during the year | -6 690 | -1 434 | -6 202 | -2 538 | -16 864 |
| Unused amounts reversed | -291 | -2 | -3 134 | -8 114 | -11 541 |
| Balance at 31/12/2016 | 11 819 | 8 219 | 11 188 | 3 212 | 34 438 |
| thereof current at 31/12/2015 | 7 999 | 2 095 | 9 073 | 4 091 | 23 258 |
| thereof current at 31/12/2016 | 7 398 | 3 152 | 10 498 | 2 323 | 23 371 |

The current provision is expected to be fully utilised during 2017. The non-current provision is expected to be utilised as follows:

| | Warranty | Personnel | Restructuring | Other provisions | Total |
|-----------------------|-------------|-------------|---------------|------------------|---------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| between 1 and 5 years | 4 424 | 4 977 | 689 | 768 | 10 858 |
| after 5 years | | 89 | | 120 | 209 |

Warranty

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

Personnel

Personnel provisions comprise mainly a provision for partial retirement.

Restructuring

As of 31 December 2015, the restructuring provision comprised mainly costs in connection with the reorganisations announced on 3 March 2015 and 13 August 2015 for the heating and window business in Switzerland. In the reporting period, incurred costs of CHF 6.2 million were booked against this provision, CHF 0.9 million were additionally booked due to new estimates and CHF 3.1 million were reversed as a result of voluntary staff departures and risk reduction measures. The remaining provision of CHF 8.5 million is considered adequate. It is assumed that the restructuring of the heating busi-

ness will be completed by late summer 2017 and for the window business by early 2018. CHF 2.5 million of the restructuring provision shown in 2016 relates to costs in the Division Building Technology for personnel measures in the wake of the relocation of logistics and production activities within Germany from Vlotho to Plattling, planned for 2017.

Other provisions

As of 31 December 2015, the other provisions comprised costs totalling CHF 7.4 million for the long-term lease agreement of the Corporate Center due to under-utilisation of the existing rental space. This provision was reversed completely in 2016 due to a new signed contract (see note 37). Furthermore costs of CHF 1.7 million were included for obligations arising from the Arbonia arena naming-right until the end of the contract due to the premature termination of the contract. The utilisation of the 2016 share occurred as expected. Other provisions also include costs for legal claims, environmental risks and various risks that could arise in the normal course of business.

45 Deferred income taxes

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

| | 31/12/2016 | | 31/12/2015 | |
|---|---------------------|--------------------------|---------------------|--------------------------|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Assets | | | | |
| Securities | | 19 | | 11 |
| Accounts receivable | 790 | 564 | 354 | 676 |
| Other current assets | | 200 | | |
| Inventories | 1 032 | 2 419 | 518 | 1 347 |
| Property, plant and equipment | 3 | 27 830 | 517 | 12 412 |
| Investment property | 1 186 | | 1 355 | |
| Intangible assets | 40 | 52 101 | 8 | 11 431 |
| Capitalised pension surplus and financial assets | 477 | 2 717 | 467 | 3 610 |
| Liabilities | | | | |
| Current liabilities | 4 623 | 2 952 | 1 621 | 20 |
| Non-current liabilities | | 143 | | |
| Current and non-current provisions | 519 | 1 242 | 417 | 510 |
| Employee benefit obligations | 9 634 | 3 | 9 660 | |
| Deferred taxes from timing differences | 18 304 | 90 190 | 14 917 | 30 017 |
| Deferred tax assets derived from tax loss carryforwards | 21 874 | | 21 748 | |
| Valuation allowance | -15 634 | | -16 776 | |
| Net deferred taxes from timing differences | 24 544 | 90 190 | 19 889 | 30 017 |
| Offset of deferred tax assets and liabilities | -15 595 | -15 595 | -12 991 | -12 991 |
| Total deferred taxes | 8 949 | 74 595 | 6 898 | 17 026 |

From the capitalised pension surplus and employee benefit obligations, CHF 1.0 million (2015: CHF 2.2 million) of deferred taxes were recorded in comprehensive income. All other changes of assets and liabilities were recorded through the income statement.

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

There are temporary differences totalling CHF 55.1 million (2015: CHF 49.3 million) in conjunction with investments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12.

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

| | 2016 | 2015 |
|--|-------------------|-------------------|
| | in 1 000 CHF | in 1 000 CHF |
| Balance at 01/01 | 10 128 | 27 524 |
| Change in scope of consolidation | 57 245 | 809 |
| Changes to other comprehensive income | 992 | -2 180 |
| Changes to the income statement | -2 639 | -14 961 |
| Foreign exchange differences | -80 | -1 064 |
| Balance at 31/12 | 65 646 | 10 128 |
| Unrecognised tax loss carryforwards | 31/12/2016 | 31/12/2015 |
| | in 1 000 CHF | in 1 000 CHF |
| Tax loss carryforwards | 230 169 | 232 520 |
| thereof recognised as deferred taxes | -49 703 | -40 154 |
| Unrecognised tax loss carryforwards | 180 466 | 192 366 |
| Portion expiring: | | |
| within 1 year | 12 | |
| between 1 and 5 years | 75 904 | 53 530 |
| after 5 years | 104 550 | 138 836 |
| Total | 180 466 | 192 366 |
| Tax effect on unrecognised tax loss carryforwards | 15 634 | 16 776 |
| thereof pertaining to tax rates below 15 % | 13 201 | 13 722 |
| thereof pertaining to tax rates between 15 % and 20 % | 1 356 | 2 699 |
| thereof pertaining to tax rates between 21 % and 25 % | 284 | 355 |
| thereof pertaining to tax rates between 26 % and 30 % | 793 | |

46 Employee benefit obligations

Pension plans in Switzerland

The Swiss pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), aiming to safeguard the employees against the risks of old age, death and disability. There are semi-autonomous pension plans, that is, the foundations fully bear the risk of age itself. The risks of disability and death are reinsured entirely (congruent reinsurance) or partially (stop-loss insurance) with Swiss insurance companies. The businesses acquired in 2016 participate in a multi-employer plan. The plans give plan participants a choice regarding the annual amount of contribution payments. The employees' contributions are determined as a percentage of the insured salary and are deducted monthly. The retirement pension is calculated by multiplying the retirement capital at the retirement age with the then applicable regulatory conversion rate. Plan participants can also draw all or part of the retirement pension as a lump sum. Death and disability benefits are set as a percentage of the insured salary.

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

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

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

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

During 2014, the obligation to provide pension benefits was partially transferred to other foundations (settlement) as a result of the sale of certain businesses. Complying with the regulations, a partial liquidation was carried out and completed in 2016. As a result of staff reductions in the Swiss heating business a further partial liquidation will be carried out in 2017.

In the first half of 2016, Arbonia re-assessed the possibility of offsetting the capitalised pension surplus of a pension foundation with the employee benefit obligations of two pension plans. The re-assessment concluded that an offsetting was permitted, so that in 2016 the capitalised pension surplus in the amount of CHF 9.4 million was offset with the employee benefit obligations.

Pension plans in Germany

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

The following amounts are included in the consolidated financial statements:

| | 31/12/2016 | 31/12/2015 |
|--|---------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| Present value of funded obligations | 382 342 | 348 112 |
| Fair value of plan assets | 377 048 | 339 275 |
| Underfunding | 5 294 | 8 837 |
| Present value of unfunded obligations | 49 275 | 43 746 |
| Adjustment to asset ceiling | 2 116 | 2 026 |
| Liability (net) recognised in the balance sheet | 56 685 | 54 609 |
| thereof recorded as employee benefit obligations | 62 618 | 64 033 |
| thereof recorded as capitalised pension surplus | -5 933 | -9 424 |

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

| | 2016 | 2015 |
|--|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Balance at 01/01 | 391 859 | 383 229 |
| Changes in scope of consolidation | 41 065 | 202 |
| Interest cost | 4 021 | 5 225 |
| Current service cost | 9 696 | 10 260 |
| Contributions by plan participants | 5 488 | 5 867 |
| Benefits paid | -17 141 | -25 769 |
| Actuarial losses arising from changes in demographic assumptions | 3 122 | |
| Actuarial losses arising from changes in financial assumptions | 9 439 | 13 067 |
| Actuarial gains/losses arising from experience adjustments | -4 230 | 4 472 |
| Settlements/partial liquidation | -11 498 | |
| Administration cost | 176 | 168 |
| Foreign exchange differences | -380 | -4 862 |
| Balance at 31/12 | 431 617 | 391 859 |
| thereof for active members | 263 064 | 231 795 |
| thereof for pensioners | 166 397 | 158 388 |
| thereof for deferred members | 2 155 | 1 676 |

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

| | 2016 | 2015 |
|---|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Balance at 01/01 | 339 275 | 341 744 |
| Changes in scope of consolidation | 30 723 | |
| Interest income | 3 022 | 4 368 |
| Return on plan assets excl. interest income | 16 166 | 4 724 |
| Contributions by the employer | 7 934 | 8 341 |
| Contributions by plan participants | 5 488 | 5 867 |
| Benefits paid | -17 102 | -25 769 |
| Settlements/partial liquidation | -8 458 | |
| Balance at 31/12 | 377 048 | 339 275 |

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

| | 2016 | 2015 |
|---|--------------|--------------|
| | in 1000 CHF | in 1000 CHF |
| Balance at 01/01 | 2 026 | 2 213 |
| Interest cost | 90 | 29 |
| Change in effect of asset ceiling excl. interest cost | | -216 |
| Balance at 31/12 | 2 116 | 2 026 |

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

| | 2016 | 2015 |
|---|---------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| Actuarial losses | 8 331 | 17 538 |
| Return on plan assets excl. interest income | -16 166 | -4 724 |
| Change in effect of asset ceiling excl. interest cost | | -216 |
| Remeasurements of employee benefit obligations | -7 835 | 12 598 |

The amounts recognised in the income statement are as follows:

| | 2016 | 2015 |
|--|--------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| Current service cost | 9 696 | 10 260 |
| Net interest result | 999 | 857 |
| Interest cost on effect of asset ceiling | 90 | 29 |
| Administration cost | 176 | 168 |
| Settlements/partial liquidation | -3 040 | |
| Net charges for defined benefit plans | 7 920 | 11 314 |
| thereof recorded under personnel expenses | 6 832 | 10 428 |
| thereof recorded under financial expenses | 1 089 | 886 |

The principal actuarial assumptions used were as follows:

| Weighted average | | 2016 | 2015 |
|--------------------------|-------------|-------------|-------------|
| Discount rate at 31/12 | | 0.8% | 1.1% |
| Future salary increases | | 1.1% | 1.1% |
| Future pension increases | | 0.2% | 0.2% |
| Mortality tables | Switzerland | BVG 2015 GT | BVG 2010 GT |
| | Germany | HB 2005 GT | HB 2005 GT |

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

| Impact on employee benefit obligations | Change in assumption | 2016 |
|--|----------------------|----------|
| Discount rate | - 0.25 % | 17 190 |
| | + 0.25 % | - 16 020 |
| Salary increases | - 0.25 % | - 1 801 |
| | + 0.25 % | 1 780 |
| Life expectancy | + 1 year | 11 467 |
| | - 1 year | - 11 664 |
| Service cost 2017 with discount rate | + 0.25 % | - 834 |

The weighted average duration of employee benefit obligations is 15.6 years.

The sensitivity analysis above is based on a change in an assumption while all other assumptions remain unchanged. In reality, this is unlikely to happen, because certain assumptions correlate. In the calculation of sensitivities of pension benefit obligations with the principal actuarial

assumptions, the same method was applied (present value of the defined benefit obligation is calculated using the projected unit credit method at year-end) as for the calculation of the pension liability in these consolidated financial statements.

Plan assets at fair value consist of:

| | quoted | unquoted | 31/12/2016 Total | quoted | unquoted | 31/12/2015 Total |
|---------------------------|----------------|----------------|---------------------|----------------|----------------|---------------------|
| Cash and cash equivalents | 5 788 | 2 619 | 8 407 | 9 492 | 1 645 | 11 137 |
| Equity instruments | 49 305 | | 49 305 | 54 056 | | 54 056 |
| Debt instruments | 61 380 | 26 | 61 406 | 61 532 | 167 | 61 699 |
| Real estate | 8 272 | 111 889 | 120 161 | 7 285 | 97 830 | 105 115 |
| Investment funds | 55 131 | 3 470 | 58 601 | 56 003 | 3 341 | 59 344 |
| Others | 11 925 | 67 243 | 79 168 | 12 724 | 35 200 | 47 924 |
| Total plan assets | 191 801 | 185 247 | 377 048 | 201 092 | 138 183 | 339 275 |

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

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

| | up to 1 year | between 1 and 2 years | between 2 and 5 years | next 5 years |
|------------------|--------------|-----------------------|-----------------------|--------------|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Benefit payments | 1 216 | 1 253 | 4 206 | 8 619 |

Expected contributions to pension plans for the year ending 31 December 2017 amount to CHF 15.8 million

(2016: CHF 13.9 million), of which CHF 9.4 million (2016: CHF 8.3 million) are attributable to the employer.

47 Share capital

The capital structure is as follows:

| Category | 31/12/2016 | | | 31/12/2015 | | |
|-------------------|--------------------|------------------|----------------------|--------------------|------------------|------------------|
| | Outstanding shares | Par value in CHF | Share capital in CHF | Outstanding shares | Par value in CHF | Par value in CHF |
| Registered shares | 68 485 790 | 4.20 | 287 640 318 | 44 557 125 | 4.20 | 187 139 925 |

On 1 November 2016, the Extraordinary Shareholders' Meeting of Arbonia AG (previously AFG Arbonia-Forster-Holding AG) approved amongst others the following in view of the acquisition of Looser Holding AG: To authorise the Board of Directors to create additional share capital by a maximum amount of CHF 87 814 650 through the issue of a maximum 20 908 250 fully paid registered shares with a par value of CHF 4.20 each (authorised capital).

On 12 December 2016, the capital increase was completed by means of the acquisition of Looser Holding AG (see note 40). The share capital was increased through the issue of 20 373 996 new registered shares with a par value of CHF 4.20 by CHF 85 570 783.20 from CHF 202 069 534.80 to CHF 287 640 318. The capital surplus resulting from the capital increase in the amount of CHF 219.5 million (net of all transaction costs of CHF 5.3 million) was allocated to share premium.

As a result of the completed authorised capital increase on 12 December 2016, Arbonia AG still possesses authorised capital in the amount of CHF 2 243 866.80 and 534 254 shares respectively for the completion of the Looser acquisition. On 1 November 2016, the Extraordi-

nary Shareholders' Meeting approved the reduction of the maximum amount and number of registered shares for new authorised and new conditional capital to CHF 13 220 117.40 and 3 147 647 shares respectively.

On 14 September 2016, the Board of Directors of Arbonia AG approved an authorised capital increase under exclusion of subscription rights for existing shareholders. The capital increase was completed on 21 September 2016. The share capital was increased through the issue of 2 640 000 new registered shares with a par value of CHF 4.20 by CHF 11 088 000 to CHF 202 069 534.80 and was used to finance the acquisition of the Koralle Group. The capital surplus resulting from the capital increase in the amount of CHF 25.7 million (net of all transaction costs of CHF 0.9 million) was allocated to share premium.

On 22 April 2016, the Board of Directors of Arbonia AG approved an authorised capital increase under exclusion of subscription rights for existing shareholders. The capital increase was completed on 7 June 2016. The share capital was increased through the issue of 914 669 new registered shares with a par value of CHF 4.20 by CHF 3 841 609.80 to CHF 190 981 534.80. 514 669 of these new shares with a counter value of CHF 5.8 million and

CHF 4.8 million in cash were used for the purchase price settlement of the remaining 10% of Sabiana S.p.A., IT-Corbetta. The remaining 400 000 new registered shares are designated for the participation of employees and the Board of Directors of Arbonia. The capital surplus resulting from the capital increase in the amount of CHF 6.4 million (net of all transaction costs of CHF 0.1 million) was allocated to share premium.

On 22 April 2016 the Annual General Meeting approved amongst others the following: To authorise the Board of Directors to create additional share capital by a maximum amount of CHF 33 600 000 through the issue of a maximum 8 000 000 fully paid registered shares with a par value of CHF 4.20 each until 22 April 2018 (authorised capital). To increase the share capital in the amount of CHF 33 600 000 by issuing a maximum of 8 000 000 fully paid up registered shares with a par value of CHF 4.20 (conditional capital increase). The authorised and conditional capital increase together are limited to an additional share capital of CHF 33 600 000.

On 19 November 2015, the Board of Directors of Arbonia AG approved an authorised capital increase under exclusion of subscription rights for existing shareholders. The capital increase was completed on 3 December

2015. The share capital was increased through the issue of 815 677 new registered shares with a par value of CHF 4.20 by CHF 3 425 843.40 to CHF 187 139 925. This capital increase served for the settlement of the remaining purchase price of CHF 8.2 million in acquiring Wertbau (see note 40). The capital surplus resulting from the capital increase in the amount of CHF 4.7 million (net of all transaction costs of CHF 0.1 million) was allocated to share premium.

As a result of the completed capital increase on 3 December 2015, the maximum amount and number of registered shares allocated for new authorised capital and new conditional capital were reduced to CHF 11 883 660.60 and 2 829 443 shares respectively.

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

| Earnings per share | 2016 | 2015 |
|---|-------------------|-------------------|
| | in 1000 CHF | in 1000 CHF |
| Earnings per share | 7 603 | -177 106 |
| | 2016 | 2015 |
| Outstanding shares (average) | 47 448 515 | 29 658 846 |
| Less treasury shares (average) | -576 710 | -394 948 |
| Average number of shares outstanding for the calculation | 46 871 805 | 29 263 898 |

There were no dilutive effects impacting the calculation.

48 Treasury shares

| | 2016 | | | 2015 | | |
|-----------------------------------|-----------------------|------------------|--------------------|-----------------------|------------------|--------------------|
| | Ø market value in CHF | Number of shares | Amount in 1000 CHF | Ø market value in CHF | Number of shares | Amount in 1000 CHF |
| Balance at 01/01 | 15 | 509 681 | 7 553 | 34 | 240 183 | 8 261 |
| Transfer for share based payments | 14 | -249 351 | -3 404 | 23 | -73 304 | -1 684 |
| Purchase | 13 | 196 058 | 2 555 | 15 | 246 009 | 3 811 |
| Sale | 14 | -192 108 | -2 673 | 26 | -218 123 | -5 665 |
| Share capital increase | 11 | 400 071 | 4 545 | 9 | 314 916 | 2 830 |
| Balance at 31/12 | 13 | 664 351 | 8 576 | 15 | 509 681 | 7 553 |

The balance of treasury shares has been increased on a net basis by 154670 since 31 December 2015 mainly due to the capital increase carried out in June 2016.

49 Other comprehensive income and other reserves

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

| | Other reserves | Retained earnings | Total other comprehensive income 31/12/2016 | Other reserves | Retained earnings | Total other comprehensive income 31/12/2015 |
|---|----------------|-------------------|---|----------------|-------------------|---|
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Remeasurements of employee benefit obligations | | 7 835 | 7 835 | | -12 598 | -12 598 |
| Deferred tax effect | | -992 | -992 | | 2 180 | 2 180 |
| Total items that will not be reclassified to income statement | | 6 843 | 6 843 | | -10 419 | -10 419 |
| Currency translation differences | -2 706 | | -2 706 | -28 302 | | -28 302 |
| Cumulative currency translation differences transferred to the income statement | 15 | | 15 | | | |
| Total items that may be subsequently reclassified to income statement | -2 691 | | -2 691 | -28 302 | | -28 302 |
| Other comprehensive income after taxes | -2 691 | 6 843 | 4 152 | -28 302 | -10 419 | -38 721 |

Other reserves

| | Currency translation | Total |
|----------------------------------|-------------------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Balance at 31/12/2014 | -55 986 | -55 986 |
| Currency translation differences | -28 302 | -28 302 |
| Balance at 31/12/2015 | -84 288 | -84 288 |
| Currency translation differences | -2 691 | -2 691 |
| Balance at 31/12/2016 | -86 979 | -86 979 |

50 Financial results

| | 2016 | 2015 |
|--|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Financial income | | |
| Bank and other interest | 1 250 | 1 626 |
| Interest on net pension surplus | 19 | 68 |
| Total interest income | 1 269 | 1 694 |
| Income from securities designated at fair value through profit or loss | 327 | 166 |
| Held for trading derivative financial instruments | 13 | 365 |
| Other financial income | 615 | 29 |
| Total other financial income | 955 | 560 |
| Total financial income | 2 224 | 2 254 |
| Financial expenses | | |
| Bank and other interest | 1 611 | 1 661 |
| Interest on finance leases | 365 | 134 |
| Interest on non-current financial debts | 3 045 | 7 366 |
| Interest on net employee benefit obligations | 1 108 | 954 |
| Amortisation charges on bond | 201 | 541 |
| Compounding of liabilities | 2 993 | 859 |
| Total interest expenses | 9 323 | 11 515 |
| Impact of exchange rate fluctuations | 253 | 6 640 |
| Held for trading derivative financial instruments | 7 | 2 |
| Foreign currency exchange loss from liquidation of subsidiaries | 15 | |
| Minority share from associated companies | 122 | |
| Impairment on loans | | 4 519 |
| Bank charges and other financial expenses | 5 962 | 2 728 |
| Total other financial expenses | 6 359 | 13 889 |
| Total financial expenses | 15 682 | 25 404 |
| Total net financial results | -13 458 | -23 150 |

51 Income taxes

| | 2016 | 2015 |
|----------------------------------|--------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| Current income taxes | 10 658 | 10 498 |
| Changes in deferred income taxes | -2 639 | -14 961 |
| Total | 8 019 | -4 463 |

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:

| | 2016 | 2015 |
|--|---------------|-----------------|
| | in 1000 CHF | in 1000 CHF |
| Earnings before income tax | 15 623 | -181 569 |
| Weighted average tax rate in % | 34.1 | 15.1 |
| Expected tax expense/income | 5 329 | -27 335 |
| Income tax reconciliation | | |
| Effect of utilisation of previously unrecognised tax losses | -1 709 | -11 |
| Effect of not capitalised losses for the year | 1 806 | 10 298 |
| Effect of non-tax-deductible expenses and non-taxable income | 1 752 | 11 175 |
| Effect of income and expenses taxed at special rates | 261 | -541 |
| Effect of tax charges related to prior years | 1 079 | 2 204 |
| Effect of tax rate changes | 34 | -1 354 |
| Change in unrecognised deferred tax assets | -343 | 868 |
| Other items | -190 | 233 |
| Effective tax expense/income | 8 019 | -4 463 |
| Effective tax rate in % | 51.3 | n/a |

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

losses of some Swiss companies with significant lower tax rates. There were no significant changes in local tax rates compared to 2015.

The expected weighted average tax rate increased significantly compared to previous year. The increase is predominantly due to the high share of taxable profit of foreign companies with significant higher tax rates and high

52 Financial risk management

Risk management principles

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

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

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

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

Credit default risk

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

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

The credit or default risk in relation to receivables is controlled by the individual subsidiaries on a decentralised basis and limited through the assignment of credit limits on the basis of systematic and regular credit ratings. Corresponding guidelines are in place within the Group aiming at an ongoing control and value adjustment of open positions. Due to the broad diversification of the customer portfolio into various business segments and geographic regions but also the possibility to create construction tradesman's liens or the use of credit insurance, the credit risk is limited. The 10 largest debtors of Arbonia as of the balance sheet date accounted for a share of 10.3 % (2015: 13.2 %) of existing trade receivables. The 10 largest customers generated 20.7 % (2015: 21.9 %) 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 21 %/17 %/13 % of total liquid funds as of the balance sheet date (2015: 48 %/25 %/12 %).

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

Liquidity risk

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

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

cash decreases early in the year but normally rises again in the second half of the year.

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

| | 31/12/2016 | 31/12/2015 |
|--|-----------------|-----------------|
| | in 1 000 CHF | in 1 000 CHF |
| Cash and cash equivalents and securities | 114 114 | 203 680 |
| + undrawn credit facilities | 199 448 | 266 800 |
| Total available liquidity | 313 562 | 470 480 |

The syndicated loan includes covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2016, Arbonia complied with all covenants. Regarding the covenant compliance in 2015, see note 41. Due to restrictions on the leverage ratio, undrawn credit facilities were not fully utilisable.

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

Market risk

(a) Currency risk

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

A currency risk arises from transactions settled in foreign currencies (transaction risks) and paid in the Group com-

pany's functional currency. The standard policy is that subsidiaries must hedge 100% of the relevant net risk position for the risk horizon period through hedging transactions via group treasury. Arbonia's risk position equals the sum of the subsidiaries' net risk positions and is hedged by the group treasury with external counterparties using currency forward contracts of the relevant foreign currency. The hedging ratio depends on the maturity and currency risk exposure and is determined on a case by case basis.

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

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

A 5 % increase (decrease) of the EUR against the CHF (2015: 5 %), a 5 % increase (decrease) of the CZK against the CHF (2015: 5 %) or a 5 % increase (decrease) of the PLN against the CHF (2015: 5 %) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

| 31/12/2016 | | | |
|---|-------------|-------------|-------------|
| | EUR/CHF | CZK/CHF | PLN/CHF |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Reasonably possible change | 5.0 % | 5.0 % | 5.0 % |
| Impact of an increase on group earnings | -2 039 | 48 | 592 |
| Impact of a decrease on group earnings | 2 039 | -48 | -592 |
| 31/12/2015 | | | |
| | EUR/CHF | CZK/CHF | PLN/CHF |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Reasonably possible change | 5.0 % | 5.0 % | 5.0 % |
| Impact of an increase on group earnings | 2 361 | 106 | 796 |
| Impact of a decrease on group earnings | -2 361 | -106 | -796 |

(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, liabi-

lities and financial instruments, as set forth below under "Market risks".

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

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

An increase (decrease) in the market interest level as of the balance sheet date by 50 basis points for CHF interest rates (2015: 50 basis points) or by 50 basis points for EUR interest rates (2015: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

| | 31/12/2016 | | 31/12/2015 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | CHF interest rate | EUR interest rate | CHF interest rate | EUR interest rate |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Reasonably possible change in basis points | 50 | 50 | 50 | 50 |
| Variable interest-bearing financial instruments | | | | |
| Impact of an increase on group earnings | -502 | -494 | 675 | 128 |
| Impact of a decrease on group earnings | 502 | 494 | -675 | -128 |
| Interest rate swaps | | | | |
| Impact of an increase on group earnings | | 326 | | 337 |
| Impact of a decrease on group earnings | | -326 | | -337 |

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

Equity management

The objective of Arbonia is a strong equity base to secure the Group's future development. A sustainable equity ratio of between 45 % and 55 % is the goal. The shareholders' equity attributable to equity holders of Arbonia AG as reported in the consolidated balance sheet is deemed Arbonia's relevant equity and corresponds to an equity ratio of 47.2 % as of the balance sheet date (2015: 39.1 %). The increase compared to the previous year is mainly attributable to the capital increase carried out in December 2016.

With regard to the ordinary and authorised capital increases carried out in 2016 and 2015, as well as the possible creation of new share capital, see note 47.

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

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

53 Derivative financial instruments

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

| | 31/12/2016 | 31/12/2015 |
|------------------------------------|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Liabilities | | |
| Interest rate swaps without hedges | 1 956 | 1 962 |

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

54 Additional information on the cash flow statements

| | 2016 | 2015 |
|---|----------------|---------------|
| | in 1000 CHF | in 1000 CHF |
| <i>Changes in non-cash transactions</i> | | |
| Changes in deferred taxes | -2 639 | -14 961 |
| Changes in provisions | 2 763 | |
| Changes in non-current provisions | | 15 252 |
| Changes in capitalised pension surplus/employee benefit obligations | -52 | 2 974 |
| Share based payments | 3 089 | 1 206 |
| Impairment on loans and compounding of liabilities | 2 538 | 5 798 |
| Minority share from associated companies | 122 | |
| Other non-cash effects | -1 524 | 4 675 |
| Total changes in non-cash transactions | 4 297 | 14 944 |
| <i>Changes in working capital</i> | | |
| Changes in accounts receivable | -4 667 | 17 396 |
| Changes in inventories | 15 237 | -9 530 |
| Changes in other working capital items | 1 154 | -2 128 |
| Total changes in working capital | 11 724 | 5 738 |
| <i>Changes in liabilities</i> | | |
| Changes in accounts payable | -2 901 | -1 106 |
| Changes in advance payments by customers | -10 886 | 13 551 |
| Changes in provisions | -16 865 | |
| Changes in current provisions | | 12 097 |
| Changes in other current liabilities | 3 316 | 2 129 |
| Total changes in liabilities | -27 336 | 26 671 |

Starting from 2016, there is no distinction between current and non-current provisions, but only by cash and non-cash changes of the provisions.

55 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 40 % (2015: 33 %) and the other employees 30 % (2015: 25 %) 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 2016, Group Management and certain other employees received for their work in the year 2015 a total of 30 585 (2015: 14 695 shares) allotted shares at a fair value of CHF 0.3 million (2015: CHF 0.3 million) and CHF 11.36 per share respectively (2015: CHF 19.19). The CEO received a larger portion of his base compensation for his employment 2016 in shares. He was allocated 60 000 shares (2015: 30 000 starting from 1 July 2015 to 31 December 2015) at a fair value of CHF 0.6 million (2015: CHF 0.3 million) and CHF 9.34 per share respectively (2015: CHF 9.44). The members of the Board of Directors received for their work from 18 April 2015 up to the Annual General Meeting on 22 April 2016 a total of 45 767 shares (2015: 28 609 shares) at a fair value of CHF 0.5 million (2015: CHF 0.5 million) and CHF 11.36 per share respectively (2015: CHF 19.19).

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

Personnel expenses in 2016 for share based payments totalled CHF 3.0 million (2015: CHF 1.1 million).

56 Related party transactions

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

| | 2016 | 2015 |
|--|-----------------|-----------------|
| | in 1 000 CHF | in 1 000 CHF |
| Salaries and other short-term employee benefits | 3 081 | 3 583 |
| Share based payments | 1 458 | 958 |
| Pension and social security contributions | 748 | 865 |
| Total | 5 287 | 5 406 |

The detailed disclosures regarding executive remuneration required by Swiss law are included in the remuneration report on pages 72 to 74.

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

| | Purchase of services | Sale of goods | Purchase of goods | Balance on receivables | Balance on liabilities |
|-----------------------|----------------------|---------------|-------------------|------------------------|------------------------|
| | 2016 | | | 31/12/2016 | |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Other related parties | 71 | 465 | 19 | | |
| Total | 71 | 465 | 19 | | |

| | Purchase of services | Sale of goods | Purchase of goods | Balance on receivables | Balance on liabilities |
|-----------------------|----------------------|---------------|-------------------|------------------------|------------------------|
| | 2015 | | | 31/12/2015 | |
| | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF | in 1000 CHF |
| Other related parties | 106 | 815 | 21 | 261 | 14 |
| Total | 106 | 815 | 21 | 261 | 14 |

The law firm Bratschi Wiederkehr & Buob AG, of which Christian Stambach (non-executive member of the Board of Directors) a partner is, charged in 2016 for legal advice and representation TCHF 70 (2015: TCHF 105) to Arbonia and its Group companies. These expenses are included in the purchase of services and were at arm's length. The sale of goods in 2016 and 2015 relates almost exclusively to Arbonia products purchased at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors). There were no guarantees granted as of the balance sheet date. Furthermore no provisions were required for receivables. Transactions in 2016 and outstanding balances as of 31 December 2016 with associated companies are disclosed in note 36.

57 Contingencies

There were no contingencies.

58 Events after the balance sheet date

On 31 January 2017, Arbonia acquired German TPO Holz-Systeme GmbH, DE-Leutershausen. The company specializes in the manufacture of doors in the fire and smoke protection area and generates with 20 employees revenues of approx. EUR 2 million.

In January 2017, Arbonia acquired further shares of Looser Holding AG and thus increased its total holdings to 98.15 %. For the remaining outstanding shares, Arbonia initiated on 15 February 2017 a squeeze-out procedure.

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2016 consolidated financial statements.

59 Subsidiaries

| Company | Head Office | Share Capital in million | Interest in Capital | Room Climate | Shower Stalls | Windows | Profile Systems and Doors | Industrial Services | Coatings | Services/Finance |
|--|-------------------------|--------------------------|---------------------|--------------|---------------|---------|---------------------------|---------------------|----------|------------------|
| Building Technology Division | | | | | | | | | | |
| Arbonia Solutions AG | Arbon, CH | 4.000 CHF | 100% | ▲ | ■ | | | | | |
| Bekon-Koralle AG | Dagmersellen, CH | 1.000 CHF | 100% | | ▲ | | | | | |
| Prolux Solutions AG | Arbon, CH | 1.000 CHF | 100% | ■ | | | | | | |
| Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H | Margarethen am Moos, AT | 0.036 EUR | 100% | | ▲ | | | | | |
| Kermi s.r.o. | Strábro, CZ | 195.000 CZK | 100% | ▲ | ▲ | | | | | |
| PZP Heating a.s. | Dobre, CZ | 7.200 CZK | 100% | ▲ | | | | | | |
| AFG Arbonia-Forster-Riesa GmbH | Riesa, DE | 0.614 EUR | 100% | ■ | | | | | | |
| Kermi GmbH | Plattling, DE | 15.339 EUR | 100% | ▲ | ▲ | | | | | |
| Koralle Sanitärprodukte GmbH | Vlotho, DE | 2.070 EUR | 100% | | ▲ | | | | | |
| Servico-Gesellschaft für Sanitärtechnik mbH | Weissenburg, DE | 0.052 EUR | 100% | | ■ | | | | | |
| Arbonia France Sàrl | Hagenbach, FR | 0.600 EUR | 100% | ■ | | | | | | |
| Sabiatherm SAS | Tassin-la-Demi-Lune, FR | 0.200 EUR | 100% | ■ | | | | | | |
| Kermi (UK) Ltd. | Corby, GB | 0.150 GBP | 100% | ■ | ■ | | | | | |
| Sabiana S.p.A. | Corbetta, IT | 0.024 EUR | 100% | ▲ | | | | | | |
| Kermi Sp.z o.o. | Wroclaw, PL | 0.900 PLN | 100% | ■ | ■ | | | | | |
| Building Envelope Division | | | | | | | | | | |
| EgoKiefer AG | Altstätten, CH | 8.000 CHF | 100% | | | ▲ | | | | |
| AFG Building Envelope AG | Altstätten, CH | 0.250 CHF | 100% | | | | | | | ● |
| Wertbau GmbH & Co. KG | Langenwetzendorf, DE | 8.470 EUR | 100% | | | ▲ | | | | |
| Wertbau-Elemente GmbH | Langenwetzendorf, DE | 0.100 EUR | 100% | | | ▲ | | | | |
| Wertbau Holz GmbH | Langenwetzendorf, DE | 0.025 EUR | 100% | | | ▲ | | | | |
| InnoPaint GmbH | Langenwetzendorf, DE | 0.100 EUR | 100% | | | ▲ | | | | |
| Wertbau Verwaltungsgesellschaft mbH | Langenwetzendorf, DE | 0.026 EUR | 100% | | | | | | | ● |
| Dobroplast Fabryka Okien sp. z o.o. | Zambrow, PL | 53.355 PLN | 100% | | | ▲ | | | | |
| Slovaktual s.r.o. | Pravenec, SK | 0.500 EUR | 100% | | | ▲ | | | | |
| Building Security Division | | | | | | | | | | |
| Forster Profilsysteme AG | Arbon, CH | 4.000 CHF | 100% | | | | ▲ | | | |
| RWD Schlatter AG | Roggwil, CH | 2.000 CHF | 100% | | | | ▲ | | | |
| Forster Profilsysteme GmbH | Wien, AT | 0.018 EUR | 100% | | | | ■ | | | |
| Forster Profilsysteme GmbH | Rottweil, DE | 0.100 EUR | 100% | | | | ■ | | | |
| Prüm-Garant-Holding GmbH | Weinsheim, DE | 1.000 EUR | 100% | | | | | | | ● |
| Prüm-Türenwerk GmbH | Weinsheim, DE | 3.500 EUR | 100% | | | | ▲ | | | |
| Garant Türen- und Zargen GmbH | Amt Wachsenburg, DE | 0.100 EUR | 100% | | | | ▲ | | | |
| Forster Profile Systems (UK) Ltd | Sheffield, GB | 0.000 GBP | 100% | | | | ■ | | | |

| Company | Head Office | Share Capital in million | Interest in Capital | Room Climate | Shower Stalls | Windows | Profile Systems and Doors | Industrial Services | Coatings | Services/Finance |
|---|--------------------------|--------------------------|---------------------|--------------|---------------|---------|---------------------------|---------------------|----------|------------------|
| Bloxer Ronchi S.r.l. | Villafranca Padovana, IT | 0.100 EUR | 100% | | | | ▲ | | | |
| Invado Sp. z o.o. | Dzielna, PL | 0.275 PLN | 100% | | | | ▲ | | | |
| Industrial Services | | | | | | | | | | |
| Conducta AG | Winterthur, CH | 0.750 CHF | 100% | | | | | ▲ | | |
| WMS WC-Mietservice GmbH | Reichenburg, CH | 0.115 CHF | 100% | | | | | ▲ | | |
| Conducta GmbH | München, DE | 0.026 EUR | 100% | | | | | ▲ | | |
| Conducta Spa | Schio, IT | 0.200 EUR | 100% | | | | | ▲ | | |
| Coatings | | | | | | | | | | |
| FLH Holding AG | Zürich, CH | 0.650 CHF | 100% | | | | | | | ● |
| Feyco AG | St.Margrethen, CH | 1.500 CHF | 100% | | | | | | ▲ | |
| Industrielack AG | Wangen, CH | 0.180 CHF | 100% | | | | | | ▲ | |
| ILAG High Performance Coatings (Shanghai) Co., Ltd. | Shanghai, CN | 10.472 CNY | 100% | | | | | | ▲ | |
| Shanghai Treffert Special Coatings Co. Ltd. | Shanghai, CN | 17.382 CNY | 100% | | | | | | ▲ | |
| Treffert Coatings GmbH | Alzenau, DE | 0.025 EUR | 100% | | | | | | ▲ | |
| Schekolin AG | Bendern, FL | 0.250 CHF | 100% | | | | | | ▲ | |
| Treffert Coatings (S.E.A.) Sdn.Bhd. | Pasir Gudang, MY | 4.600 MYR | 100% | | | | | | ▲ | |
| Treffert Asia Pacific Pte.Ltd. | Singapore, SG | 6.140 SGD | 100% | | | | | | | ● |
| Schekolin SEA Co. Ltd. | Bangkok, TH | 3.425 THB | 100% | | | | | | ▲ | |
| ILAG High Performance Coatings, Inc. | St.John, US | 0.200 USD | 100% | | | | | | ▲ | |
| Schekolin US LLC | Charlotte, US | 0.020 USD | 100% | | | | | | ▲ | |
| Treffert Coatings US Inc. | Charlotte, US | 2.600 USD | 100% | | | | | | ▲ | |
| Corporate Services | | | | | | | | | | |
| Arbonia AG | Arbon, CH | 287.6 CHF | | | | | | | | ● |
| AFG International AG | Arbon, CH | 1.000 CHF | 100% | | | | | | | ● |
| AFG Schweiz AG | Arbon, CH | 1.000 CHF | 100% | | | | | | | ● |
| AFG Immobilien AG | Arbon, CH | 12.000 CHF | 100% | | | | | | | ● |
| AFG Management AG | Arbon, CH | 0.250 CHF | 100% | | | | | | | ● |
| AFG Services AG | Arbon, CH | 0.250 CHF | 100% | | | | | | | ● |
| Looser Holding AG | Arbon, CH | 32.047 CHF | 97.5% | | | | | | | ● |
| Looser Management AG | Winterthur, CH | 0.100 CHF | 100% | | | | | | | ● |
| AFG (Shanghai) Building Materials Co. Ltd. | Shanghai, CN | 2.000 USD | 100% | | | | | | | ● |
| AFG Arbonia-Forster-Deutschland GmbH | Plattling, DE | 0.511 EUR | 100% | | | | | | | ● |
| AFG Schoch GmbH | Plattling, DE | 0.205 EUR | 100% | | | | | | | ● |
| AFG RUS | Moskau, RU | 0.500 RUB | 100% | | | | | | | ● |
| AFG Middle East Fze. | Dubai, AE | 1.000 AED | 100% | | | | | | | ● |

▲ Production / Sales ■ Trade ● Services / Finances

Report of the Statutory Auditors on the Consolidated Financial Statements

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 statement of financial position as at December 31, 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 3.4 million

We concluded full scope audit work at 30 reporting units in ten countries. The selection of companies is renewed each year.

Our audit scope addressed around 90 % of the net revenue and 76 % of the assets of the Group.

Additionally, we concluded reviews at a further 17 group companies in seven countries, which addressed an additional 6 % of the net revenue, and 7 % of the assets of the Group. The remaining companies were addressed by analytical reviews at Group level.

As key audit matters, the following areas of focus were identified:

- Impairment testing of goodwill and intangible assets
- Acquisition of the Looser Group

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

With regard to the material subsidiaries that we did not audit ourselves, specifically the Looser Group companies acquired in December 2016, we were in contact with the component auditors concerned, took part in the audit closing meetings via telephone and inspected the component auditors' working papers.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

| | |
|---|---|
| Overall Group materiality | CHF 3.4 million |
| How we determined it | 0.35% of net revenue |
| Rationale for the materiality benchmark applied | We chose net revenue as the benchmark because, in light of the ongoing restructuring, deriving the amount in the usual way based on the result before income tax would not have given an appropriate materiality. Furthermore, net revenue is an appropriate benchmark for determining materiality. |

We agreed with the Audit Committee that we would report to them misstatements above CHF 255,000 identified during our audit as well as any misstatements, irrespective of that amount, which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Impairment testing of goodwill and intangible assets

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|---|---|
| <p>We consider the impairment testing of goodwill and intangible assets as a key audit matter for the following two reasons.</p> <ul style="list-style-type: none">– Goodwill and intangible assets represent a significant amount on the balance sheet (goodwill of CHF 226.0 million and intangible assets of CHF 215.1 million) and together make up 29 % of total assets.– Goodwill is not regularly amortised but tested for impairment at least annually. In calculating the value-in-use for these tests, the Board of Directors and Management have significant scope for judgement, specifically in determining future revenue and margin growth assumptions and the discount rates to be applied to the expected cash flows and in identifying the cash generating unit (CGU). Intangible assets are amortised over their estimated useful lives. <p>Impairment testing is performed on the basis of a defined process, which uses the budgets approved by the Board of Directors and the multi-year forecasts. Any assessment of forecasts is subject to inherent uncertainty. Management addresses this uncertainty by preparing scenarios.</p> <p>With regard to the accounting and disclosure principles for goodwill and intangible assets, please refer to the notes to the consolidated financial statements, notes 19 to 21 ('Intangible assets', 'Impairment of assets' and 'Estimated useful lives') and note 30 ('Significant accounting judgements, estimates and assumptions') and note 39 ('Intangible assets').</p> | <p>The impairment testing of goodwill and intangible assets can be described as follows:</p> <ul style="list-style-type: none">– By comparing the business results of the year under review with the forecasted results from the prior year, we assessed the appropriateness of the prior year's assumptions.– We checked for plausibility the assumptions applied by Management concerning revenue and margin growth and the change in net working capital. For the assessment of the discount rates, we involved our internal valuation experts, who compared the components used to calculate each discount rate with information from public sources and research databases.– In addition, we tested the sensitivity analyses for the key assumptions. These analyses enabled us to test the potential for an impairment of the goodwill or of the intangible assets. <p>Our audit results corroborate the impairment testing of goodwill and other intangible assets as of 31 December 2016. The assumptions used with regard to impairment testing were consistent and in line with our expectations.</p> |

Acquisition of the Looser Group

Key audit matter

On December 13, 2016, Arbonia AG acquired control of Looser Holding AG, headquartered in Arbon ('Looser Group'). The purchase price was CHF 400 million and the provisional calculation of goodwill amounted to CHF 170.6 million. The assessment of the acquisition of the Looser Group was deemed a key audit matter because of the critical estimates made by Management concerning the provisional opening balance sheet. In particular, the identification and valuation of intangible assets and goodwill involved significant scope for judgement.

Please refer to the notes to the consolidated financial statements, notes 19 to 21 ('Intangible assets', 'Impairment of assets' and 'Estimated useful lives') and note 30 ('Significant accounting judgements, estimates and assumptions') and note 39 ('Intangible assets') and note 40 ('Acquisitions').

How our audit addressed the key audit matter

We checked that all identified material matters regarding the provisional opening balance sheet as at December 31, 2016 were accounted for in accordance with IFRS 3 'Business Combinations' and the purchase agreement. To this end, the main audit procedures we performed were as follows:

- We compared the key assumptions underlying the multi-year plan with industry-specific forecasts to assess the initial valuation of the acquired intangible assets (brands, customer relationships), which was performed by an external specialist, and the goodwill.
- In addition, we involved our internal valuation specialists who assessed, in particular, the appropriateness of the valuation model used and compared the discount rate with that of similar transactions and other market data.
- We reconciled the property valuations to the valuation reports of independent external valuation specialists.
- We reconciled the pension liabilities to the actuarial reports of independent actuaries.
- Further, we assessed the presentation of the transaction in the notes to the consolidated financial statements.
- With regard to the acquired assets of the Coatings division, which are earmarked for sale, we checked their fair values for plausibility using available information.

The results of our audit procedures did not give rise to any reservations concerning recognition and measurement in the opening balance sheet of the Looser Group or the presentation of the acquisition in the consolidated financial statements.

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 and the compensation report of Arbonia AG 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.

Responsibilities 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 intends either 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 judgement and maintain professional scepticism 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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.
- 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 to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

St.Gallen, February 17, 2017



Beat Inauen
Audit expert
Auditor in charge



Martin Knöpfel
Audit expert

to a policy that would have been more likely to be adopted had the public been consulted. The researchers also found that the public would have supported a policy that would have placed a greater emphasis on smoking cessation and less emphasis on tobacco control.

These findings are important for policy makers because they demonstrate that the public's views on tobacco control policies are not necessarily aligned with the government's. The researchers also found that the public's views on tobacco control policies are influenced by a number of factors, including the perceived effectiveness of the policy, the perceived cost of the policy, and the perceived impact of the policy on the economy. These findings suggest that policy makers should take into account the public's views on tobacco control policies when developing and implementing such policies. The researchers also suggest that the public should be consulted more frequently on tobacco control policies.

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Financial Statements

Arbonia AG

Income Statement

| | Note | 2016 | | 2015 | |
|------------------------------|------|----------------|---------------|----------------|---------------|
| | | in 1000 CHF | in % | in 1000 CHF | in % |
| Dividend income | | | | 2 000 | |
| Financial income | 2.6 | 16 932 | | 14 861 | |
| Other operating income | | 9 | | 10 | |
| Total income | | 16 941 | 100.0 | 16 871 | 100.0 |
| Financial expenses | 2.7 | -19 846 | -117.1 | -26 364 | -156.3 |
| Personnel expenses | | -882 | -5.2 | -981 | -5.8 |
| Other operating expenses | 2.8 | -5 468 | -32.3 | -8 410 | -49.8 |
| Total expenses | | -26 196 | -154.6 | -35 755 | -211.9 |
| Net loss for the year | | -9 255 | -54.6 | -18 884 | -111.9 |

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

Balance sheet

| | Note | 31/12/2016 | | 31/12/2015 | |
|--------------------------------------|------|------------------|--------------|----------------|--------------|
| | | in 1000 CHF | in % | in 1000 CHF | in % |
| Assets | | | | | |
| Cash and cash equivalents | | 33 698 | | 139 069 | |
| Securities with stock exchange price | | 2 116 | | 2 105 | |
| Other receivables | | | | | |
| Third parties | | 778 | | 415 | |
| Group companies | | 2 | | 93 | |
| Shareholdings | | 316 298 | | 296 695 | |
| Deferred expenses | | 21 | | | |
| Current assets | | 352 913 | 26.9 | 438 377 | 51.0 |
| Loans to shareholdings | | 179 646 | | 39 013 | |
| Investments | 2.1 | 777 400 | | 381 774 | |
| Non-current assets | | 957 046 | 73.1 | 420 787 | 49.0 |
| Total assets | | 1 309 959 | 100.0 | 859 164 | 100.0 |

| | Note | 31/12/2016 | | 31/12/2015 | |
|---|------|------------------|--------------|----------------|--------------|
| | | in 1000 CHF | in % | in 1000 CHF | in % |
| Liabilities and shareholders' equity | | | | | |
| Accounts payable | | | | | |
| Third parties | | 2 398 | | 154 | |
| Group companies | | | | 4 | |
| Shareholdings | | 8 | | 180 | |
| Interest bearing liabilities | 2.2 | | | | |
| Bank loans | | 314 570 | | 1 000 | |
| Bond 2010–2016 | | | | 199 799 | |
| Shareholdings | | | | 3 596 | |
| Other liabilities | | | | | |
| Third parties | | 30 | | 115 | |
| Shareholdings | | 50 | | | |
| Accruals and deferred income | | 5 569 | | 5 081 | |
| Current liabilities | | 322 625 | 24.6 | 209 929 | 24.4 |
| Interest bearing liabilities | | | | | |
| Bank loans | | | | 3 000 | |
| Non-current liabilities | | | | 3 000 | 0.3 |
| Total liabilities | | 322 625 | 24.6 | 212 929 | 24.8 |
| Share capital | | | | | |
| Share capital | 2.3 | 287 640 | | 187 140 | |
| Legal capital reserves | | | | | |
| Capital contribution reserve | 2.4 | 475 111 | | 223 442 | |
| Other capital reserves | | 42 812 | | 42 812 | |
| Voluntary reserves | | | | | |
| Free reserves | | 16 957 | | 17 100 | |
| Reserves for treasury shares | | 143 | | | |
| Retained earnings | | 183 534 | | 202 418 | |
| Net loss for the year | | –9 255 | | –18 884 | |
| Treasury shares | 2.5 | –8 576 | | –7 553 | |
| Result from sale of treasury shares | | –1 032 | | –240 | |
| Shareholders' equity | | 987 334 | 75.4 | 646 235 | 75.2 |
| Total liabilities and shareholders' equity | | 1 309 959 | 100.0 | 859 164 | 100.0 |

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

Notes to the Financial Statements

1 Accounting policies

1.1 General information

These financial statements 2016 were prepared under the provisions of the Swiss accounting law (32nd title of the Swiss Code of Obligations).

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

1.2 Securities with stock exchange prices

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

1.3 Other current receivables

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

1.4 Non-current loans

Non-current loans to shareholdings are valued at cost reduced by required impairments. Loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (impairity principle).

1.5 Treasury shares

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

1.6 Share based payments

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

1.7 Interest bearing liabilities

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

2 Information and notes to the financial statements

2.1 Investments

| Company | 31/12/2016 | | 31/12/2015 | |
|-----------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|
| | Share capital in 1000 CHF | Capital and voting interest in % | Share capital in 1000 CHF | Capital and voting interest in % |
| AFG Schweiz AG, Arbon | 1 000 | 100.00 % | 1 000 | 100.00 % |
| AFG International AG, Arbon | 1 000 | 100.00 % | 1 000 | 100.00 % |
| AFG Management AG, Arbon | 250 | 100.00 % | 250 | 100.00 % |
| AFG Services AG, Arbon | 250 | 100.00 % | 250 | 100.00 % |
| Looser Holding AG, Arbon | 32 047 | 97.53 % | | |

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

2.2 Current interest bearing liabilities

| | 31/12/2016 | 31/12/2015 |
|------------------------------|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Bank loans | 3 000 | 1 000 |
| Bank loans – syndicated loan | 311 570 | |
| Bond 2010 – 2016 3.375 % | | 199 799 |
| Loans to group companies | | 3 596 |
| Total | 314 570 | 204 395 |

On 14 September 2016, Arbonia entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks has a credit tranche of CHF 100 million, with a due date no later than 31 December 2017 and is used to finance the cash settlement of the Looser acquisition. The other credit tranche of 400 million matures on 14 September 2021. As a result of the new borro-

wing facility the existing syndicated loan of CHF 250 million concluded on 2 December 2013 and maturing on 30 November 2018 was replaced prematurely.

2.3 Share capital

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

2.4 Capital contribution reserve

The capital contribution reserve includes the premium from the capital increases in 2007, 2009, 2015 and 2016, 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 2015) as capital contribution within the meaning of article 5 para. 1 bis VStG.

2.5 Treasury shares

| | 2016 | | | 2015 | | |
|-----------------------------------|-----------------------|------------------|--------------------|-----------------------|------------------|--------------------|
| | Ø market value in CHF | Number of shares | Amount in 1000 CHF | Ø market value in CHF | Number of shares | Amount in 1000 CHF |
| Balance at 01/01 | 15 | 509 681 | 7 553 | 24 | 240 183 | 5 856 |
| Purchase | 13 | 196 058 | 2 555 | 17 | 246 009 | 4 089 |
| Share capital increase | 11 | 400 071 | 4 545 | 8 | 314 916 | 2 551 |
| Transfer for share based payments | 11 | -249 351 | -2 750 | 16 | -73 304 | -1 156 |
| Sale | 13 | -192 108 | -2 534 | 16 | -218 123 | -3 547 |
| Gain (+) / loss (-) | | | -792 | | | -240 |
| Balance at 31/12 | 13 | 664 351 | 8 576 | 15 | 509 681 | 7 553 |

2.6 Financial income

Financial income totals CHF 16.9 million (2015: CHF 14.9 million) and consists mainly of interest income on loans to investments and foreign currency exchange gains.

2.7 Financial expenses

Financial expenses totals CHF 19.8 million (2015: CHF 26.4 million) and consists mainly of bank interest, interest on the bond and foreign currency exchange losses.

2.8 Other operating expenses

| | 2016 | 2015 |
|----------------------------|--------------|--------------|
| | in 1000 CHF | in 1000 CHF |
| Administrative costs | 3 662 | 7 934 |
| Consultancy and audit fees | 915 | 440 |
| Other operating expenses | 891 | 36 |
| Total | 5 468 | 8 410 |

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:

| | | 31/12/2016 | 31/12/2015 |
|------------------------------------|--------------|------------|------------|
| UBS AG | | | |
| in favour of AFG Immobilien AG | in 1 000 CHF | 3 455 | 2 713 |
| St.Galler Kantonalbank | | | |
| in favour of EgoKiefer AG | in 1 000 CHF | 1 000 | 2 000 |
| UniCredit Bank | | | |
| in favour of Kermi GmbH | in 1 000 EUR | 2 000 | 2 000 |
| in favour of Wertbau GmbH & Co. KG | in 1 000 EUR | 2 500 | 2 500 |
| Commerzbank | | | |
| in favour of AFG Schoch GmbH | in 1 000 EUR | 1 000 | 1 000 |

3.2 Contingent liabilities

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

3.3 Major shareholders

| | 31/12/2016 | 31/12/2015 |
|----------------------------|-----------------------------|-----------------------------|
| | Voting and capital interest | Voting and capital interest |
| Artemis Beteiligungen I AG | 20.48 % | 27.52 % |

3.4 Risk assessment

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

3.5 Headcount in full-time equivalents

Arbonia AG does not employ any staff.

3.6 Disclosure of shareholding

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

| | 31/12/2016 | 31/12/2015 |
|--|-----------------------------|-----------------------------|
| | Number of registered shares | Number of registered shares |
| Alexander von Witzleben (Chairman of the BoD from 17/04/2015 and Group Management from 01/07/2015) | 103 201 | 30 000 |
| Peter Barandun (Member of the BoD) | 17 945 | 9 144 |
| Christian Stambach (Member of the BoD) | 25 549 | 22 248 |
| Peter E. Bodmer (Member of the BoD) | 9 482 | 4 861 |
| Markus Oppliger (Member of the BoD) | 14 629 | 10 228 |
| Heinz Haller (Member of the BoD) | 47 161 | 5 000 |
| Michael Pieper (Member of the BoD from 17/04/2015) | 14 022 597 | 12 259 974 |
| Rudolf Huber (Member of the BoD from 13/12/2016) | 129 873 | |
| Thomas Lozser (Member of the BoD from 13/12/2016) | 397 294 | |
| Felix Bodmer (Group Management) | 50 374 | 45 790 |
| Knut Bartsch (Group Management) | 34 439 | 30 372 |
| Christoph Schönenberger (Group Management until 30/04/2016) | | 33 881 |
| Total | 14 852 544 | 12 451 498 |

Proposal of the Board of Directors

The Board of Directors will propose at the Annual General Meeting of the shareholders on 28 April 2017 the following:

Appropriation of Retained Earnings

| | 2016 | 2015 |
|--|----------------|----------------|
| | in 1000 CHF | in 1000 CHF |
| Retained earnings carried forward from previous year | 183 534 | 202 418 |
| Net loss for the year | -9 255 | -18 884 |
| Retained earnings | 174 279 | 183 534 |
| Retained earnings carried forward | 174 279 | 183 534 |
| Total | 174 279 | 183 534 |

Report of the Statutory Auditors on the Financial Statements

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 December 31, 2016, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at December 31, 2016 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.

Our audit approach

Overview



Overall materiality: CHF 1.3 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter, the following area of focus was identified:

Impairment testing of investments in subsidiaries

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

| | |
|---|--|
| Overall materiality | CHF 1.3 million |
| How we determined it | 0.1% of total assets |
| Rationale for the materiality benchmark applied | We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of a holding company is most commonly measured. |

We agreed with the Audit Committee that we would report to them misstatements above CHF 65,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, 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.

Impairment testing of investments in subsidiaries

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|--|--|
| <p>We consider the impairment testing of investments in subsidiaries to be a key audit matter for the following two reasons:</p> <ul style="list-style-type: none"> – Investments in the amount of CHF 777.4 million represent the largest asset category on the balance sheet (59.3 % of total assets). An impairment of these investments would have a significant impact on the equity of the Company. | <p>With regard to the impairment testing of investments, our audit consisted principally of the following procedures:</p> <p>We compared the book value of the investments in the year under review with their prorata share of the respective company's equity or, in the case of the investment in the Looser Group, with the acquisition price.</p> <p>On the basis of our audit procedures, we have no findings to report.</p> |

- Testing for impairment depends on the future results of the companies concerned. In addition, there is significant scope for judgement in determining the assumptions underlying forecast results.

Please refer to the notes to the financial statements and, specifically, to the information regarding recognition, valuation and disclosure in note 2.1 'Investments'.

Responsibilities 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 intends either 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 judgement and maintain professional scepticism 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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 entity's internal control.
- 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 to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

St.Gallen, February 17, 2017



Beat Inauen
Audit expert
Auditor in charge



Martin Knöpfel
Audit expert

Supplementary Information for Investors

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|----------------|--------------|--------------|--------------|--------------|
| Number of shares | | | | | |
| Registered par value CHF 4.20 | 68 485 790 | 44 557 125 | 18 225 603 | 18 225 603 | 18 225 603 |
| Registered par value CHF 4.20 average number | 47 448 515 | 29 658 846 | 18 225 603 | 18 225 603 | 18 225 603 |
| Stock market prices in CHF¹ | | | | | |
| Highest | 17.0 | 18.6 | 26.3 | 25.2 | 17.3 |
| Lowest | 8.8 | 8.7 | 14.0 | 16.9 | 11.3 |
| 31/12 | 16.4 | 10.1 | 18.2 | 23.2 | 17.0 |
| Stock market capitalisation in CHF million (31/12) | 1 123.2 | 450.0 | 449.3 | 573.2 | 421.0 |
| Per share data¹ | | | | | |
| Gross dividend in CHF ² | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 |
| Pay-out ratio (in % of Group earnings) | 0.0 | 0.0 | 0.0 | n/a | 0.0 |
| Group earnings in CHF | 0.2 | -6.1 | 0.6 | -2.1 | -3.0 |
| Cash flow from operating activities in CHF | 0.7 | 1.8 | 1.6 | 2.6 | 2.2 |
| Shareholders' equity in CHF | 10.5 | 7.9 | 14.7 | 14.9 | 14.6 |
| Price/earnings ratio (highest) | 106.1 | -3.1 | 31.7 | -9.2 | -4.4 |
| Price/earnings ratio (lowest) | 54.6 | -1.5 | 16.9 | -6.2 | -2.9 |
| Price/earnings ratio (31/12) | 102.3 | -1.7 | 22.0 | -8.5 | -4.3 |
| Price/cash flow ratio (highest) | 25.2 | 10.1 | 12.1 | 7.1 | 5.7 |
| Price/cash flow ratio (lowest) | 13.0 | 4.8 | 6.5 | 4.7 | 3.7 |
| Price/cash flow ratio (31/12) | 24.3 | 5.5 | 8.4 | 6.5 | 5.6 |

¹ Adjusted for 2015 capital increase

² 2017 proposal to the Annual General Meeting

Glossary

Anti-panic function Locking function for escape doors. In cases of emergency – involving a fire, for instance – a locked door may be used as an escape route. Doors and locks can be equipped with different panic functions to suit the requirements in question.

Artemis Beteiligungen I AG Affiliated company that is controlled by Michael Pieper and has been the main shareholder in Arbonia AG since December 2014.

Cash flow Positive or negative surplus cash arising from commercial activity, measured over a certain period. Cash flow can be used to evaluate how financially strong a company is.

Coextrusion A technique for manufacturing multilayered products. Material from the main extruder is combined with a second material that is extruded – in other words, moulded – using a small extruder (or coextruder). This creates a multilayered product.

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

Consolidation The process of combining the individual annual account items of all the companies belonging to a group, in order to form a consolidated financial statement.

CRYSTALL™ electromechanical filter Patented, electromechanical active filter that is used in order to not only remove pollutants in indoor air – such as tobacco smoke, dust, fibres and microbiological substances including bacteria and fungi – but also create a significant reduction in the operating costs associated with a ventilation or air-conditioning system. The mechanical part of the filter can be washed, making its service life almost unlimited.

EBIT Earnings Before Interests and Taxes: a company's operating results before interest and taxes are taken into account.

EBIT margin Indicates EBIT in relation to revenue.

EBITDA Earnings Before Interests and Taxes, Depreciations and Amortization: a company's operating results before interest, taxes, depreciation and amortization are taken into account. EBITDA is one of the most meaningful figures in evaluating a company's earning power.

EBITDA margin Indicates EBITDA in relation to revenue.

EFQM Excellence Award A European prize for quality. It requires an application, and its assessors perform extensive investigations during visits to the company premises.

Fan coils Depending on the temperature of the flow water for a connected water heater/chiller, fan coils are able to heat, cool and dehumidify a room, and are able to provide ventilation and the option of filtering indoor air in fan-only operation. This results in maximum comfort with optimum room air quality. A fan radiator is able to heat (but not cool) a room by means of convection when the fan is switched off.

Free cash flow The operating cash flow minus cash flow from investing activities; illustrates how much cash remains free for shareholder dividends and/or any repayment of debt financing that may be required.

Free float The free float is the portion of the total number of a company's shares that is not in fixed ownership. Small portions owned by private investors are also included in the free float, even though they are essentially in fixed ownership.

Goodwill In accounting, goodwill represents an intangible asset within the company that arises through the acquisition of other companies or parts of companies in return for payment.

Heat pump Draws its heat energy from the air, groundwater or soil, and uses this extremely efficiently to generate the heat required for heating drinking water and rooms. Compared to heat pumps, no other kind of heat generator is a more environmentally sustainable solution or is more fit for the future.

Jib The horizontal component of a crane that enables the load to be lifted and lowered. Attached to it is a moveable trolley with hoisting gear, which can be used to raise and lower the load into various positions.

Net indebtedness The total that remains when cash and cash equivalents are deducted from non-current liabilities. This indicates how much cash would be available for repaying loans if the cash and cash equivalents were already used up and the company had to liquidate its current assets.

Photovoltaics The process of converting light energy, usually derived from the sun, directly into electrical energy using solar cells.

Post-and-beam construction A façade system made up of supporting profiles. It can be used to create large openings as well as entire façade areas. It is normally applied in projects that involve installation at significant heights or very wide panels.

Product standard EN 16034 This European product standard is part of a wide range of standards covering windows, doors and gates. EN 16034 deals exclusively with fire and/or smoke protection properties.

Protectionism A trade policy implemented by a nation in an attempt to protect its domestic economy against foreign competition. This kind of barrier primarily takes the form of customs duties and quantity-based quotas for imports, as well as subsidies for the domestic economy.

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

Sedimentation and neutralisation tank Water on building sites is often very turbid, and cannot be drained back into the environment unless sufficient sedimentation has been carried out to remove solids. In a sedimentation tank, undissolved substances that are capable of settling are mechanically removed with the aid of gravity using the sedimentation principle. In this process, the rate at which the waste water flows through the tank is reduced to the point at which the settleable solids are able to reach the base of the tank before the water exits it. It is also essential to neutralise waste water, particularly where work involving concrete is being carried out. This takes place in a neutralisation tank by adding CO₂.

Surface heating Surface heating is a catch-all term covering various types of heating and cooling, and denotes a process in which heat is emitted or absorbed via the surfaces of the components in a building.

Synergy A positive effect that arises from the merger or cooperation of two or more organisations/companies. Synergy effects represent competitive advantages that are usually gained through cost savings. A synergy effect requires interaction between factors that encourage one another or have a more significant effect when they are working together rather than independently.

Top slewing crane The slewing gear is located at the top end of the crane tower. When slewing motions are performed, the only parts that move are the jib and the counter jib opposite it. The crane tower is permanently mounted on the X-shaped foundation. At the bottom slewing crane, on the other hand, the crane tower is mounted on an undercarriage and the jib is permanently connected to the crane tower.

Tower slewing crane (also known as a tower crane) Hoisting machinery for vertical and horizontal loading. Due to the built-in slewing ring, the crane is able to execute both vertical hoisting and three-dimensional motions, and is also able to set the load down at a different point from which it picked it up.

Unit heater Can be used as a wall-mounted or ceiling-mounted unit in low-temperature heating systems and in cooling operation (depending on the model), in both industrial and commercial applications. It offers excellent value for money, is easy to install, and takes very little time to regulate. The wide range of models available means there is something to suit any project, ensuring rapid heat exactly where it is required.

History

In 1874, Franz Josef Forster opened a coppersmith's shop producing hot-water bottles, cookware and other receptacles. The company changed its name to Hermann Forster AG in 1922. By this time, it was manufacturing steel tubes.

In 1904, Karl Schnitzler set up a factory to make heat exchangers under the Arbonia brand.

In 1954, Arbonia AG was established.

In 1973, the majority of the shares in Hermann Forster AG were transferred to Arbonia AG, which had been wholly owned by Jakob Züllig since 1959. The Arbonia-Forster Group comprised Hermann Forster AG (steel tubes technology, kitchens and refrigeration equipment), Arbonia AG (radiators and heaters), Asta AG (road transport) and Buhler-Regina AG (embroidery supplies).

In 1987, AFG Arbonia-Forster-Holding AG was registered with the commercial register with CHF 30 million in share capital. A year later, the company was listed on the stock exchange.

In 1999, Jakob Züllig, majority shareholder and Chairman of the Board of Directors, died. Prolux Heizkörper AG was bought in the same year.

In 2001, AFG took over the German company Kermi GmbH, which provided a major boost for its radiator and shower stall business.

In 2003, the Züllig estate sold its majority interest to Dr Edgar Oehler, the new CEO and Chairman of the Board of Directors.

In 2004, there were three acquisitions: Bruno Piatti AG, Dietlikon ZH (CH); EgoKiefer AG, Altstätten SG (CH); and Spedition Gächter GmbH, Stachen-Arbon TG (CH).

In 2005, there followed a further acquisition: in September, AFG acquired Miele Kitchens, based in Warendorf (D), from the German company Miele & Cie. KG, based in Gütersloh (D).

In 2006 the Group acquired Schmidlin ASCO Swiss AG, Zwingen BL. The company specialises in underfloor convectors which, alongside their conventional heating function, can also be used for cooling.

In 2007, AFG acquired STI Surface Technologies International Holding AG, Steinach SG (CH) and RWD Schlatter AG, Roggwil SG (CH). In September, AFG acquired the British company Aqualux Products Holdings Ltd.

2008 AFG took over Slovaktual s.r.o., Slovakia's leading windows manufacturer. In October, AFG set up a new Asia Pacific regional branch with headquarters in Shanghai (CN).

In 2009, AFG presented its new Warendorf brand of kitchens. This represents the successor to the Miele Kitchens (Miele Die Küche) brand.

In 2010, shareholders at AFG's ordinary General Meeting approved the abolition of the hitherto unequal weighting of registered shares and bearer shares, introducing a single class of registered shares.

In 2011, Edgar Oehler was succeeded as Chairman of the Board of Directors by Paul Witschi on 29 April and as CEO by Daniel Frutig on 1 June.

In 2012, AFG sold its transport and logistics business Asta, its British subsidiary Aqualux and the German company Warendorf. With the acquisition of the Polish window manufacturer Dobroplast, it focused on expanding one of its core business areas.

In 2013, AFG intensified its focus on its core business based on building envelope and interior. It sold off Forster Refrigeration Technology as well as Forster Precision Steel Tubes.

In 2014, the AFG kitchen business and the STI Group were sold. AFG acquired Sabiana, a market leader in commercial heating, ventilation and air-conditioning. Artemis Beteiligungen IAG, led by Michael Pieper, became AFG's new main shareholder.

In 2015, the General Meeting elected Alexander von Witzleben as the new Chairman of the Board of Directors. In July, he also assumed the role of interim CEO. In August, the Board of Directors decided to relocate the production plants to other European countries as a result of significant pressure from competition. Eastern German window manufacturer Wertbau GmbH and Italian company Bloxer Ronchi were also acquired in August. As part of a capital increase carried out with the aim of strengthening the Group's financial standing, Artemis Beteiligungen IAG reaffirmed its commitment to the Group and, by the end of the year, had increased its stake to just under 28%.

In 2016, AFG acquired the Koralle Group, which specialises in sanitary facilities, from Geberit AG. The move represents a widening of the Building Technology Division product range and will help it enhance its position in the core markets of Switzerland, Germany and Austria with a lasting effect. To improve its value chain and market presence in France and Luxembourg, AFG took over Sabiana's French exclusive distribution partner Sabiatherm. In September, AFG announced the takeover of the Looser Group, which is also active in the building supply business and has areas that focus on doors (Prüm, Garant and Invado) as well as industrial services (Conducta). The takeover was successfully finalised in December by means of a public purchase and exchange offer to the Looser shareholders. This transaction represents an important step in AFG's efforts to achieve its strategic goal of becoming a leading European building supplier. **As part of the transaction, AFG Arbonia-Forster-Holding AG was renamed Arbonia AG.**

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