



OVERVIEW OF DIVISIONS



HEATING, VENTILATION AND AIR CONDITIONING DIVISION (HVAC)

Areas of activity

Fan coils
Steel radiators
Radiant panels
Unit heaters

Brands



Production sites

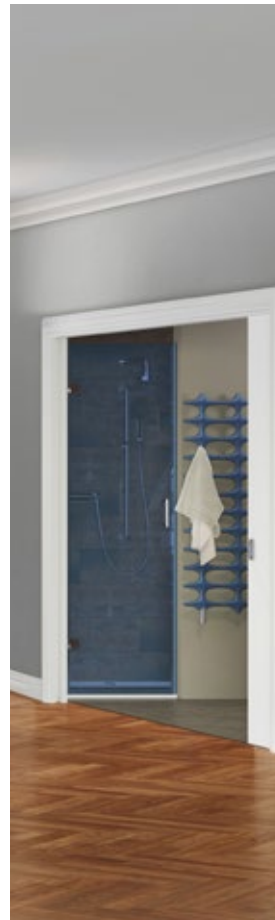
Corbetta (I)
Magenta (I)
Plattling (D)
Střibro (CZ)

Number of employees in full-time equivalents as of 31 December 2017

2258.4

Investments in 2017

CHF 38.1 million



SANITARY EQUIPMENT DIVISION

Areas of activity

Shower enclosures
Shower areas
Shower stalls

Brands



Baduscho

Production site

Plattling (D)

Number of employees in full-time equivalents as of 31 December 2017

515.6

Investments in 2017

CHF 7.1 million



WINDOWS DIVISION

Areas of activity

Vinyl windows
vinyl/aluminium windows
Wood windows
Wood/aluminium windows
Exterior doors
Lift-and-slide doors

Brands



Production sites

Langenwetzendorf (D)
Lublin (PL)
Pravenec (SK)
Zambrow (PL)

Number of employees in full-time equivalents as of 31 December 2017

2536.1

Investments in 2017

CHF 26.8 million



DOORS DIVISION

Areas of activity

Interior doors
Functional doors
Frames

Brands



Production sites

Amt Wachsenburg (D)
Ciasna (PL)
Roggwil (CH)
Weinsheim (D)

Number of employees in full-time equivalents as of 31 December 2017

1811.2

Investments in 2017

CHF 23.2 million

KEY FIGURES

	Full year 2017	H1 2017	Full year 2016	H1 2016	Full year 2015	H1 2015	Full year 2014 ¹
in CHF million							
Net revenue	1 378.5		995.3		941.4		1 017.4
		624.4		459.0		425.1	
EBITDA	140.6		68.7		26.6		78.3
		44.6		27.3		16.1	
EBIT	72.3		29.1		-158.4		33.4
		12.6		5.7		-125.4	
Group result	46.4		7.6		-177.1		11.3
		1.9		-3.5		-132.6	
Total assets	1 416.6		1 526.9		900.5		969.5
		1 538.9		852.8		815.9	
Shareholders' equity	863.1		728.8		351.8		363.0
		754.0		350.4		186.8	
in % of total assets	60.9		47.7		39.1		37.4
		49.0		41.1		22.9	
Net indebtedness	43.3		225.1		21.7		222.3
		174.8		65.5		228.7	
Cash flow from operating activities	68.8		32.0		54.5		39.4
		9.1		-4.1		0.6	
Free cash flow	190.4		-67.3		16.0		-51.9
		55.2		-33.3		-6.0	
Investments	105.1		62.1		21.9		47.7
		48.2		20.2		9.3	
Average headcount (full-time equivalent)	8 139		6 325		6 186		6 057
		8 045		6 253		5 979	
Market capitalisation	1 129		1 123		450		449
		1219		632		323	

¹ Continuing operations

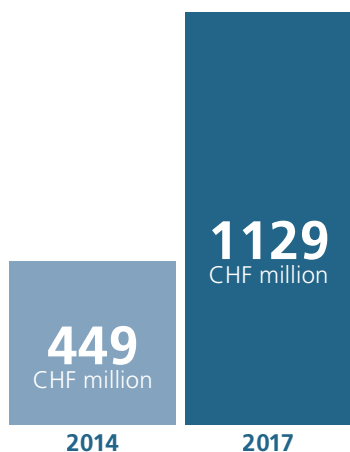
INFORMATION FOR INVESTORS²

	2017	2016	2015	2014
Share price on 31.12. in CHF	16.3	16.4	10.1	18.2
Market capitalisation in CHF million³	1 128.9	1 123.2	450.0	449.3
Earnings per share in CHF	0.7	0.2	-6.1	0.6
Price/earnings ratio per share³	24.2	102.3	-1.7	22.0
Gross dividend per share in CHF	0.0	0.0	0.0	0.0

² Adjusted for 2015 capital increase

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

MARKET CAPITALISATION



NET INDEBTEDNESS

43
CHF million

GROUP RESULT ¹

37.6
CHF million

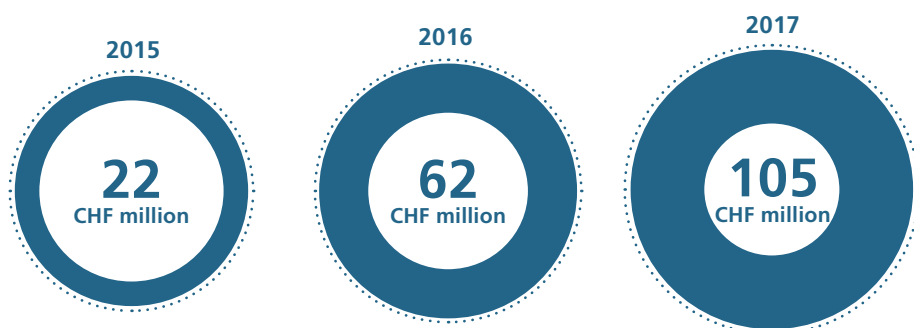
¹ Continuing operations

SHAREHOLDERS' EQUITY

in % of total assets

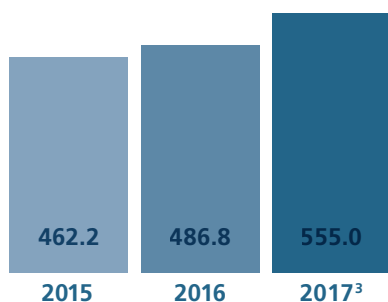
60.9%

ARBONIA INVESTS IN THE FUTURE

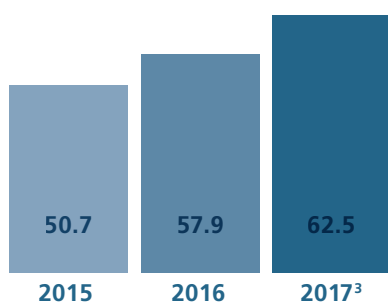


BUILDING TECHNOLOGY DIVISION²

Revenue development
(in CHF million)

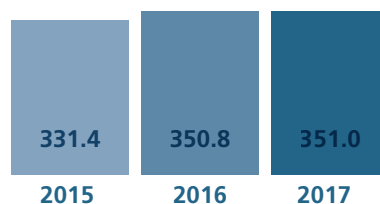


EBITDA development
without special effects
(in CHF million)

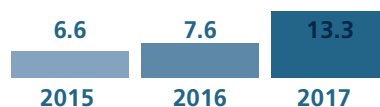


WINDOWS DIVISION

Revenue development
(in CHF million)

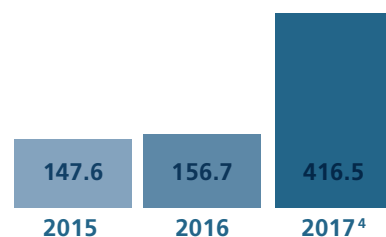


EBITDA development
without special effects
(in CHF million)

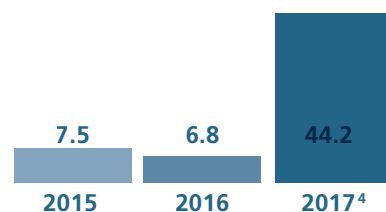


DOORS DIVISION

Revenue development
(in CHF million)



EBITDA development
without special effects
(in CHF million)



² HVAC and Sanitary Equipment

³ Incl. Koralle Group

⁴ Incl. Prüm, Garant and Invado

Table of Content

Report section

Management Report of the Group

Letter to the Shareholders	3
Arbonia is on track	10
The product portfolio of Arbonia	13
Divisions	16
Building Technology	18
Windows	26
Doors	34

Group

Human Resources	43
Corporate Governance	47
Compensation Report	67
Report of the Statutory Auditors on the Compensation Report	77

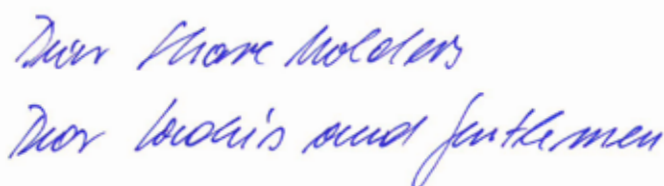
Financial section

Financial Report

Financial Commentary	82
Consolidated Financial Statements Arbonia Group	85
Report of the Statutory Auditors on the Consolidated Financial Statements	163
Financial Statements Arbonia AG	171
Report of the Statutory Auditors on the Financial Statements	179
Supplementary Information for Investors	183
Glossary	184
History	186
Adresses	188
Dates	189
Publication Information	190

LETTER TO THE SHARE- HOLDERS

In the financial year 2017, Arbonia completed further key steps in its restructuring and strategy process launched in 2015. Following the company's completion of two major acquisitions in 2016 – a move which served to reinforce its strategy – it honed its profile with carefully planned divestments in the year under review. Arbonia now owns a balanced corporate portfolio made up of four divisions: Heating, Ventilation and Air Conditioning (formerly Building Technology), Sanitary Equipment (formerly Building Technology), Windows, and Doors. Thanks to its divestment activities, Arbonia was also able to significantly reduce its net indebtedness. As a result, the company is now on solid ground for the future, both strategically and financially. In an effort to establish itself in new growth regions and align its production processes with market developments, Arbonia made a number of significant investments in 2017. The company is well on track to become one of Central Europe's leading building supplier.



*Dear Shareholders
Dear ladies and gentlemen*

The Arbonia Group developed positively in the financial year 2017. It managed to surpass the previous year's values for all relevant indicators: the company increased both its revenue and earnings, and also improved its balance sheet. The former companies of the Looser and Koralle Groups, which were consolidated for the full year for the first time in 2017, contributed significantly to the solid performance. However, Arbonia also improved the profitability of its original business thanks to a strict cost management programme and, primarily, by relocating production processes to sites with more favourable cost structures. The results meet the company's own expectations for its strategic measures programme launched by Arbonia in 2015.

Including the discontinued operations (Conducta and Forster Profile Systems), Arbonia increased its consolidated revenue by 38.5% to CHF 1 378.5 million. When adjusted for currency and acquisition effects, growth amounted to 1.5%. Consolidated revenue for the continuing operations (without Conducta and Forster Profile Systems) rose by 35.9% to CHF 1 245.6 million. On a pro forma basis (including Looser's doors business and the Koralle Group), Arbonia achieved growth of 2.6%, when adjusted for currency and acquisition effects. This growth was achieved in a financial year that was marked by production facility relocations, rising raw material prices and the integration of Looser's doors business and the Koralle Group.

EBITDA from continuing operations increased by 84% and therefore disproportionately when compared to revenue, reaching CHF 120.3 million (previous year: 65.3 million). The EBIT was up from CHF 27.2 million in the previous year to CHF 61.3 million in the 2017 reporting year.

Arbonia achieved a Group result of CHF 46.4 million (prior year CHF 7.6 million).

Market environment

In the financial year 2017, Germany was the largest sales market followed by Switzerland, Poland, Italy and France. Arbonia attained over 83 % of its revenue in these core markets. In Germany, the strong construction industry continued on its positive trajectory of the last few years, as was also the case in emerging Eastern European economies. The market segment for new residential buildings continued to record particularly high growth. Due to the ongoing lack of construction specialists, the market potential within the German industry could not be fully exploited. Demand for more living space will remain high, however, meaning that the construction industry is expected to retain its strength over the next few years.

In Switzerland – Arbonia's second domestic market alongside Germany – the situation was quite different. The construction suppliers' industry continued to suffer from a high level of competitive pressure. While the high import pressures of the past few years may have resided thanks to the stronger euro, margins for re-imports from the euro zone to Switzerland fell. This development had a particularly big impact on the Windows Division's result. Due to a lack of alternative investments, activity in residential construction remained at a high level. The commercial construction sector, however, suffered a decline.

Construction activity in Arbonia's key Eastern European markets of Poland, Slovakia and the Czech Republic benefited from strong economic growth with good

labour market conditions, that is, rising wages and decreasing unemployment.

However, in the year under review, the situation on the labour market deteriorated as a result of the lack of skilled workers caused by the strong construction industry in Germany and Arbonia's core markets in Eastern Europe. The company responded to this trend with specialist recruitment and professional development measures, though the planned increase to staff at sites in the countries affected was still delayed.

In 2017, Arbonia's procurement market was confronted with a strong increase in commodity prices. The company counteracted this development by increasing the price of specific products, without losing any major market shares.

General activities from Arbonia Group

In 2016, Arbonia significantly increased the revenue, markets, market shares and earnings potential of its Sanitary Equipment and Doors Divisions with its two key acquisitions of Koralle and Looser. In 2017, Arbonia continued to work hard to successfully complete the legal and strategic side of the acquisition of the Looser companies. The legal process was completed in June with the cancellation of the final Looser shares remaining in public hands and the cash settlement paid to the shareholders affected. The company also achieved its goal on a strategic level in 2017, successfully finding suitable new owners for the Looser companies that did not fit in with Arbonia's core business. In the first half of the year, the Coatings business was sold in a series of transactions. Arbonia also sold the Industrial Services Division (Conducta) in November. All of Looser's former arms that were not part of Arbonia's core business are now owned in structures that will allow for long-term industrial progress.

In December, Arbonia announced that the Profile Systems Business Unit, part of the Doors Division, had been sold to the Reynaers Group, a family-run business from Belgium. Arbonia will focus on its interior door business in future; this field of business received a major boost with the acquisition of Looser in the previous year. Reynaers will integrate the Profile Systems Business Unit as an independent business unit, including its brands, and will also keep production of steel and stainless steel profiles in Switzerland and take over all the employment contracts. The transaction was completed on 22 January 2018 after the balance sheet date.

Shortly before the end of 2017, Arbonia's subsidiary EgoKiefer and its welfare foundation sold their property in Altstätten (CH). This sale reflected a continuation of the Arbonia Group's strategy to divest non-essential properties as quickly as possible with maximum profit. Relocating production to other European countries has decreased EgoKiefer's need for space. EgoKiefer will relocate in the medium term to a new, nearby location in Eastern Switzerland.

Arbonia used the profits from the sale of all of these assets to invest around CHF 105 million in 2017. The sale of the business units and real estate reduced the net indebtedness to CHF 43.3 million. As a result of these measures, the equity ratio increased to 60.9%.

After the successful integration of the Koralle Group and in order to facilitate further strategic development, it is sensible to convert the Sanitary Equipment Business Unit into its own division within the Arbonia Group. To this end, the Business Unit was separated from the Building Technology Division as of 1 January 2018. The HVAC business activities will be combined into a newly established Heating, Ventilation and Air Conditioning Division.

Strategies and developments in the divisions

One of the main measures defined in Arbonia's 2015 programme was the relocation of the production footprint and the focus on divisional strategies. The majority of the measures planned for 2017 were implemented; the most important strategic steps are described in the following. Detailed information on the divisions is provided in the separate chapters from page 16.

The **Building Technology Division** is aiming to become the market and cost leader for its markets. Further substantial investments in manufacturing were completed in 2017 and the division forged forwards with its plan to tap into high-potential market segments.

During the first quarter of 2017, the Heating Technology Business Unit (part of the HVAC Division as of 1 January 2018) completed the process of relocating production of its special radiators to the Czech Republic. The programme for increasing capacity and productivity in radiator production at the Plattling (D) site continued on schedule and should be finalised over the course of this year. A ground-breaking ceremony for a new radiator production site was held in Stupino (RUS). This production plant will enable the division to supply the Russian market without any trade restrictions. Furthermore, it will be able to supply steel panel radiators to neighbouring markets in Eastern Europe.

With the presentation of Sabiana's new range of innovative air-conditioning units, the Air-Conditioning and Ventilation Technology Business Unit (part of the HVAC Division as of 1 January 2018) is now tapping into the central residential ventilation market, which is currently experiencing strong growth across Europe.

With the acquisition of Koralle, the Sanitary Equipment Business Unit (part of the Sanitary Equipment Division as of 1 Janu-

ary 2018) completed its process of consolidating production. In the year under review, the Koralle production was relocated from Vlotho (D) to the existing factory in Plattling (D). As a result, Arbonia was able to increase efficiency and reduce costs. The new production hall and warehouse in Plattling (D) were completed on schedule. All in all, the process of integrating the Koralle Group into the division was completed on schedule.

The **Windows Division** is working towards becoming the European market leader in the windows sector. In the reporting year, the aim was to secure a leading position in Switzerland, tap into the German market more extensively and reinforce its position in the emerging markets of Poland, Slovakia and the Czech Republic. The division pushed forwards with its transformation into an integrated European window manufacturer in 2017. With its new generation of wood/aluminium windows, the division successfully introduced its first cross-company and market-wide product platform for the German-speaking markets.

The consolidation of manufacturing at the cutting-edge product-group-specific production sites in eastern Germany, Poland and Slovakia (lead factories) provides Arbonia with a sustainable competitive advantage. The planned relocation of production away from Switzerland should be finalised in the reporting year. Due to the strong demand for wood/aluminium windows and the delayed ramp-up at the Langenwetzendorf (D) site, the service shop in Switzerland will continue to run with a capacity of 73 000 m² (previous year 117 000 m²) during the ramp-up phase at the new wood and wood/aluminium plant.

With the acquisition of the Looser Group doors business, the **Doors Division's** strategic goal was to transform from a niche Swiss provider of special doors into the number-two provider of interior doors in Europe. This was achieved in 2016. The acquisition saw the integration of the

brands Prüm, Garant and Invado, whose products have complemented RWD Schlatter's existing business to give the division a broad and attractive product portfolio. This development is helping the division to expand on a geographic level and also gives it the chance to tap into new markets. The Doors Division already enjoys a strong position in the German, Swiss and Polish markets and now has the potential to enter further markets in Central Europe. Following the sale of the Profile Systems Business Unit in December 2017, the division is finally able to focus on its interior doors business.

In the year under review, the Doors Division worked hard to find the best possible strategy for its new network of companies. The strategy focuses on four main areas:

- Positioning as a full-range provider
- Full coverage of sales channels
- Investments in production plants for the purpose of expanding capacity, protecting performance and ensuring long-term competitiveness
- Use of synergies in purchasing, development and the expansion of the product range for the benefit of the entire Doors Division

In 2017, the division recorded its first significant savings in purchasing thanks to the consolidation and renegotiation of Prüm, Garant and RWD Schlatter procurement volumes. It also quickly completed investments in the German and Polish production sites as they had long since been working at maximum capacity.

Outlook

For the financial year 2018, we are anticipating organic growth of 3%. We are also expecting an EBITDA of >CHF 110 million.

For 2019, we are anticipating organic growth of 3–5% and an EBITDA of > CHF 125 million. Our company wants to generate a substantial free cash flow from 2019 onwards and be able to pay a dividend for the 2018 reporting year.

We are in convinced that, in light of the strategically well-positioned business units, we will make the best of our new opportunities and tackle any challenges with ease.

Acknowledgements

With the merger of the former AFG and Looser arms to form a company with a new market position, the financial year 2017 placed a great deal of strain on Arbonia's staff and managers. At the same time, the repositioning and restructuring measures had to be implemented quickly across the entire Group. In addition, it was important to process the sales of the various business units and real estate in a timely manner. 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 suppliers and most notably you, our dear shareholders, for your trust.

Arbon, February 2018



Alexander von Witzleben
Chairman of the Board of Directors
and CEO



Felix Bodmer
CFO



Arbonia Group Management as of 1 January 2018

Harald Pichler
Head of Windows
Division

Peter Spirig
Head of Doors
Division

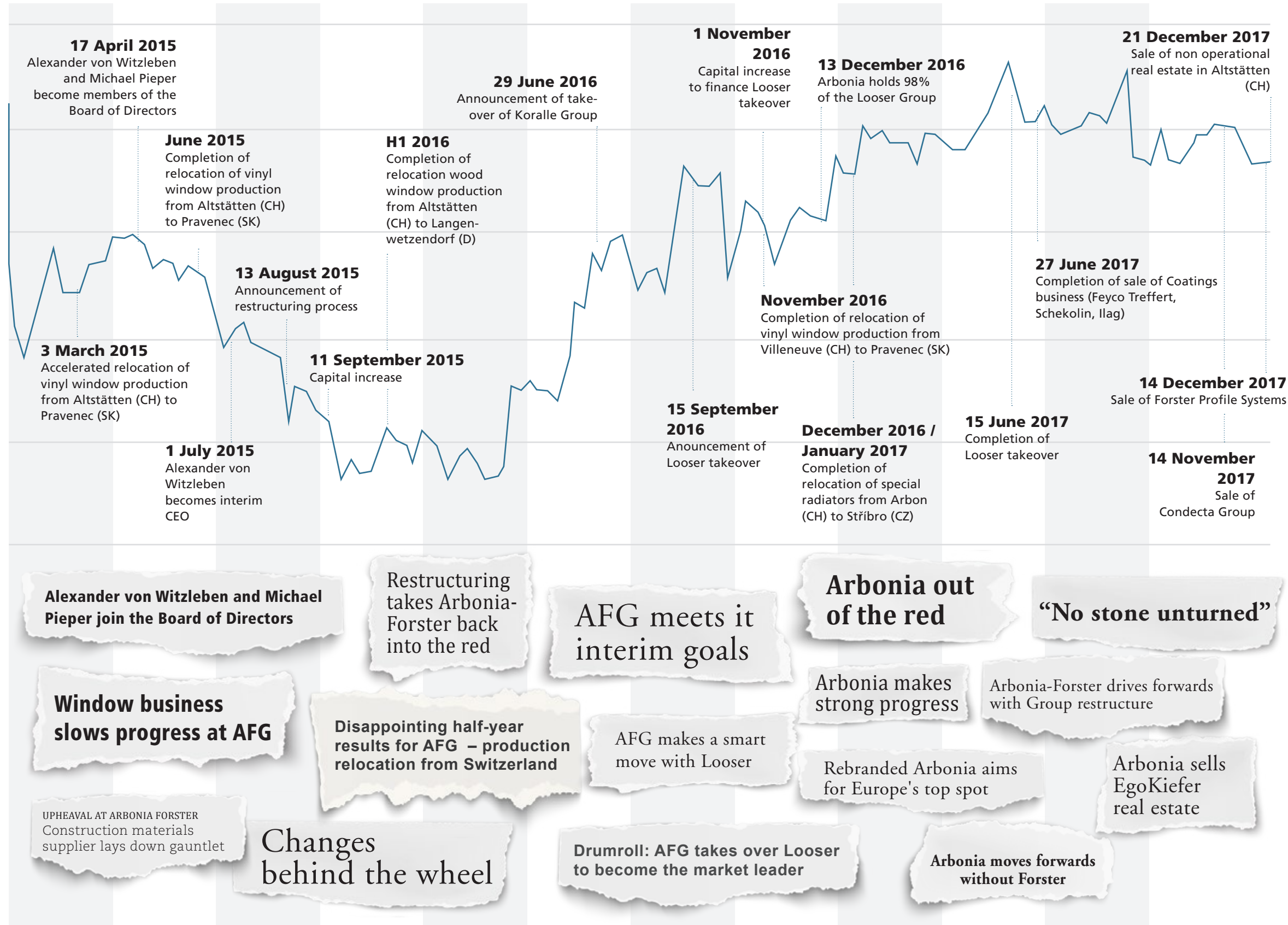
Felix Bodmer
CFO

Alexander
von Witzleben
CEO

Ulrich Bornkessel
Head of HVAC
Division

Knut Bartsch
Head of Sanitary
Equipment Division

ARBONIA IS ON TRACK



These press articles have been published in German. The English translation is for convenience of understanding.

2015

2016

2017

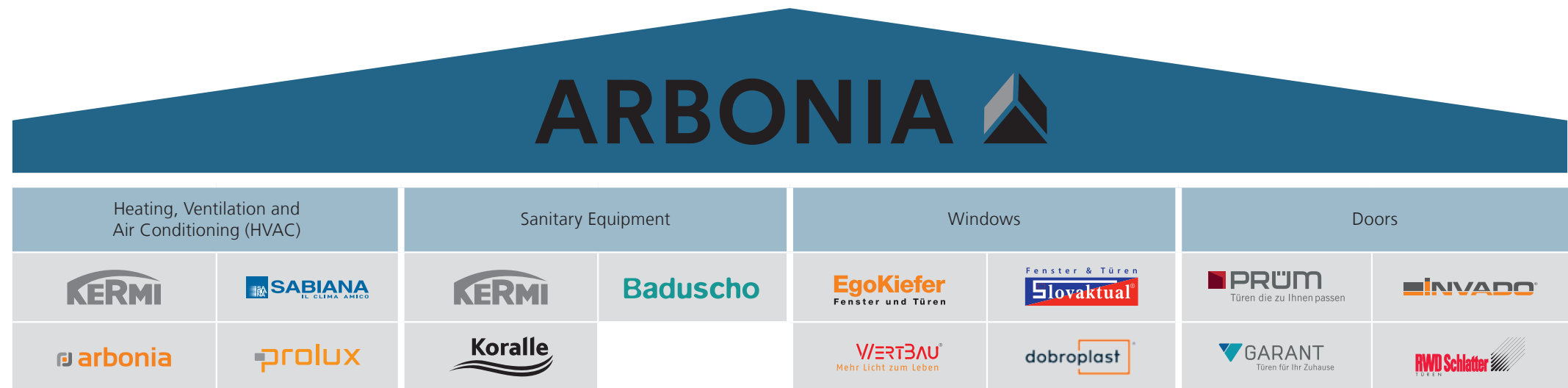
«ARBONIA HAS BEEN SAVED!»

Michael Pieper, Member of the Board of Directors and anchor shareholder November 2017

**THE WHOLE IS GREATER THAN THE SUM OF ITS PARTS.
THE PRODUCT PORTFOLIO OF ARBONIA.**



DIVISIONS



Divisional structure as of 1 January 2018



Divisional structure until 31 December 2017

¹ Sale of Industrial Services Division completed on 12 December 2017

BUILDING TECHNOLOGY DIVISION

In 2017, the Building Technology Division was made up of the Heating Technology, Air-Conditioning & Ventilation Technology, and Sanitary Equipment Business Unit. In the area of HVAC the division is a leading, highly integrated provider. Its main brands – Kermi, Arbonia, Sabiana and Prolux – sell their wide array of products across Europe.

As a genuine specialist for shower stalls and shower bases, the Sanitary Equipment Business Unit, including the brands Kermi, Koralle and Baduscho, can provide solutions for any requirement. With its unique range of models and variants, the business unit can offer the ideal solution for any space or circumstances.

Focusing on sustainability, cost efficiency and the highest standards of product quality, the division manufactures its products in cutting-edge facilities in Germany, the Czech Republic and Italy. On an international scale, the division has its own distribution companies in Switzerland, Poland, Russia, France, Austria and China.



BUILDING TECHNOLOGY

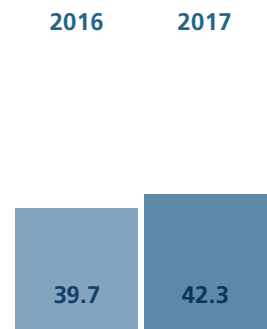
Net revenue
in CHF million



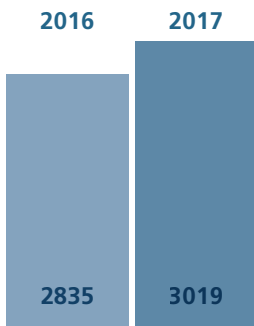
EBITDA
without special effects
in CHF million



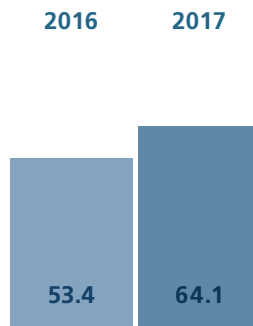
EBIT
without special effects
in CHF million



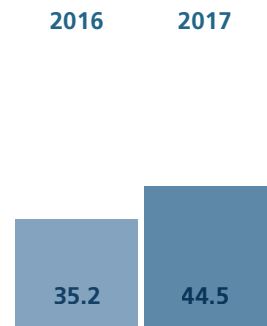
Average headcount
(full-time equivalent)



EBITDA
with special effects
in CHF million



EBIT
with special effects
in CHF million



With the acquisition of the Koralle Group, the Arbonia Group's Sanitary Equipment business reached a strategic size and significance, which led to the Arbonia Group's decision to split the Building Technology Division into two separate divisions as of 1 January 2018: the HVAC Division (Heating, Ventilation and Air Conditioning) and the Sanitary Equipment Division.

As the annual report is a written reflection of the previous year, the structure in place for that period (the Building Technology Division being one whole division) will be used in this report.

Market trends

During the reporting year, the Building Technology Division achieved a total revenue of CHF 555 million (previous year: CHF 486.8 million), which corresponds to a growth of 14%. In 2017, the acquisition of the Koralle Group was consolidated for the full year for the first time, whereas in the previous year this was only taken into account on a pro rata temporis basis. After adjustment for currency and acquisition effects, the revenue growth was therefore 4.1%. The division's financial year was marked by significant increases in raw material prices, particularly for

steel, and an unfavourable exchange rate of the Czech koruna, which the division offset with price increases. The significant integration, optimisation and investment programmes to improve competitiveness were continued in all business units. The EBITDA increased from CHF 53.4 million to CHF 64.1 million, especially in relations to acquisitions. Without special effects, the EBITDA amounted to CHF 62.5 million (previous year CHF 57.9 million). The EBIT of CHF 44.5 million was also higher than in the previous year (CHF 35.2 million) due to acquisitions. Without special effects, the division had an EBIT of CHF 42.3 million (previous year CHF 39.7 million). All three business units again made a substantial contribution to the division's growth and profitability.

The recovery of the European construction industry – combined with a strong building sector in Germany and stable indicators in Switzerland – offers an encouraging environment. Nevertheless, the building sector in the division's key markets is primarily driven by new builds. Due to a lack of capacity among fitters, particularly in Germany, this is having a detrimental effect on modernisation work in many areas. As a result, the effect of the positive economic situation in many of the division's product segments is limited.

In Eastern Europe, on the other hand, the underlying conditions remain positive. In an effort to make better use of the potential in the Russian market, the Building Technology Division decided to increase its commitment with an own local radiator production.

The market environment in Western Europe varies from country to country. While the French market is stabilising, there is very little impulse for commercial investment in Italy. In light of the current debate over refrigerants, there is a trend towards water-based air-conditioning, which has a positive impact on the division. Despite a promising economic situation, the markets are still marked by pricing pressure.

Products, technology and innovation

Within the Heating Technology Business Unit, the reporting year was again characterised by investments for improving competitiveness and productivity. Production was successfully relocated from Switzerland to the Czech Republic. Furthermore, production processes in Střibro (CZ) were streamlined even further and efficiency could be increased thanks to a new soldering furnace and automated packaging system.

The modernisation investments launched at the Plattling (D) site in 2016 were completed on schedule. For instance, new presses, welding lines and robots were installed for the efficient production of steel panel radiators; a hall was built with an innovative storage system; and the packaging system for radiators was optimised.

With the brands Arbonia and Kermi, the Heating Technology Business Unit was able to present a number of new products and innovations. Kermi launched a new range of ventilation devices from the division's production network. These new devices meet the market's demand for lower noise emissions and a more compact design. The range of heat pumps was complemented by the finalisation of development for two highly energy-efficient models. New design-oriented bathroom radiators, specialist solutions for temperature regulation, and steel panel radiators with a range of connection options complete the range of new products from Kermi.

Arbonia, a specialist in public and commercial construction, stepped up its range of products geared specifically towards the target groups of planners and architects. To achieve this, they introduced new underfloor convectors and radiant panels, and also increased its range of online services and software solutions.

Both brands appeared at a number of trade fairs, showcasing their new products and their strengths, which were validated by their awards for customer satisfaction and design.

With the presentation of Sabiana's new range of innovative air-conditioning units at ISH 2017, the division began tapping into the residential ventilation market, which is currently experiencing strong growth across Europe. As they are based on a modular design principle, the appliances are available in a number of variants and can therefore be easily adapted to the specific market and application requirements at any time. All devices, even the compact design offered on the Swiss market, have been awarded the highest energy efficiency rating A+. As they are able to achieve a standard never before seen in this market segment, several attractive major projects were commissioned not long after the devices made their trade fair debut.

The division also set a new benchmark with its new radiant panel, which is scheduled to go into production in the first quarter of 2018. The updates to the welding line and press shop needed for production were completed in 2017. The product series has undergone extensive revisions and is now characterised by energy efficiency and a low-weight design. Due to its advantages in the areas of functionality and assembly and its wide range of models, the series offers thermal comfort for any application within the industrial and commercial radiant panel segment.

A key issue in the reporting year was the integration of the Koralle Group into the Sanitary Equipment Business Unit. With the construction of new production halls, investment in the Plattling (D) site continued, as did workflow improvement, warehouse expansion, and optimised material movements. The Koralle Group increased its focus on the areas of research and development in order to update its product programme. The Group was also integrated into large parts of the division's SAP system. Through the continued expansion of the sales and service network, Bekon-Koralle's role as a Swiss market leader could be enhanced even further.

One of the highlights for the Sanitary Equipment Business Unit was ISH 2017. Introducing a new trade-fair presence, Kermi Shower Design presented ground-breaking new shower cubicles and shower areas. Also introducing a new trade-fair concept, Koralle presented a number of new products under the slogan "Something Special Everyday". The new homepage was launched at the same time.

Several of Kermi's and Koralle's shower solutions were honoured with respected design prizes in 2017. Kermi Shower Design won the German Brand Award 2017.

Sustainability

The principles of sustainability have been an integral part of the Building Technology Division's corporate philosophy for decades now, and are applied in the areas of development, production and staff relationships. By applying a management system certified under ISO 9001/14001/50001 (Quality/Environment/Energy), the division focuses on all processes, from development through to disposal. The advantages that energy efficiency offers to customers are at the heart of the new product development process. These new products meet the highest energy standards.

Sustainability is also a key focus in the area of energy consumption. For instance, the Italian company Sabiana produces over 75% of its annual power consumption itself. In Plattling (D), a state-of-the-art energy data logging system enables weaknesses in production to be analysed and inefficient energy consumers to be replaced effectively.

The obligation to determine suitable employee protection goals is a standard element of corporate policy. 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

The division assumes that the economic situation in its main markets will remain strong in 2018. However, limited fitter capacity will continue to dampen opportunities for growth. Trends in commodities prices also show no sign of letting up, which is why the outlook for 2018 only offers a limited amount of promise. Furthermore, the strained situation on the job markets continues to pose a challenge.

The division is tackling this tough environment by concentrating on its strengths and continuing to improve its competitiveness. It has invested a substantial sum of money over the past few years and will continue to do so in future. Following the relocation of production, the division will continue to drive forwards with process optimisation, improved efficiency and automation. The radiator factory in Russia is scheduled to start production in 2019.

HIGHLIGHTS



Spot-on performance at ISH

As usual, Arbonia's performance and product presentations were spot-on. The new radiant panel models were very well received by the audience of trade specialists. The new "Ascoterm® eco" underfloor convectors were showcased in a playful presentation. Interesting and thought-provoking discussions rounded off the successful appearance at ISH 2017 in Frankfurt (D).



Expanding the product portfolio

The presentation of the new "Energy Smart" ventilation system series in spring 2017 marked Sabiana's entry into a new market segment: air-conditioning and ventilation technology. While the product portfolio was primarily used in commercial buildings in the past, the new range of products are suitable for single- and multi-occupancy buildings and apartments.



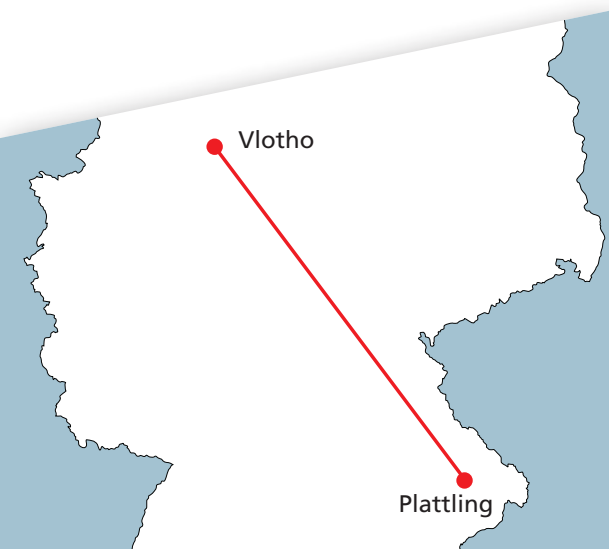
Successful program introduction

As an essential component of the digitalisation strategy, the introduction of the product design program "KAWIN 2.0" exceeded all expectations. Launched in September 2017, the software had already been downloaded countless times not long after its introduction. For planning experts and fitters, the program greatly facilitates the design and specification of heating, ventilation and air-conditioning systems.



New production halls and warehouses

For the Sanitary Equipment Business Unit, the integration 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. Construction on the new production halls in Plattling (D) began in 2016 and is already making very good progress. Interior construction is almost complete and equipment could be moved into the hall on schedule.



Start of Koralle production in Plattling (D)

In 2017, production for Koralle (which joined the group in 2016) was relocated from Vlotho (D) to Plattling. Thanks to the overwhelming support from employees at both sites, production successfully got underway in the year under review. All Koralle product ranges have been produced and stored in Plattling since mid-September. More or less all ranges have also been shipped out from the site since October.



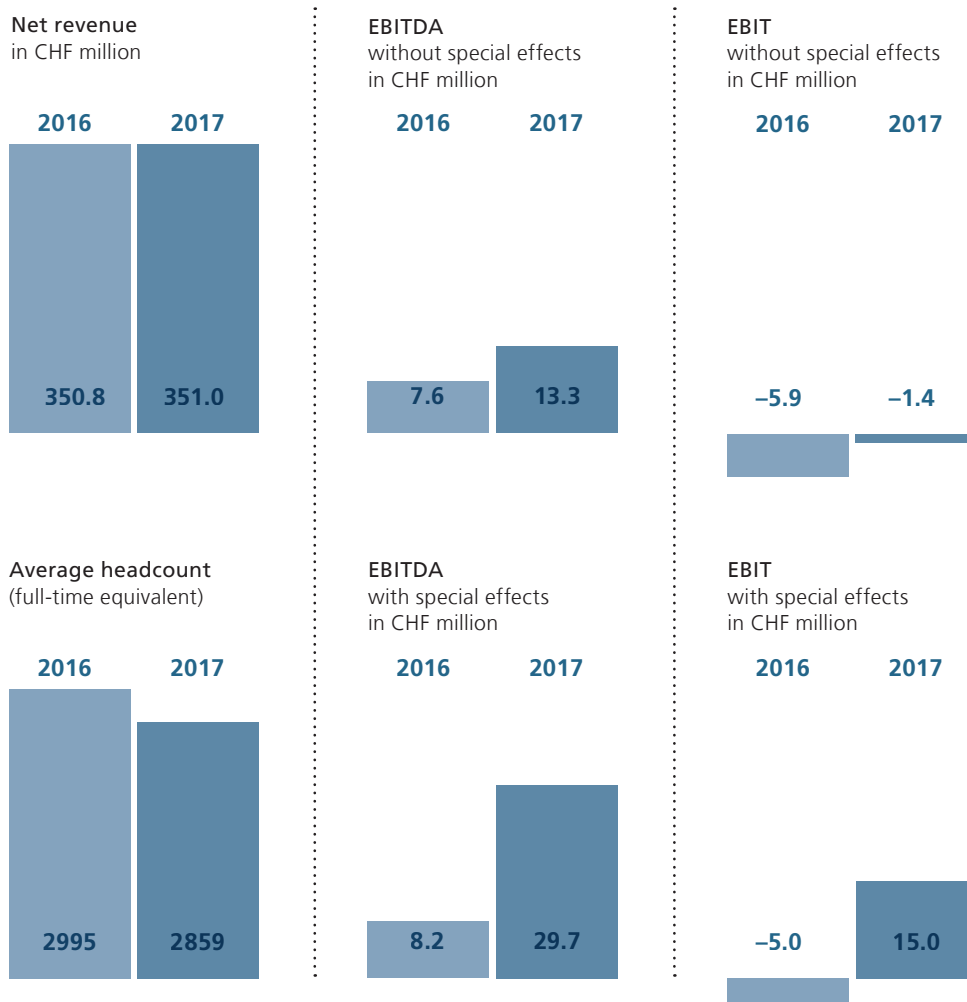
WINDOWS DIVISION

Consisting of EgoKiefer, Wertbau, Slovaktual and Dobroplast, the Windows Division is one of Europe's leading window manufacturers.

The four companies offer customised window systems made of wood, wood/aluminium, vinyl, vinyl/aluminium and aluminium, designed to accommodate any need. The extensive range of windows is further complemented by balcony and lift-and-slide doors, front doors and shade solutions.

The products are made in three centres of production expertise in Germany, Slovakia and Poland, as well as in a service shop for custom solutions in Switzerland. In its target markets, the division operates its own decentralised sales organisations and extensive dealer networks.





Market trends

The Windows Division maintained its revenue of CHF 351 million (previous year: CHF 350.8 million) during the reporting year. When adjusted for currency effects, this resulted in an decrease of -1.4%. The EBITDA rose significantly from CHF 8.2 million to CHF 29.7 million. This was achieved in spite of the negative impact of increases in the CHF-EUR exchange rate, which had an adverse effect on the result as well as the ramp-up and conversion costs for ongoing transformation projects, due to production within the euro zone and the high proportion of sales in Switzerland. Without special effects, the

EBITDA grew from CHF 7.6 million to CHF 13.3 million. The EBIT improved from CHF -5 million in the previous year to CHF 15 million, or without special effects from CHF -5.9 million in the previous year to CHF -1.4 million.

EgoKiefer successfully raised its volume of incoming orders in 2017. In comparison to the previous year, this resulted in an increase of around 5%. This positive trend has increased order volumes for the beginning of 2018 and will be reflected in revenues throughout the course of the year. With the launch of the new generation of wood/aluminium windows, the new vinyl and vinyl/aluminium lift-and-slide doors, and

the wood and wood/aluminium front doors, the product range received a major boost in terms of strength. Combined with its new vinyl and vinyl/aluminium windows, which were showcased at Swissbau 2018 and are due to go on sale in the second quarter of 2018, EgoKiefer has further enhanced the competitiveness of its range. In addition to these new products, the company also underwent a rebranding process and launched the "EgoKiefer Academy". The new academy is used to provide specialist trade partners and employees with ongoing professional development so that customers can receive even better support with their building projects.

The strong economic growth, good prospects on the labour market, and declining unemployment in Poland had a very positive impact on the housing market. Dobroplast benefited from this trend as a result and was able to increase its revenue. The company's focus was the launch of a new automated vinyl window production line at its Zambrow (PL) site. This production line has been producing the new P-Line window system since January 2018, setting new standards for window production in Poland. The new window system will enable Dobroplast to increase its revenue in Germany and other western European markets, while at the same time expanding its presence in the mid and upper price segments in Poland. The company's brand profile and logo also underwent a makeover.

Despite intense competition in 2017, Slovaktual was able to enhance its role as market leader in Slovakia, thanks to its strong sales presence. Sales to specialist companies were also increased in the Czech Republic and Austria. However, its withdrawal from the contractor services business in the Czech Republic in order to focus on its specialist trade business turned out to be a lateral development overall. As with EgoKiefer, Slovaktual's product range is currently undergoing comprehensive expansion and updates, forming the basis for future revenue growth. At the same time, the division is investing a significant sum in the expansion of its centre of production expertise in Pravenec (SK). For instance, an in-house insulating glass production facility

was launched in 2017 and window production capacities were further expanded.

At Wertbau, the focus for 2017 was on the introduction of the new generation of wood/aluminium windows and the ramp-up process at the new centre for production expertise, which went into operation in June. The restructure of production for future capacity expansion had a dampening effect on revenue development. While Wertbau continued to benefit from the large number of new construction projects in Germany through its contractor services business, its business with trade partners suffered from a stagnating renovation market.

Products, technology and innovation

The successful introduction of the new generation of wood/aluminium windows in the German-speaking markets marked the division's first ever cross-company and cross-market window platform. It will continue to drive forward this integrated approach in future.

In the reporting year, the division developed a pioneering standard vinyl profile platform, which will form the basis for the vinyl and vinyl/aluminium windows, lift-and-slide doors and balcony doors developed by the local sales organisations in future. New vinyl and vinyl/aluminium lift-and-slide doors based on this new 76mm and 88mm profile platform were launched in Switzerland, Austria, Slovakia and the Czech Republic in 2017. The products were very well received by customers, leading to the old 70mm (EgoKiefer) and 85mm (Slovaktual) lift-and-slide doors being withdrawn from the market in early 2018. New window systems based on the platform were presented to customers at the beginning of 2018 and will be available for sale from the second quarter onwards. In addition to outstanding technical results and a wide variety of design options, the designer bevel "Ego@Perfect" is particularly worth highlighting in this regard. Thanks to a new type of welding technology, visible bevels are now a thing of the past for laminated windows.

Along with the launch of the standard profile platforms, the companies have also harmonised their fittings, glazing options and other additional equipment. Using this consistent platform strategy enables the division to meet the highly varied and ever-increasing customer requirements in all target markets without increasing in-house complexity and parts stability to an excessive level. At the same time, this enables the division to combine the forces of all of its companies to simplify in-house processes – from procurement and production to delivery – and, as a result, improve costs, product availability and delivery performance.

Another milestone for 2017 was the launch of the in-house insulating glass production facilities at the Pravenec (SK) site. With a capacity of around 600 000 m² of insulating glass, it will cover over 90% of in-house demand in future. With this development, the range of insulating glass has been massively expanded in order to meet future technical directives in the field of personal safety and protection against falls in Switzerland and Germany.

Sustainability

Sustainability is a major element in the division's range of services; after all, windows that deliver superior standards of thermal insulation help to ensure that buildings use as few resources as possible for heating and cooling.

At every site, window production is carried out with consideration of the environment and in cutting-edge facilities. For instance, all lacquers used in the four-stage application process on wood windows at the Langenwetzendorf (D) site are water-based. The fully automated coating system allows for the best possible utilisation of the lacquer. A compressor station was installed at the Zambrow (PL) site in 2017 with the aim of recovering heat created during the coextrusion of vinyl profiles. The heat generated is used to heat the halls and thus helps to cut costs even further. Thanks to coextrusion systems installed at both the Pravenec and Zambrow sites, off-cuts from vinyl profiles are now

fed back into the production process instead of being thrown away.

However, sustainability also includes the ongoing support and development of employees and business associates. In light of this fact, the Division launched the "EgoKiefer Academy" in 2017. Offering a wide range of training opportunities for the fields of sales, technology, project management, assembly and other relevant areas, the aim of this facility is to reinforce and continuously enhance existing expertise. As well as on-site seminars and training courses, online tutorials are a popular form of teaching, enabling the academy to reach the relevant groups quickly without any travel expenses.

Outlook

2017 saw the implementation of important projects for transforming the division into an integrated European window manufacturer. These created the foundations needed to gain a significant share of the highly competitive European window market over the medium term and achieve above-average profitability.

The ramp-up process for the wood/aluminium window production in Langenwetzendorf (D), as well as the insulating glass production facilities in Pravenec (SK) and the other on-going change projects will continue to impact on the division in 2018. Due to the positive effects from the measures already implemented, the management assumes that revenue and profitability will increase significantly in 2018. The majority of the transformation is due to be complete by the end of 2018.

HIGHLIGHTS



“EgoKiefer Academy”: On-site experts

EgoKiefer's new training concept is helping to ensure that your local contact gets the best training possible. The Academy offers practical training and online tutorials so we can meet the requirements of tomorrow. It also features a brand new image: modern, online and transparent. EgoKiefer – Simply convenient.

EgoKiefer
Fenster und Türen

Launch of in-house insulating glass production

Right on schedule, the first panes of insulating glass ran off the in-house production line in Pravenec (SK) in November. One of the most cutting-edge insulating glass production systems in Europe has been installed in the newly built hall (12 000 m²). By the end of 2018, this system will be able to cover over 90% of in-house demand.



Fenster & Türen
Slovaktual[®]



A new benchmark in window production in Poland

The P-Line window system, which is produced on the new production line, is setting new standards in Poland when it comes to quality, process reliability and automation. A total of 800 windows are produced here every day using a 3-shift model. Along with the brand's new image, P-Line will help to significantly increase revenue from high-price segments.



Opening of the centre for wood/aluminium production expertise

The new wood/aluminium production facilities in Langenwetzendorf (D) launched operations in June. Around 200 000 m² of wood/aluminium windows could be produced here in future. A high level of automation across all stages and RFID control guarantee the highest standards of quality with much lower production times.



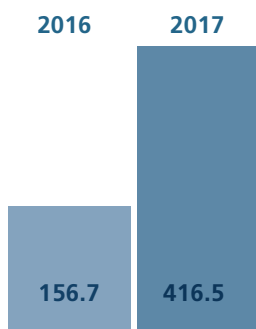
DOORS DIVISION

Consisting of the companies Prüm, Garant, Invado and RWD Schlatter, the Doors Division is one of Europe's leading providers of interior doors and timber frames. On 1 January 2017, RWD Schlatter acquired TPO Holzsysteme, a specialist in premium fire safety products. The Doors Division has four production sites: two in Germany, one in Switzerland and one in Poland.

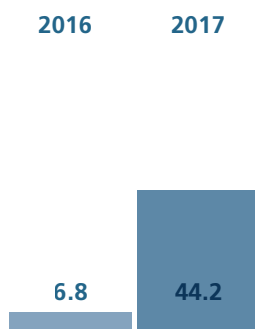
The Profile Systems Business Unit was taken over by the Belgian firm Reynaers with retroactive effect from 30 June 2017. The purchase agreement was signed on 14 December 2017. The transaction was then finalised on 22 January 2018.



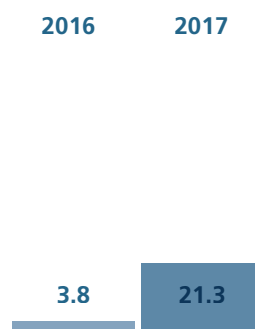
Net revenue
in CHF million



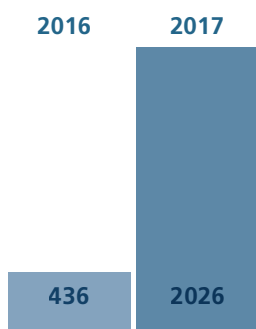
EBITDA
without special effects
in CHF million



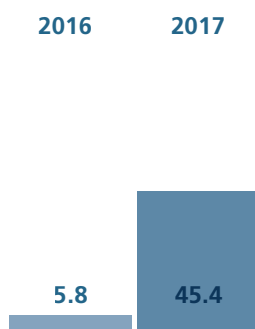
EBIT
without special effects
in CHF million



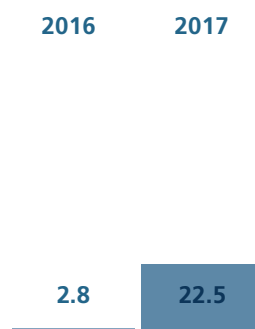
Average headcount
(full-time equivalent)



EBITDA
with special effects
in CHF million



EBIT
with special effects
in CHF million



Market trends

During the reporting year, the Doors Division achieved a revenue of CHF 416.5 million (previous year: CHF 156.7 million), which represents growth of 165.9%. On a pro forma basis (including Looser's door business, but without Forster Profile Systems) and adjusted for currency effects, the revenue increased significantly by 4.8%. The division's EBITDA amounted to CHF 45.4 million (CHF 5.8 million in the previous year). Without special effects, the EBITDA rose from CHF 6.8 million to CHF 44.2 million. The result for the EBIT amounted to CHF 22.5 million (CHF 2.8 million in the previous year). Excluding special effects, this resulted in an

EBIT of CHF 21.3 million (CHF 3.8 million in the previous year).

Forster Profile Systems was sold to the Belgian Reynaers Group on 22 January 2018. The following content therefore only relates to the interior door business.

The year 2017 was marked by a diverse market environment for the Doors Division. With an > 50% share of total revenue, Germany is the division's most important market by far, followed by Switzerland and Poland.

The German market continues to experience very positive growth. The total market for interior doors grew by around 2% in 2017 compared to the previous year, according to market studies. This can be primarily attributed to residential construction, where new constructions have increased by 4–5% in comparison to the previous year, while renovations recorded a slightly negative performance and non-residential construction remained constant, in comparison to the previous year. The sales growth of Prüm-Garant was significantly above market growth. The positive growth trajectory is also expected to continue in 2018 and 2019 at a rate of 2–3% per year. With Prüm and Garant, the Doors Division holds a market share of around 20% of the German interior door market.

The Swiss residential market remained at the same high level as previous years. The most important factor supporting residential construction is the continued high demand for investment properties, due to a lack of investment alternatives. Non-residential construction is on the decline. There is a lack of economic impetus in the commercial property sector. The retail trade and tourism continue to suffer from the euro exchange rate and an increase in online business. Office construction has been adversely affected by low employment growth and a trend towards open-plan offices and shared desks. Demand for construction in the public sector, including hospitals and schools, is growing. Within Switzerland, Arbonia holds a very strong position in the last two of the aforementioned segments. RWD Schlatter increased revenue in Switzerland by 5% in 2017 in comparison to the previous year.

The Polish residential market is benefiting from strong economic growth in Poland. The number of apartments completed in 2017 increased by over 5% compared to the previous year. This growth is driven by good labour market conditions with rising wages and falling unemployment. In 2017, revenue at Invado grew by over 10% compared to last year. The increasing affordability of mortgages and low interest rates may also contribute to a further increase in the number of completed homes in 2018.

Products, technology and innovation

One of the focuses of the year under review was the integration of Prüm, Garant and Invado into the Doors Division of the Arbonia Group. These companies perfectly complement RWD Schlatter. While RWD Schlatter holds extensive expertise in the production of functional doors for high security requirements, the strengths of Prüm, Garant and Invado traditionally lie in residential construction. The initial phase of their integration saw the expansion of RWD Schlatter's product range to include Prüm doors. As a result, RWD Schlatter's sales teams now have access to Prüm's extensive range of premium products. Furthermore, this helped to achieve positive progress in increasing sales of Prüm doors on the Swiss market in future. Due to the delays to the European standardisation process, Prüm and Garant are currently unable to sell RWD Schlatter functional doors in Germany. The harmonised product standard was originally due to be implemented in 2016, though now this may not take place until 2019. By pooling and renegotiating the purchasing volumes of Prüm, Garant and RWD Schlatter, significant savings have been achieved in the area of purchasing at RWD Schlatter.

New products developed by Prüm and Garant were presented at BAU Munich 2017, the world's leading construction trade fair. New developments included an expanded range of surfaces, a new glazing portfolio and a new line of white lacquer. Another point worth noting is the continuous enhancement of the functional doors segment, which now also includes doors with exceptionally high sound insulation.

In the age of digitalisation, it is not only products but also data that is key to success on the market. By combining product information management (PIM) and electronic business processes (EBP) in order processing workflows with clients, Prüm and Garant have adopted a leading role on the German door market.

Ongoing investments in state-of-the-art production facilities and processes, innovative technology, and the expansion of storage and logistics capacities are an essential requirement for ongoing

revenue growth and increasing market shares. In 2017, the Doors Division invested a total of CHF 23 million. This corresponds to an investment rate of 6.8% of net revenue. Plans for 2018 include extensive investments in new premium edging systems at Prüm and Garant, and a new door production hall and frame line at Invado. The investment programmes will help to expand these plants' capacities and form the basis for future growth. Due to the companies' above-average growth over the past few years, they are currently operating close to their limit in terms of capacity.

New extraction systems at the factory in Poland helped to significantly reduce dust levels for staff in 2017. In light of a decline in employee availability, the creation of attractive workplaces is becoming increasingly important.

Sustainability

The environment and sustainability play a central role in all companies in Arbonia's Doors Division. Its products have been awarded a number of sustainability certificates, be they for material sourcing, living standards or carefully planned material cycles. All companies in Arbonia's Doors Division are FSC-certified. The high standards of these certificates help to ensure sustainable forestry. The doors in RWD Schlatter's product range are among the most environmentally friendly on the market. Until very recently, RWD Schlatter was also the world's only door manufacturer to hold natureplus certification. Natureplus-certified products are developed especially and are proven to be free from harmful substances and toxic emissions.

Arbonia's Door Division also places the greatest possible emphasis on sustainability during the production of its doors. For instance, Prüm uses incinerators that directly extract any wood chippings generated during door and frame production and then use them to generate heat and process heat. In a further stage, the 10-megawatt thermal co-generation plant converts thermal energy leftover from the process heat and heating processes into electrical energy using two turbines and generators. Thanks to this system, Prüm can cover around 50% of its power requirements with its sustainable production plant. Prüm and Garant operate an energy management system in accordance with ISO 50001. All processes involving energy are logged and monitored using automated measurement points. The resulting key figures are translated into annual energy targets and used to improve and optimise processes.

Outlook

The companies in Arbonia's Door Division will continue to establish closer working relationships over the years to come. In future, this will take place at an organisational level, covering finance, human resources and IT, and will also include a collective purchasing strategy, a comprehensive approach to product management and close collaboration in the marketing area of Prüm, Garant and RWD Schlatter.

With regard to the market, Prüm is planning to increasing its share of the Swiss door market. Every year, interior doors valued at around CHF 70 million are imported from Germany to Switzerland. Arbonia's Doors Division is aiming to increase its participation in this market in future. The conditions for achieving this goal are ideal thanks to the combination of the leading specialist German door supplier, Prüm-Garant, and the leading provider on the local Swiss market, RWD Schlatter. Based on the positive market trends in Germany and Poland, we are expecting revenue to increase by 3–5% in 2018.

HIGHLIGHTS



BAU Munich 2017

Prüm and Garant attended BAU trade fair in Munich (D) with a wealth of new products and innovative customer solutions. The mood at the world's leading trade fair for the construction industry was positive throughout. Prüm and Garant's new line of surfaces, new glazing range and new series of white lacquers garnered a great deal of interest from customers.



The factory of the future

For Invado, the past three years have been marked by double-figure growth in revenue. Its production plant is currently operating at its limit in terms of capacity. In order to build a foundation for future growth, Arbonia's Board of Directors approved a CHF 15 million investment programme in 2017. This will be invested in a new door production hall and a new frame line. The additional, extensive investment programme is due to be implemented in the period 2018–2020.



Contract awarded for Graubünden hospital

By being awarded Switzerland's largest contract for interior doors in hospital construction, RWD Schlatter brought the year to a very successful end. The door volume includes doors and frames worth a value of around CHF 4.9 million. The products will be delivered in several stages until 2020. As the recipient of this high-status contract, RWD Schlatter has reinforced its pioneering role as a supplier of hospital doors on the Swiss market.



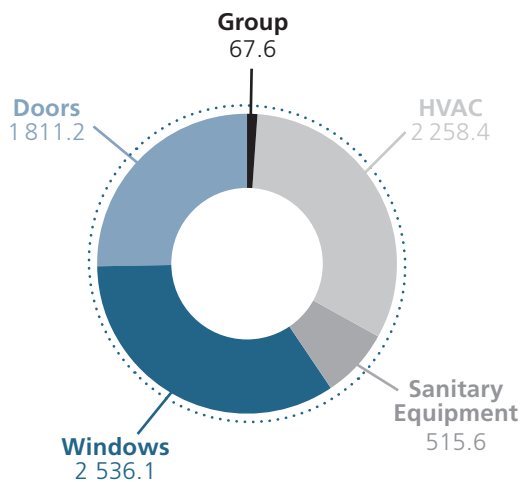
HUMAN RESOURCES

As a group with approximately 7 600 employees, the Arbonia Group bears its social responsibility to the best of its abilities.

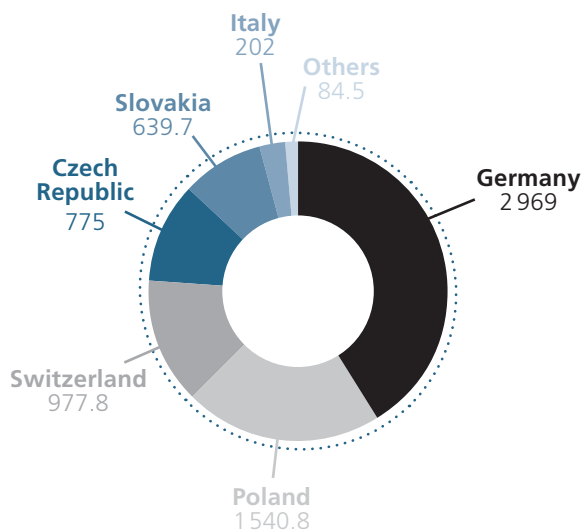
Employee welfare plays an important role in the Arbonia Group. In October 2017, Kermi launched a campaign to support an employee suffering from lymphocytic leukaemia.

The campaign encouraged staff to have their blood type tested while at work, a call to which around 100 employees responded. Kermi also donated EUR 4 500 to Stiftung Knochenmarkspende Bayern, a bone marrow donation charity from Bavaria (D) who helped to organise the testing campaign.

NUMBER OF EMPLOYEES (FTE'S) BY DIVISION AS OF 31 DECEMBER 2017



NUMBER OF EMPLOYEES (FTE'S) BY COUNTRY AS OF 31 DECEMBER 2017



Workforce development

As of 31 December 2017, the Arbonia Group had a workforce of 7188.9 employees, converted to full-time equivalents (in the continuing operations, without the Profile Systems Business Unit and the Conducta Group), which corresponds to a 2.3% decline compared to last year (7357.3 FTE's in the continuing operations).

Shifting production from Arbon (CH) to Střibro (CZ), from Vlotho (D) to Plattling (D), and from Altstätten (CH) to Langenwetzendorf (D) and Pravenec (SK) led to more job losses during the reporting year, particularly in Switzerland, but also meant that jobs were created abroad.

Vocational training in Switzerland

The Swiss companies Arbonia Services, EgoKiefer and RWD Schlatter train apprentices in the following careers, all of which are to Swiss Federal Certificate standard: Business clerk, IT specialist, media and technology specialist, logistics specialist, metal worker, metalwork designer and joiner. Vocational training was centralised on 1 July 2017 and is now part of the Corporate Human Resources department. With this move, Arbonia is aiming to ensure a standardised approach to training across Switzerland.

The company places a great deal of emphasis on high-quality training. At the annual induction days, young apprentices have the chance to get to know the company and receive training in the company's teaching methods and code of conduct. Apprentices receive a high degree of support throughout their training. The focus is on the defined goals, vocational school, individual concerns, and practical experience in the career in question. Arbonia offers successful graduates the opportunity to continue working at the company.

Recruitment

Staff recruitment is one of the Human Resources department's primary duties. Arbonia is always looking for ways to improve its recruitment processes. Whenever sensible, these processes should be standardised while also leaving enough scope for the site's specific circumstances. The goal is to attract the best and most

suitable employees and to inspire them to work for Arbonia for the long term. We conduct in-depth interviews, explaining our corporate goals and strategy. Each interview is accompanied by a follow-up meeting that helps to ensure the quality of the process. For external recruitment processes, Arbonia works with specially selected partners.

Support

Arbonia provides its staff with extensive support throughout their entire working relationship. The company shares its values in its introductory programmes. One measure that has proved successful is on-the-job training. Managers are trained up as trainers so that they can help staff to enhance their strengths and work on their weaknesses. One key development measure is something known as job enrichment. Employees with potential are entrusted with higher-status tasks, enabling them to qualify for a promotion.

Arbonia also encourages employee loyalty with its non-cash-based bonus systems. The success of these systems is reflected by long-serving, satisfied employees in all companies. Arbonia has defined a clear, fair procedure for employees leaving the company. Staff departure meetings are normally evaluated and measures are developed as a result in order to help cut fluctuation rates even further.

Staff welfare

In an effort to promote a balance between work and family life, Arbonia supports staff through all phases of life, for example by offering support when caring for ill family members or with child care. One example of this work is its cooperation with a childcare facility in close proximity to the production plant in Plattling (D).

The company also encourages employees to do their bit to help as well. In October 2017, a blood type testing campaign took place at a factory in aid of an employee diagnosed with leukaemia. Almost 100 colleagues took part in the test.

Standardised employment conditions

A few years ago, employment conditions were standardised for all Swiss companies based in Arbon. Previously, RWD Schlatter, EgoKiefer and Koralle on the other hand had their own employment conditions. Moreover, the general employment contract set out further provisions for employees covered by this agreement. The various employment conditions led to staff being treated differently within the Arbonia Group and also prevented transparency between the individual companies. They also generated additional work for the various in-house service providers. In light of these factors, Group Management resolved to harmonise standards. However, their plans only extended to the most important issues, allowing existing corporate cultures to continue to thrive. As part of these changes, Arbonia was able to align itself with a general employment contract issued by the industrial association Swissmem; this new solution helped to significantly improve communication with social partners. The project was rolled out in spring 2017 and was developed with the support of the various HR departments. After informing the HR Committee and the employees affected, the standardised employment conditions went into effect on 1 January 2018.

Integration of the Doors Division

The door manufacturers Prüm, Garant and Invado have been part of the Arbonia Group since December 2016. The integration of these three companies into the Doors Division was successfully completed in the reporting year. The restructured division is based on a matrix organisation, with the areas of sales and production remaining as far as possible in the countries in question for better market alignment. Support services on the other hand (such as finance, product management, human resources, processes and systems) are geared more towards functionality.

The Door Division's future strategy was drawn up in the first half of 2017. Arbonia's appeal on the job market was defined as an important core issue due to the demographic shift taking place in Central and Eastern Europe and ever-increasing global competition.

CORPORATE GOVERNANCE

This report complies with the Corporate Governance Directive (CGD) of the SIX Exchange Regulation dated 13 December 2016. Unless otherwise indicated, the disclosures apply as of 31 December 2017.

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

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

Peter Spirig
Head of the Doors Division

As of 1 January 2018, Arbonia AG split its Building Technology Division into a Heating, Ventilation and Air Conditioning Division and a Sanitary Equipment Division.

1.1.1 Operational Group structure

As of 31 December 2017, the operational group structure at Arbonia AG comprises (1) the Building Technology Division with the Heating Technology Business Unit, the Air-Conditioning and Ventilation Technology Business Unit, and the Sanitary Equipment Business Unit, (2) the Windows Division with the Windows and Exterior Doors Business Unit, and (3) the Doors Division with the Profile Systems Business Unit and the Interior Doors Business Unit (see divisional structure on page 16–17). Together with the Finance/Controlling/Reporting area, the three aforementioned divisions form the Group's operational structure as of 31 December 2017.

As of 31 December 2017, 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 as of 31 December 2017 can be found on pages 16–41.

On 15 June 2017, Arbonia AG announced that it had acquired 100% of shares in Looser Holding AG ("Looser Group") in consequence of a share purchase agreement and a public purchase and exchange offer concluded in the previous year.

On 14 November 2017, Arbonia AG announced that it had sold the Looser Group's Industrial Services Division. The sale was completed on 12 December 2017. As a result of this sale, the number of divisions at Arbonia AG fell from four to the three divisions previously described in paragraph 1.

On 15 December 2017, Arbonia AG announced that it had sold the Forster Profile Systems Business Unit. The sale was completed on 22 January 2018. The Doors Division has consisted exclusively of the Interior Doors Business Unit ever since the sale was completed.

On 23 January 2018, Arbonia AG announced that it was splitting its Building Technology Division into a Heating, Ventilation and Air Conditioning Division and a Sanitary Equipment Division with retroactive effect from 1 January 2018. As of 1 January 2018, Arbonia AG thus consists of four divisions again: (1) the Heating, Ventilation and Air Conditioning Division, (2) the Sanitary Equipment Division, (3) the Windows Division, and (4) the Doors Division.

As of 1 January 2018, the Arbonia Group Management comprises the interim CEO, the CFO and the heads of the four divisions.

Descriptions of the divisions as of 1 January 2018 can be found on pages 16–17.

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 161 (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 ISIN CH0110240600. Information about market capitalisation can be found in the supplementary information for investors on page 183. Other than Arbonia, none of the other Group companies included in the scope of consolidation are listed at any stock exchange in Switzerland or abroad.

1.2 Major shareholders

	31/12/2017		31/12/2016
	Voting and capital shares	Shareholding notification	Voting and capital shares
	In %		In %
Artemis Beteiligungen I AG	21.53	2016-12-17	20.48
Looser family shareholders	14.53	2017-09-19	14.88
Vontobel Fonds Services AG	3.01	2017-08-23	

On 17 December 2016, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 20.02%. As of 31 December 2017, the shareholding of Artemis Beteiligungen I AG amounts to 21.53%.

On 22 September 2016, the former family shareholders of Looser Holding AG (hereinafter "family shareholders") reported that they were forming a group with a 22.41% share of voting rights. The circumstances disclosed in the announcement (lock-up agreement and acting in concert) were related to the share purchase agreement signed by the family shareholders on 14 September 2016 for the acquisition of

the Looser Group by Arbonia. On 20 December 2016, the family shareholders reported a shareholding of 14.88%. On 19 September 2017, the family shareholders reported the cancellation of the lock-up obligation and a 14.53% shareholding of voting rights. All remaining obligations resulting from the share purchase agreement are still in place. The family shareholders are required to involve Arbonia in the sale of packages of over 300 000 Arbonia shares by the 2019 General Meeting, both to a suitable extent and according to certain pre-requisites. Depending on the extent of their total shareholding, the family shareholders are also entitled to put forward a certain number of candidates for election to the Arbonia Board of Directors until the 2019 Annual General Meeting but no later. For as long as the family shareholders are entered into the company's share register and recorded as holding at least 10% of voting rights, they are able to put forward two candidates for election to the Board of Directors. If the family shareholders are recorded in the Arbonia share register as holding between 5% and 10% of voting rights, their allotted number of candidates falls to one person.

On 23 August 2017, Vontobel Fonds Services AG reported a shareholding of 3.0103%.

Arbonia is not aware of any shareholders' agreements among its shareholders.

1.3 Cross-shareholdings

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

2. Capital structure

2.1 Capital

As of 31 December 2017, the ordinary capital of Arbonia is CHF 291 787 620.60, the conditional capital is CHF 10 700 117.40 and the authorised capital is also CHF 10 700 117.40. The company also holds authorised capital in the amount of CHF 616 564.20 for a limited period until 30 October 2018 according to Art. 3c of the Articles of Association; this authorised capital was established during the acquisition of the Looser Group in 2016. With Arbonia's acquisition of 100% of Looser Group shares, Art. 3c and the authorised capital defined within it (CHF 616 564.20) became invalid. At the Annual General Meeting on 20 April 2018, a request will be submitted to delete Art. 3c without replacement.

The ordinary capital is detailed in point 47 of the notes to the consolidated financial statements on page 148.

	Quantity	Nominal value	Share capital
Registered shares 31/12/2016	68 485 790	4.20	287 640 318.00
Registered shares 31/12/2017	69 473 243	4.20	291 787 620.60

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 by a maximum of CHF 33 600 000 by issuing a maximum of 8 000 000 fully paid-up registered shares of a par value of CHF 4.20 each at any time until 22 April 2018.

Various changes related to the authorised capital took place in 2016 and 2017 (see item 2.3). As of 31 December 2017, the authorised capital amounted to CHF 10 700 117.40. The Board of Directors is therefore authorised to increase the company's share capital by a maximum of CHF 10 700 117.40 by issuing a maximum of 2 547 647 fully paid-up registered shares until 22 April 2018.

In certain circumstances, the Board of Directors can exclude in whole or parts the preferential subscription right of shareholders in favour of third parties. Shares can be issued in one or multiple stages.

The authorised and conditional capital are available on an alternative instead of a cumulative basis. If new shares are issued based on the authorised capital, the conditional capital shall also decrease by the same amount as the authorised capital.

Conditional capital

The share capital may be increased by a maximum of CHF 10 700 117.40 by issuing a maximum of 2 547 647 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. Shareholders' subscription rights are excluded. If new shares are issued based on the conditional capital, the authorised capital shall also decrease by the same amount as the conditional capital.

Group of beneficiaries and terms and conditions

The group of beneficiaries and the terms and conditions for issuing shares from the authorised and conditional capital are described in Art. 3a and Art. 3b of the Articles of Association (available at www.arbonia.com/de/unternehmen/corporate-governance).

2.3 Changes in capital

In the past three years (2015 to 2017), share capital has increased seven times as a result of one ordinary capital increase and six 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 of a par value of CHF 4.20 per share, from CHF 76 547 532.60 to CHF 183 714 081.60. On 19 November 2015, the Board of Directors resolved to increase the ordinary share capital, including authorised share capital, by CHF 3 425 843.40 by issuing 815 677 new registered shares of a nominal 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 registered shares of a nominal 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 of a nominal value of CHF 4.20 each. On 12 December 2016, the ordinary share capital – including authorised capital – that was created with a view to the merger with Looser Holding AG was increased by CHF 85 570 783.20 by issuing 20 373 996 new registered shares of a nominal value of CHF 4.20 per share in accordance with Article 3c of the Articles of Association.

On 28 June 2017, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 2 520 000 by issuing 600 000 fully paid-up registered shares. Also on 28 June 2017, the Board of Directors resolved to increase the ordinary share capital – including authorised capital – that was created with a view to the merger with Looser Holding AG by CHF 1 627 302.60 by issuing 387 453 new registered shares of a nominal value of CHF 4.20 per share in accordance with Article 3c of the Articles of Association.

As of 31 December 2017, Arbonia's share capital amounts to CHF 291 787 620.60. The share capital is fully paid-up and divided into 69 473 243 registered shares of a nominal value of CHF 4.20 each.

2.4 Shares and participation certificates

The company has issued 69 473 243 registered shares at a nominal value of CHF 4.20. Each registered share grants the same entitlement to receive dividends and represents one vote at the General Meeting. No preferential rights have been granted. The company has not issued any participation certificates.

2.5 Dividend right certificates

The company has not issued any dividend right certificates.

2.6 Limitations on transferability and nominee registrations

2.6.1 Limitations on transferability

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

2.6.2 Granting of exceptions

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

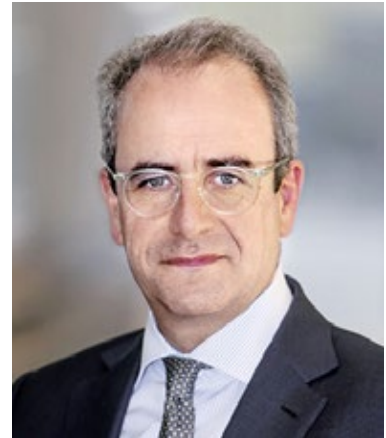
The Board of Directors of Arbonia consists of experts who cover the key subject areas of Arbonia as a building supplier. As part of the takeover of the Looser Group, Arbonia committed to reducing the number of proposed members of the Board of Directors to a maximum of seven at the 2018 General Meeting. The Board of Directors attaches due importance to the diversity of the body, reflecting one of the Group's corporate principles. When positions on the Board of Directors are filled in the future, women will be included in the list of potential nominations.

3.1 Members of the Board of Directors

On 31 December 2017, 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. Alexander von Witzleben has been a member of the Board of Directors of Artemis Holding AG, Hergiswil, since 20 May 2015. This company has a shareholding of 21.53% in Arbonia and a shareholding of 50.32% in Feintool Holding AG, Lyss. Alexander von Witzleben has been a member of the executive management of Arbonia on an interim basis since 1 July 2015. Aside from this, he has no material business relationships with Arbonia or its subsidiaries.



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

Peter Barandun



1964, Swiss citizen, resident in Einsiedeln SZ, Executive MBA HSG, non-executive Vice-Chairman of the Board of Directors since 17 April 2015 (2014–2015 non-executive member of the Board of Directors). 1985–1990 Deputy Head of Sales at Grossenbacher AG, St.Gallen; 1990–1995 Head of Sales Eastern Switzerland at Bauknecht AG, Lenzburg; 1995–1996 Head of Sales Switzerland/member of the management of Bauknecht AG, Lenzburg; 1996–2002 Director of the divisions Electrolux and Zanussi Electrolux AG, Zurich; since 2002 CEO 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.

Peter E. Bodmer

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

Other activities and vested interests: 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 INOVETICA Holding AG, Baar ZG; delegate of the Government Council of the Canton of Zurich responsible for the strategic development planning of Zurich university hospital and general coordination of the university district; delegate of the Foundation Board of Zurich innovation park, Zurich ZH; member of the Foundation Board of Profond Pension Fund, Zurich ZH; Member of the Foundation Board at Wilhelm Schulthess-Stiftung, 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; Chairman of the Board of Directors of Pizolbahnen AG, Bad Ragaz SG; Member of the Foundation Board of Stiftung Pizol mit Herz, Vilters-Wangs SG; judge at the commercial court in the Canton of St. Gallen, term of office 2017/2023; 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-Staufner AG, Oftringen; 2000–2001 Chief Executive Officer of Red Bull Sauber AG/Sauber Petronas Engineering AG, Hinwil; 2002–2006 Managing Director of Allianz Capital Partners GmbH, Munich (D); 2006–2010 Executive Vice-President Performance Products and Systems Divisions and DAS (Dow Agricultural Science Division) of The Dow Chemical Company, Midland MI (USA); 2010–2012 Executive Vice-President & Chief Commercial Officer of The Dow Chemical Company, Midland MI (USA); Executive Vice-President of The Dow Chemical Company, President Dow Europe, Middle East, Africa & India (EMEAI) since 2012. Heinz Haller has never been part of the executive management of 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; member of the Board of Directors at Limmat Wealth AG, Zurich ZH; member of Board of the Foundation of the innovation park Zurich, 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 subsidiaries of Arbonia (see pages 159/160).

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; Vice-President of the Board of Directors of Forbo Holding AG, Baar ZG; member of the Board of Directors of Rieter Holding AG, Winterthur ZH; member of the Board of Directors of Autoneum Holding AG, Winterthur ZH.

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. 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 onwards, 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; Arbonia acquired 100% of Looser Holding AG in June 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 Verwaltungen 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); until December 31, 2017 Chairman of the Advisory Board of Peri GmbH & Co. KG, Weissenhorn (D); since January 1, 2018 Chairman of the Management Board of Peri GmbH and CEO of the Peri Group, Weissenhorn (D).

Thomas Lozser



1961, Swiss and US citizen, resident in Novi, Michigan (USA), degree in engineering from ETH, MBA, non-executive member of the Board of Directors since 13 December 2016. 1987–1988 Quality Assurance Assistant, Elco, Vilters; 1988–1989 Manufacturing Engineer, MPI International, Deerfield, Wisconsin (USA); 1989–1992 Assistant to the President and Manager Computer Systems, MPI International, Rochester Hill, Michigan (USA); 1992–1998 General Manager and President/Plant Manager, Kautex Textron, Avilla, Indiana (USA); 1998–2000 Senior Vice President Operations, Kautex Textron, Troy, Michigan (USA); 2000–2002 President and shareholder, Magnetic USA Inc., Olney Illinois (USA); following the takeover by SKF USA Inc. 2002–2005 Vice President Sales Lineartechnik, SKF USA Inc. Bethlehem, Pennsylvania (USA); 2005–2010 CEO of the Coatings business unit at the former Looser Group, Arbon; independent entrepreneur since 2010. Thomas Lozser has never been part of the executive management of Arbonia. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: member of the Board of Directors of Mopec Inc., Oak Park, Michigan (USA); member of the Board of Directors at Industrielack Holding AG, Wangen SZ and Industrielack AG, Wangen SZ.

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

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

Board of Directors	Year of birth	First election	End of the term of office
Alexander von Witzleben, Chairman	1963	2015	2018
Peter Barandun, Vice-Chairman	1964	2014	2018
Peter E. Bodmer	1964	2013	2018
Markus Oppliger	1959	2013	2018
Heinz Haller	1955	2014	2018
Michael Pieper	1946	2015	2018
Rudolf Huber	1955	13/12/2016*	2018
Thomas Lozser	1961	13/12/2016*	2018

* 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, 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 28 April 2017. The members of the Compensation Committee also take care of the duties of the Nomination Committee. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015.

The Nomination and Compensation Committee is convened by the Chairperson of the committee as often as business requires, but at normally two to three times a year. The Nomination and Compensation Committee gives the Board of Directors recommendations regarding the Group's salary policy and compensation system. It submits a motion to the Board of Directors for the attention of the General Meeting regarding the total for the members of the Board of Directors and the fixed and variable compensation of the members of Group Management. The Nomination and Compensation Committee determines the salaries of the individual members of Group Management. It approves, in principle, bonus programmes and profit-sharing schemes for employees as well as pension fund solutions and benefit plans. The Nomination and Compensation Committee is also responsible for the preparation of the compensation report and the request to the full Board of Directors for approval. Furthermore, the committee determines the principles for the selection of candidates for election

to the Board of Directors and Group Management. It identifies suitable candidates for the Board of Directors and Group Management and conducts the requisite selection procedures. During the year under review, the Nomination and Compensation Committee worked on the appointment of the head of the new Heating, Ventilation and Air-Conditioning Division from 1 January 2018. In the year under review, the Nomination and Compensation Committee also approved a new bonus programme to enter into force on 1 January 2018.

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

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 and CFO attended all three meetings. At the subsequent meeting of the full Board of Directors, the Chairman reports on the meetings of the Nomination and Compensation Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors.

The meetings of the Nomination and Compensation Committee lasted one hour on average.

3.4.3 Working procedures of the Board of Directors

The Chairperson convenes the Board of Directors as often as business requires, but at least four times a year. During the year under review, the Board of Directors met for five ordinary meetings, one of which was a one-hour telephone conference. In the year under review, the Board of Directors performed its duties directly. Ordinary meetings of the Board of Directors usually last one day, and extraordinary meetings usually last one hour, though none of these took place in the year under review. The interim CEO and CFO attended all meetings in the reporting year. All members of Group Management attended the ordinary meetings of the Board of Directors. This does not include the aforementioned telephone conference; only the interim CEO and CFO attended this meeting on Group Management's behalf. Managers as well as representatives of Internal Audit are regularly invited to meetings to discuss issues that fall within their field of responsibility or scope of activities.

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

3.5 Regulation of powers

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

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

- Preparation of compensation requests for the General Meeting;
- Determination of the capital structure of the company;
- Issue of bonds, participation certificates, convertible bonds and options as well as determination of the terms and conditions;
- Determination of the strategy of the company, the divisions and the business units;
- Decisions concerning investments, joint ventures, real estates and participations, where these are of particular importance to the company and exceed a certain level;
- Annual risk assessment for the company;
- Notification of the court in the event of over-indebtedness.

The division of powers between the Board of Directors and Group Management is set out in detail in the by-laws (available at www.arbonia.com/en/company/organisation) 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. The Internal Audit provided the members of the Board of Directors with 14 audit reports during the year under review. 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.

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

4. Group Management

4.1 Members of Group Management

As of 31 December 2017, the 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; 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.



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 Kermi 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.

As of 1 January 2018, Arbonia AG split its Building Technology Division into a Heating, Ventilation and Air Conditioning Division and a Sanitary Equipment Division. The head of the new Heating, Ventilation and Air Conditioning Division is Ulrich Bornkessel, who became a member of Group Management on 1 January 2018. Knut Bartsch remains a member of Group Management, taking over the Sanitary Equipment Division on 1 January 2018.



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 67–76.

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

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

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

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

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

5.3 Loans, credit and pension benefits

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

5.4 Rules concerning voting at the General Meeting on compensation

Pursuant to Art. 23 of the Articles of Association, for each compensation period the Board of Directors brings forward motions for the General Meeting concerning prospective approval of the maximum compensation of the Board of Directors for the period until the next ordinary General Meeting and of the maximum fixed and variable compensation of Group Management for the next financial year. Art. 23 of the Articles of Association grants the Board of Directors the right to waive prospective approval of compensation on motions and to have the General Meeting approve the total amount of the corresponding payment in arrears for the previous official or financial year (retrospective approval). In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. Every year, the Board of Directors submits the compensation report for the financial year ended to the General Meeting for consultative (non-binding) approval. More details on votes on compensation 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*

On 28 April 2017, the General Meeting elected KPMG AG, St. Gallen, as the new statutory auditor. It audits the annual financial statements and the 2017 consolidated financial statements of Arbonia.

8.1.2 *Assumption of office of the lead auditor*

Kurt Stocker has held the position of lead auditor since 28 April 2017.

8.2 Auditing fees

In 2017, the various auditors billed a total of CHF 817 000 (previous year: CHF 923 000) for auditing the statutory accounts and consolidated financial statements of Arbonia and the statutory accounts of Group companies. Of this amount, the statutory auditor KPMG AG accounted for CHF 642 000 in 2017. (In the previous year, CHF 703 000 of the aforementioned CHF 923 000 was accounted for by the previous statutory auditor PricewaterhouseCoopers AG, St. Gallen).

8.3 Additional fees

In 2017, a sum of CHF 445 000 was charged for additional services by the statutory auditors KPMG AG and the statutory auditors of other Group companies; KPMG AG accounts for CHF 334 000 of this sum (Last year, the previous statutory auditor PricewaterhouseCoopers AG and the statutory auditors for other Group companies charged CHF 628 000 for additional services, CHF 551 000 of which were accounted for by PricewaterhouseCoopers AG.) In 2017, CHF 99 000 of the additional services performed by KPMG AG were for tax consultancy services, CHF 219 000 for work related to due diligence and CHF 16 000 for other services.

8.4 Informational instruments pertaining to the external audit

The external auditors attended a total of three meetings of the Audit Committee in the year under review. KPMG AG attended two of these three meetings, while PricewaterhouseCoopers AG, St. Gallen, attended one meeting on the basis of its mandate as statutory auditor until 28 April 2017. 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). Two 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. The annual report's integral components are the Management report from page 3 and the compensation report from page 67. 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 13 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:

Arbonia AG
Amriswilerstrasse 50, P.O. Box, 9320 Arbon,
Switzerland
T +41 71 447 41 41, F +41 71 447 45 88
holding@arbonia.com

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 calendar of events is provided on page 189 of the annual report and at www.arbonia.com/en/investors.

COMPENSATION REPORT

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2017 (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 77.

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 compensa-

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

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

	Board of Directors	Group Management
Fixed compensation	Basic fee plus extra pay for committee chairmanship and membership in committees. ¹ At least 50% of the fee in shares restricted for four years ²	Basic salary including fringe benefits in cash ³ on the basis of individual classification (function, experience, skills)
Variable compensation	None	Compensation in % of the basic salary depending on the financial and personal targets. A total of 40% 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 3.1).

2 One member of the Board of Directors is resident in the USA and receives his fee in cash only (see 3.4).

3 In his function as interim CEO, the Chairman and delegate of the Board of Directors receives fixed compensation containing both a cash element and an element in temporarily restricted shares (see 4.1).

4 In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 4.2).

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

2. Organisation and competencies

The Compensation Committee also performs the Nomination Committee's duties. The Compensation and Nomination Committee is responsible for the Group's compensation policy, particularly at the uppermost level of the company. It also assists the Board of Directors in the identification and selection of candidates for the Board of Directors and Group Management. The duties and competencies of the Nomination and Compensation Committee are set out in the Articles of Association and in the by-laws and regulation of powers. The committee submits motions for decision to the Board of Directors and makes proposals and recommendations.

Among other things, its duties include:

- Periodic review of the salary policy and the compensation system
- Annual review of the fixed compensation of the Board of Directors
- Annual review of the fixed and variable compensation of Group Management
- Assessment of the performance of the members of Group Management
- Identification of candidates for the Board of Directors and Group Management
- Determination of the principles for the management and development of the members of the Board of Directors and Group Management

The committee is made up of three members. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. Every year, the members are individually elected by the General Meeting for one year. The Chief Financial Officer is normally invited to the meetings of the Nomination and Compensation Committee. Members of the Board of Directors not on the committee did not attend committee meetings during the year under review but received the meeting minutes and are kept informed by the Chairman of the Nomination and Compensation Committee in the subsequent meeting of the full Board of Directors following each committee meeting about any significant decisions and measures relating to the compensation process and compensation system. The

Nomination and Compensation Committee met three times during the year under review.

3. Compensation of the Board of Directors

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. At the General Meeting on 20 April 2018, a decision shall be made on total compensation for the members of the Board of Directors for the year of office 2017/2018, which shall also end on the same day. On 20 April 2018, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 947 000 for the year of office 2017/2018.

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

3.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. This remained unchanged for the year of office 2017/2018. The basic fee for the office of Chairman of the Board of Directors is CHF 240 000. The Vice-Chairman receives a fee of CHF 80 000, with the other members of the Board of Directors receiving a fee of CHF 60 000 each. In addition to this 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).

3.2 Variable compensation

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

3.3 Allowances and in-kind benefits

The members of the Board of Directors are paid lump-sum allowances. The Chairman of the Board of Directors receives a lump-sum allowance amounting to CHF 15 000 per annum; members of the Board of Directors resident in Switzerland receive a lump-sum allowance of CHF 6 000 per annum and members of the Board of Directors resident outside of Switzerland receive a lump-sum allowance of CHF 12 000 per annum.

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

3.4 Shares and options

At least 50% of the compensation paid to the members of the Board of Directors, including the compensation paid to committee members, is paid in the form of restricted Arbonia shares. The remaining 50% can either be paid out in cash or up to another 30% in restricted Arbonia shares. Members of the Board of Directors who are resident outside of Switzerland and the European Union receive their full Board of Directors fee in cash.

Making the Board of Directors take their fees in the form of restricted shares is designed to ensure that the incentive system is consistent with the long-term prosperity of the company, encourage a management philosophy which takes due account of risk, and reflect shareholder interests. According to the Board Member Share Plan approved by the Board of Directors, at least 50% of the net fees for the Board of Directors, i.e. the Board of Directors fees minus lump-sum allowances and withholding taxes, takes the form of restricted Arbonia shares. When members of the Board of Directors are domiciled in the European

Union, the Swiss withholding tax is treated as compensation paid in cash. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period to determine the Fair Market Value will begin no later than the tenth trading day after publication of the annual results. 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.

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

3.5 Attendance fees

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

3.6 Loans and credit

According to Art. 26 of the Articles of Association, no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of the Board of Directors. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The Chairman of the Board of Directors exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2017.

3.7 Compensation, loans and credit to related parties

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

3.8 Signing bonus and termination benefits

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

4. Compensation of Group Management

At the General Meeting of 22 April 2016, the shareholders approved a maximum total of the fixed and variable compensation in the amount of CHF 4 600 000 for the members of the Group Management for the 2017 financial year. At the Extraordinary General Meeting held on 1 November 2016, the shareholders approved an increase of CHF 400 000 in the maximum total, amounting to a total of CHF 5 000 000. This increase was related firstly to the rising price of Arbonia shares, which form part of Group Management members' compensation; under the prospective voting system in place at the time, the rising prices had been anticipated one year in advance for the financial year 2017, thus making the change necessary. Secondly, the increase was also related to a change in Group Management, which resulted in a slight rise to the salary structure.

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

4.1 Fixed compensation

The compensation of the members of Group Management depends on the individual function as well as the qualification and experience of the person that assumes the function. In 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. In the year under review, the company began reassessing the Group Management and key functions within the Arbonia Group using the Hay Group Grading System.

The fixed compensation for the members of Group Management is paid out in cash, while the fixed com-

penetration for the delegate of the Board of Directors and interim CEO is paid out in cash and in shares. In the reporting year, the fixed compensation paid out to the delegate of the Board of Directors was made up of a cash element amounting to CHF 280 000 as well as 60 000 in shares. The shares are subject to the provisions of the share-based payment programme (see 4.4) and are restricted for four years.

4.2 Variable compensation

In the reporting year, the variable compensation (nominal bonus) accounted for up to 120% 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. If a member of Group Management meets his targets in full, he receives a variable payment (nominal bonus) laid down in his or her individual agreement. The financial and personal goals 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% 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.

In the reporting year, one member of the Group Management received the contractually agreed nominal bonus due to extraordinary performance and extraordinary overtime work that was in line with the group result, even though the divisional financial targets were not fully met.

The personal targets can be fulfilled at a maximum of 100%, whilst such a target must be met with at least 40%, 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).

For the management and implementation of projects that are of key importance to the Arbonia Group and that require an above-average level of work, the company can enter into individual bonus agreements with certain employees in addition to the normal bonus programme. In the reporting year, one member of Group Management received variable compensation for the achievement of personal goals related to projects of central importance for the Arbonia Group and additional to the goals named in the bonus regulations. The Group Management member in question received this bonus in addition to the bonus paid out according to the bonus regulations; the additional bonus was paid out exclusively in Arbonia shares limited to four years and subject to the share-based payment programme (see 4.4).

4.3 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 6 600 a year.

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

4.4 Shares and options

During the reporting year, a maximum of 60% of the variable compensation was paid out in cash and a maximum of up to 70% was paid out in the form of an allocation of shares under the share-based payment programme approved by the Board of Directors on 1 May 2014. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period to determine the Fair Market Value will begin no later than the tenth trading day after publication of the annual results. 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.

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

4.5 Privileges

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

4.6 Loans and credit

According to Art. 26 of the Articles of Association, no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of Group Management. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The delegate of the Board of Directors and interim CEO exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2017.

4.7 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 six 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.

4.8 Compensation, loans and credit to related parties

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

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

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

4.10 Pension benefits

Group Management members with Swiss employment contracts are insured under the Arbonia pension scheme and the Arbonia senior management pension scheme. The Arbonia senior management pension scheme covers the fixed salary not covered under the basic scheme and 80% of the contractual nominal bonus against old age, death and incapacity risks. According to the Swiss Occupational Pensions Act (OPA), the maximum salary including bonus to be considered is limited to CHF 846 000 (as of 1 January 2017, 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 2017). 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 2017

5. Board of Directors

5.1 Changes in the Board of Directors

At the end of the year of office 2016/2017, Christian Stambäck decided not to stand for re-election to the Board of Directors. This reduced the size of the Board of Directors to eight members. There were no other changes in comparison to the previous year. This means that Alexander von Witzleben is the Chairman of the Board of Directors and Peter Barandun is Vice-Chairman. Alexander von Witzleben has been the delegate of the Board of Directors and interim CEO since 1 July 2015.

Compared to the 2016 financial year, the total fee of the Board of Directors increased slightly. This is due to the fact that since 13 December 2016, two new or additional members of the Board of Directors – Thomas Lozser and Dr. Rudolf Huber – have joined. While their fees only had a pro rata temporis and thereby marginal impact on the total compensation of the Board of Directors in the 2016 financial year, these fees were fully posted in the 2017 financial year.

5.2 Table

							2017
	Functions exercised in 2017	Fee in cash in 1000 CHF	Fee in shares in 1000 CHF	Pension expenses ¹ in 1000 CHF	Other compensa- tion ² in 1000 CHF	Total in 1000 CHF	
Alexander von Witzleben ³	Chairman Interim CEO Member of the AC Member of the NCC	120	150	14	15	299	
Peter Barandun	Vice-Chairman Chairman of the NCC	40	73	6	6	125	
Peter E. Bodmer ⁴	Member Member of the AC	31	47	0	6	84	
Markus Oppliger	Member Chairman of the AC	39	49	5	6	99	
Heinz Haller	Member Member of the NCC	28	51	4	6	89	
Michael Pieper	Member	24	44	2	6	76	
Thomas Lozser	Member	60	0	4	12	76	
Rudolf Huber	Member	40	26	4	6	76	
Christian Stambach ⁵	Member until 28.04.2017	9	11	1	2	23	
Total compensation to members of the Board of Directors		391	451	40	65	947	

1 Employer contributions to social insurance policies

2 Lump-sum allowances

3 The compensation paid to Alexander von Witzleben in 2017 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his services as interim CEO totalling CHF 1 369 119 is included in the compensation paid to Group Management in chapter 6.2.

4 The compensation for Peter E. Bodmer for the period of office 2017/2018 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

5 Christian Stambach is a partner of the law firm Bratschi AG (formerly Bratschi Wiederkehr&Buob AG), which until 28.04.2017 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 159/160.

						2016
	Functions exercised in 2016	Fee in cash	Fee in shares	Pension expenses ¹	Other compensa- tion ²	Total
		in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Alexander von Witzleben ³	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 insurance policies

2 Lump-sum allowances

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 services as interim CEO totalling CHF 733'873 is included in the compensation paid to Group Management in chapter 6.2.

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 reporting year. Concerning the fees for services of the law firm, see pages 159/160.

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.

6. Group Management

6.1 Changes in Group Management

There were no changes to Group Management between the reporting year and the previous year. This means that Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015. Group Management is made up of five members, including the chairman.

In the reporting year, the total compensation of the Group Management increased slightly compared with 2016. This is based on two factors. On the one hand, the Board of Directors decided to increase the cash portion of Alexander von Witzleben's fixed salary in his role as interim CEO and delegate of the Board of Directors to CHF 280 000. On the other hand, the value of the share package which was allocated to him increased to CHF 999 618 due to the increase in value of the shares.

6.2 Table

	2017		2016		
	Group Management ³	thereof Alexander von Witzleben, interim CEO	Group Management ³	thereof Alexander von Witzleben, interim CEO ⁴	thereof Felix Bodmer, CFO
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Annual salary (cash)	1 784	280	1 995	120	552
Annual salary (shares)	999	999	560	560	
Variable compensation (cash)	530		611		133
Variable compensation (shares)	700		381		111
Pension expenses ¹	689	83	713	47	157
Other compensation ²	110	7	160	7	28
Total	4 812	1 369	4 420	734	981
Number of members	5		6		

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

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

3 The compensation of Knut Bartsch is paid in euros. The underlying conversion rate is 1.11 for 2017 and 1.09 for 2016.

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 Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 67–76) of Arbonia AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in sections 3.6, 4.6, 5.2 and 6.2 of the compensation report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the compensation report for the year ended 31 December 2017 of Arbonia AG complies with Swiss law and articles 14–16 of the Ordinance.

Other Matter

The compensation report of Arbonia AG for the year ended 31 December 2016 was audited by another auditor who expressed an unmodified opinion on this report on 17 February 2017.

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2018

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

KPMG AG is a subsidiary of KPMG Holding AG, which is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved.

Financial report

Consolidated Financial Statements Arbonia Group

Financial commentary	82
Consolidated Income Statement	86
Consolidated Statement of Comprehensive Income	87
Consolidated Balance Sheet	88
Consolidated Statement of Cash Flows	90
Consolidated Statement of Changes in Equity	92
Notes to the Consolidated Financial Statements	93
Report of the Statutory Auditors on the Consolidated Financial Statements	163

Financial Statements Arbonia AG

Income Statement	172
Balance Sheet	172
Notes to the Financial Statements	174
Proposal of the Board of Directors	178
Report of the Statutory Auditors on the Financial Statements	179

FINANCIAL COMMENTARY BY FELIX BODMER

The net revenue from continuing operations of the Arbonia AG (without Conducta and Forster Profile Systems) increased in 2017 by 35.9% to CHF 1 245.6 million. On a pro forma basis (including Looser's doors business and the Koralle Group), Arbonia achieved a growth of 2.6%, when adjusted for currency and acquisition effects. This growth was achieved in a financial year that was marked by production facility relocations, rising raw material prices and the integration of Looser's doors business and the Koralle Group.

Arbonia's net revenue including discontinued operations (Conducta and Forster Profile Systems) reached CHF 1 378.5 million in 2017, which corresponds to an increase of 38.5% in comparison to the previous year. When adjusted for currency and acquisition effects, growth came to 1.5%. The companies of the Looser and Koralle Group, which were consolidated for the full year for the first time, contributed significantly to the solid performance.

In the annual financial statements as of 31 December 2017, the income statement was adjusted due to the sales of the Industrial Services Division (Conducta) and Forster Profile Systems Business Unit. The income statement for the 2017 financial year includes both segments and the Coatings business, which also originates from the Looser Group, as a total in the group result from discontinued operations. The income statement for the 2016 financial year had to be adjusted insofar that due to the sale Forster Profile Systems was allocated to the group result from discontinued operations. The Coatings business and Industrial Services Division are no longer included in the balance sheet as of 31 December 2017 because they were deconsolidated as a result of closing. Forster Profile Systems, on the other hand, is still included in "Assets held for sale" and "Liabilities associated with assets held for sale" because the closing was only completed in January 2018. Adjustments to the balance sheet as of 31 December 2016 resulted solely from the final purchase price allocation of the Looser Group.

Group restructuring remains on course

After the small profit of the previous year (CHF 7.6 million), a profit of CHF 46.4 million resulted in the 2017 financial year. Net income from continuing operations amounted to CHF 37.6 million (previous year CHF 5.4 million). Discontinued operations contributed CHF 8.8 million (previous year CHF 2.2 million) to the group result after deducting the costs of sale. Without one-time effects the group result from continuing operations amounts to CHF 22.8 million (previous year CHF 9.4 million). The strategic measures introduced in 2015 were implemented as planned in the 2017 financial year. This applies in particular to the relocation of the wood/aluminium window production from Altstätten (CH) to Langenwetzendorf (D) and the relocation of the shower partition wall production of the Koralle Group, acquired in 2016, from Vlotho (D) to Plattling (D). The relocation of the plastic window production to Pravenec (SK) and the special radiator production to Stříbro (CZ) was already completed in 2016. Due to personnel shortages in all Eastern European countries and the resulting delays in ramping up production, as well as due to other projects such as the construction of a panel radiator plant in Russia or the startup of insulating glass production for plastic windows in Slovakia, we do not expect the Group's restructuring to be completed until the end of 2018. Nevertheless, Arbonia is expected to make further significant progress in the 2018 financial year.

As in the previous year, the income statement for the 2017 financial year is affected by a number of special effects resulting from the restructuring of the Group. This includes income from the sale of property, in particular the sale of the EgoKiefer site in Altstätten (CH), as well as reductions in pension obligations, but also additional expenses resulting from the sale of divisions and various relocation projects. Overall, the one-time effects had a clearly positive effect on the group result.

Due to the operational improvement and various effects, EBITDA from continuing operations in the 2017 financial year increased to 9.7% of net revenue (previous year 7.1%) or to CHF 120.3 million in absolute terms (previous year CHF 65.3 million). Including the discontinued operations, Arbonia even generated EBITDA of CHF 140.6 million. EBITDA from continuing operations without one-time effects – at 8.1% of net revenue – represented a significant improvement over the previous year (6.7%). All three divisions improved compared to 2016.

In the Doors Division, the acquisition of the companies of the Looser Group made a significant contribution to this improvement. EBIT from continuing operations without one-time effects rose to 3.4% of net revenue (previous year 2.8%). In absolute figures and with one-time effects, EBIT amounts to CHF 61.3 million (previous year CHF 27.2 million).

The net financial expense figure of CHF 10.9 million (previous year CHF 13.9 million) performed significantly better during the 2017 financial year despite the markedly higher net indebtedness. This is due to the fact that there were no significant capital increases in 2017 and interest rates remained at a low level. The stronger euro had a slightly negative impact.

The tax expenses under IFRS increased to CHF 12.8 million (previous year CHF 8 million) due to the higher group result. Due to the improved results of the Swiss Group companies, the effective tax rate of 25.5% almost reached the 20–25% target range expected for 2018. The weighted average Group tax rate of 24.5% for the 2017 financial year is now only slightly below the effective tax rate.

High shareholders' equity ratio with sharply reduced net indebtedness

Due to the sale of business units of the former Looser Group and real estate, the balance sheet total of Arbonia as of 31 December 2017 decreased to CHF 1 416.6 million (previous year CHF 1 526.9 million). This led to the equity ratio on the balance sheet date rising further to 60.9% (previous year 47.7%). Even if goodwill had been deducted from shareholders' equity and the balance sheet total, the equity ratio would have been 54%.

Free cash flow (cash flow from operating activities and investing activities) for the 2017 financial year amounts to CHF 190.4 million (previous year CHF –67.3 million). In addition to the inflows from the sale of business units and real estate, a strong improvement in cash flow from operating activities also contributed to the good cash flow. Without one-time effects from these sales, the free cash flow would have been CHF –35.8 million (previous year CHF –25.8 million). It was burdened by the further increase in investments of CHF 104.6 million (previous year CHF 57.7 million). Investments are likely to remain at a similarly high level in 2018 and 2019.

Thanks to the sale of the Coatings business and the Industrial Services Division of the former Looser Group and the sale of real estate, net indebtedness was reduced from CHF 225.1 million to CHF 43.3 million as of 31 December 2017. Including the sale of the Forster Profile Systems Business Unit, which was closed in January 2018, net indebtedness would have been practically CHF 0 million. The net indebtedness ratio (net indebtedness/EBITDA) was reduced to –0.34 (previous year –1.91). All key financial indicators are maintained.

**CONSOLIDATED
FINANCIAL
STATEMENTS
ARBONIA
GROUP**

Consolidated Income Statement

	Note	2017		2016	
		in 1000 CHF	in %	in 1000 CHF	in %
Continuing operations				restated¹	
Net revenues	31	1 245 565	100.0	916 440	100.0
Other operating income		35 068	2.8	16 882	1.8
Capitalised own services		4 183	0.3	2 318	0.3
Changes in inventories of semi-finished and finished goods		399	0.0	-13 575	-1.5
Cost of material and goods		-570 691	-45.8	-397 908	-43.4
Personnel expenses	46	-411 576	-33.0	-324 128	-35.4
Other operating expenses		-182 642	-14.7	-134 718	-14.7
EBITDA		120 306	9.7	65 311	7.1
Depreciation, amortisation and impairments	37-39	-59 046	-4.7	-38 077	-4.2
EBIT	31	61 260	4.9	27 234	3.0
Financial income	51	2 550	0.2	1 465	0.2
Financial expenses	51	-13 443	-1.1	-15 318	-1.7
Group result before income tax		50 367	4.0	13 381	1.5
Income tax expense	52	-12 819	-1.0	-8 028	-0.9
Group result from continuing operations		37 548	3.0	5 353	0.6
Group result from discontinued operations after taxes	36	8 824	0.7	2 250	0.2
Group result		46 371	3.7	7 603	0.8
Attributable to:					
Shareholders of Arbonia AG		46 378		7 603	
Non-controlling interests		-7			
Earnings per share from continuing operations in CHF	47	0.55		0.11	
Earnings per share from discontinued operations in CHF	47	0.13		0.05	
Earnings per share in CHF	47	0.68		0.16	
Basic and diluted earnings are identical.					

¹ see note 36

The notes on pages 93-162 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	2017	2016
	in 1000 CHF	in 1000 CHF
Group result	46 371	7 603
Other comprehensive income		
<i>Items that will not be reclassified to income statement</i>		
Remeasurements of employee benefit obligations	32 871	7 835
Deferred tax effect	-6 239	-992
Total items that will not be reclassified to income statement	26 632	6 843
<i>Items that may be subsequently reclassified to income statement</i>		
Currency translation differences	57 587	-2 706
Cumulative currency translation differences transferred to the income statement	-367	15
Total items that may be subsequently reclassified to income statement	57 220	-2 691
Other comprehensive income after taxes	83 852	4 152
Total comprehensive income	130 223	11 755
Attributable to:		
Shareholders of Arbonia AG	130 085	11 755
Non-controlling interests	138	
Total comprehensive income from continuing operations	118 482	5 943
Total comprehensive income from discontinued operations	11 603	5 812

The notes on pages 93–162 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	31/12/2017		31/12/2016	
		in 1000 CHF	in %	in 1000 CHF	in %
Assets				restated¹	
Cash and cash equivalents	32	82 703		111 754	
Securities				2 360	
Accounts receivable	33	126 387		115 777	
Other current assets		26 261		21 746	
Inventories	34	168 558		173 033	
Deferred expenses		6 441		4 856	
Current income tax receivables		3 569		1 841	
Financial assets	35			1 200	
Assets held for sale	36	47 725		154 143	
Current assets		461 644	32.6	586 710	38.4
Property, plant and equipment	37	471 053		459 934	
Investment property	38	13 507		11 308	
Intangible assets	39	208 978		227 400	
Goodwill	39	212 118		218 490	
Deferred income tax assets	45	5 570		8 949	
Capitalised pension surplus	46	33 542		5 933	
Financial assets	35	10 207		8 126	
Non-current assets		954 975	67.4	940 140	61.6
Total assets		1 416 619	100.0	1 526 850	100.0

	Note	31/12/2017		31/12/2016	
		in 1000 CHF	in %	in 1000 CHF	in %
Liabilities and shareholders' equity				restated¹	
Accounts payable		108 053		91 913	
Advance payments by customers		20 636		26 739	
Other liabilities		27 539		26 797	
Financial debts	41	107 276		322 217	
Finance lease liabilities	37	2 010		2 115	
Accruals and deferred income		74 221		65 053	
Current income tax liabilities		12 968		12 686	
Provisions	44	20 812		23 836	
Liabilities associated with assets held for sale	36	12 724		30 145	
Current liabilities		386 239	27.3	601 501	39.4
Financial debts	41	12 265		20 213	
Finance lease liabilities	37	10 904		12 221	
Other liabilities		13 124		12 217	
Provisions	44	10 146		11 067	
Deferred income tax liabilities	45	65 124		78 262	
Employee benefit obligations	46	55 698		62 618	
Non-current liabilities		167 261	11.8	196 598	12.9
Total liabilities		553 500	39.1	798 099	52.3
Share capital	47	291 787		287 640	
Share premium		526 319		518 043	
Treasury shares	48	-8 265		-8 576	
Other reserves	49	-29 759		-86 979	
Retained earnings		83 037		8 489	
Shareholders' equity attributable to equity holders of Arbonia AG		863 119	60.9	718 617	47.1
Non-controlling interests	50			10 134	
Shareholders' equity		863 119	60.9	728 751	47.7
Total liabilities and shareholders' equity		1 416 619	100.0	1 526 850	100.0

¹ see note 2 "Restatement of prior year figures"

The notes on pages 93–162 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2017	2016
		in 1000 CHF	in 1000 CHF
Group result		46 371	7 603
Depreciation, amortisation and impairments	37–39	68 216	39 607
Profit/loss on disposal of non-current assets and subsidiaries	36–38	–26 038	–3 929
Changes in non-cash transactions	55	14 497	4 297
Changes in working capital (excluding cash and cash equivalents)	55	–43 053	11 724
Changes in current liabilities	55	8 763	–27 336
Cash flows from operating activities - net		68 756	31 966
To investment activities			
Purchases of property, plant and equipment	37	–101 549	–56 805
Purchases of investment properties	38	–110	–227
Purchases of intangible assets	39	–2 938	–699
Acquisition of subsidiaries/businesses (net of cash acquired)	40	–2 081	–61 824
Issuance of financial assets	35	–2 441	–4 414
From divestment activities			
Proceeds from sale of property, plant and equipment	37	26 615	24 730
Proceeds from sale of investment properties	38	7 283	2
Proceeds from sale of intangible assets		67	
Disposal of subsidiaries (net of cash disposed)	36	196 806	
Repayment of financial assets		10	8
Cash flows from investing activities - net		121 662	–99 229

	Note	2017	2016
		in 1000 CHF	in 1000 CHF
From financing activities			
Proceeds from financial debts	41/55	35 636	419 219
Net proceeds from issuance of share capital	47	3 032	31 349
Proceeds from sale of treasury shares		2 032	2 535
To financing activities			
Repayments of financial debts	41/55	-267 305	-453 277
Finance lease liability payments		-2 394	-2 132
Purchase of non-controlling interests	50	-2 160	
Purchase of treasury shares	48	-2 054	-2 564
Cash flows from financing activities - net		-233 213	-4 870
Effects of translation differences on cash and cash equivalents		2 638	13
Change in cash and cash equivalents		-40 157	-72 120
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	111 754	201 440
Cash and cash equivalents as of 01/01 discontinued operations		17 566	
Cash and cash equivalents as of 31/12 continuing operations	32	82 703	111 754
Cash and cash equivalents as of 31/12 discontinued operations		6 460	17 566
Change in cash and cash equivalents		-40 157	-72 120
Supplementary information for operating activities:			
Interest paid		6 233	8 785
Interest received		798	814
Income tax paid		12 970	9 699

The notes on pages 93–162 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Attributable to equity holders Arbonia	Non-controlling interests	Total shareholders' equity
		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 31/12/2015		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	56			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
Group result						46 378	46 378	-7	46 371
Other comprehensive income after taxes	49				57 075	26 632	83 707	145	83 852
Total comprehensive income					57 075	73 010	130 085	138	130 223
Issuance of share capital (net)	47	4 147	8 276				12 423		12 423
Changes in treasury shares	48			-1 535		1 241	-294		-294
Share based payments	56			1 846		1 456	3 302		3 302
Purchase of non-controlling interests	50				145	-1 159	-1 014	-10 272	-11 286
Total transactions with owners		4 147	8 276	311	145	1 538	14 417	-10 272	4 145
Balance at 31/12/2017		291 787	526 319	-8 265	-29 759	83 037	863 119		863 119

The notes on pages 93–162 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, Windows and Doors. Manufacturing plants are located in Switzerland, Germany, Italy, the Czech Republic, Poland and Slovakia. Arbonia owns major brands such as Kermi, Arbonia, Prolux, Koralle, Sabiana, EgoKiefer, Slovaktual, Dobroplast, Wertbau, RWD Schlatter, Prüm, Garant and Invado and possesses a strong position in its home markets in Switzerland and Germany. The Group focuses mainly on the development of existing markets in Central and Eastern Europe. Arbonia is represented in over 70 countries worldwide.

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

These consolidated financial statements have been approved for issue by the Board of Directors of Arbonia AG on 19 February 2018 and require approval from the Annual General Meeting on 20 April 2018. The publication of the consolidated financial statements occurred on 27 February 2018 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 2017

Arbonia has adopted in 2017 the following amended standard:

– Amendments to IAS 7 "Statement of cash flows" – disclosures

The amendment to IAS 7 introduces an additional disclosure that enables users of financial statements to evaluate changes in liabilities arising from financing activities. The adoption of this amended standard did not affect the Group's financial statements for 2017 (see note 55).

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
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

IFRS 9 introduces new principles for the classification and measurement of financial assets and liabilities. The adoption of IFRS 9 will not significantly affect the Group's financial statements.

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. Arbonia has analysed the impact of this standard for all companies. There will only be changes for companies that are operating in the

project business. Previously, revenue was recognised only with the existence of a signed acceptance protocol. With the new standard, revenue recognition for these transactions occurs in the amount of the expected consideration over the period of the provided services (planning, production, assembly, acceptance). Arbonia will apply the modified retrospective conversion method, e.g. previous year figures are not restated and the cumulative first-time effect of IFRS 15 as of 1 January 2018 is recognised in retained earnings. Based on initial analyses, retained earnings from the initial application of this standard will not change significantly.

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 16 will affect the Group's financial statements. Arbonia will soon systematically analyse and assess the impact of this standard on its financial statements.

The adoption of the remaining new or amended standards will not significantly affect the Group's financial statements.

Restatement of prior year figures

In the 2016 consolidated financial statements, the acquisition of Looser Group on 13 December 2016 (see note 40) and thus the fair values of the acquired assets and liabilities were only assessed on a provisional basis. Within the prescribed assessment period after the acquisition date, the definite fair values were determined in 2017. This resulted in the following adjustments:

Balance sheet as of 31/12/2016

	reported		restated
	in 1000 CHF	in 1000 CHF	in 1000 CHF
Assets held for sale	156 643	-2 500	154 143
Current assets	589 210	-2 500	586 710
Property, plant and equipment	458 063	1 871	459 934
Intangible assets	215 115	12 285	227 400
Goodwill	226 014	-7 524	218 490
Non-current assets	933 508	6 632	940 140
Total assets	1 522 718	4 132	1 526 850
Provisions	34 438	465	34 903
Deferred income tax liabilities	74 595	3 667	78 262
Total liabilities	793 968	4 131	798 099
Shareholders' equity attributable to equity holders of Arbonia AG	718 617		718 617
Non-controlling interests	10 134		10 134
Shareholders' equity	728 751		728 751
Total liabilities and shareholders' equity	1 522 718	4 132	1 526 850

The reclassifications in the balance sheet had no effect on other parts of the consolidated financial statements 2016.

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 2017

- As of 31 January 2017, Arbonia acquired 100% of TPO Holz-Systeme GmbH, DE-Leutershausen (see note 40).
- Between 27 February 2017 and 26 June 2017, Arbonia sold via asset and share deals all operating entities of the discontinuing Coatings operation (see note 36).
- As of 12 December 2017, Arbonia sold the Industrial Services business unit (see note 36).

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).

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

4 Full consolidation

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

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

5 Capital consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to Arbonia. The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Contingent considerations are measured at fair value as a cost of the acquisition. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement. 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	2017		2016	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.1709	1.1115	1.0734	1.0898
GBP	1	1.3196	1.2682	1.2513	1.3349
USD	1	0.9763	0.9847	1.0199	0.9854
CZK	100	4.5846	4.2262	3.9726	4.0327
PLN	100	28.0731	26.1310	24.2631	24.9849
CNY	100	14.9985	14.5783	14.6904	14.8467
RUB	100	1.7002	1.6888	1.6822	1.4771

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 or net present value (FL AC/NPV). 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.

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

12 Cash and cash equivalents

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

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, which was sold in 2017, operated the rental and trading of assets (space systems, cranes, construction equipment and mobile sanitary units), which generated 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 (brands, patents, technologies, client relationships, distribution channels, etc.) are carried at fair value less accumulated amortisation, calculated using the straight-line method based on estimated useful lives as stipulated under note 21.

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

20 Impairment of assets

Assets subject to amortisation and depreciation, such as property, plant and equipment, 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	Usefull 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
Vehicles	5–10
Tools and moulds	5
Office furniture and equipment	up to 5
IT-hardware	up to 5
Capitalised research and development costs	up to 5
Intangible assets (mainly IT-software)	up to 5
Intangible assets from business combinations	
Client relationship	7–20
Brands, distribution channels, technologies	10–20
Order backlog	up to 2

Land is not systematically depreciated.

22 Provisions

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

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

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

23 Employee benefit obligations

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

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

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

24 Financial debts

Current and non-current financial debts consist of 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, which was sold in 2017, sold and rented space systems, cranes, construction equipment and mobile sanitary units to customers. The contracts could be terminated by the customer usually at any time. The majority of the customers had the possibility to purchase the rented equipment. These leases were 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, 2016 and 2017. Retained earnings include also remeasurements of employee benefit obligations.

Treasury shares are deducted from shareholders' equity. The cost of these treasury shares and the consideration received from the sale of these instruments (net of trans-

action 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 2017, the carrying amount of accounts receivable totalled CHF 126.4 million. Therein an allowance for doubtful debts of CHF 12.4 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 2017, the carrying amount of inventory was at CHF 168.6 million. Therein a provision for inventories of CHF 15.3 million is included. A falling market demand or falling sales prices could lead to addition-

al 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 2017, the carrying amount of property, plant and equipment totalled CHF 471.1 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 2017, the carrying amount of goodwill was at CHF 212.1 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 2017, the carrying amount of intangible assets acquired in a business combination amounted to CHF 201.5 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 2017, the carrying amount of the provisions totalled CHF 31 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 2017, the underfunding amounted to CHF 22.2 million, thereof CHF 33.5 million recorded in the balance sheet as capitalised pension surplus and CHF 55.7 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 2017, the carrying amount of deferred tax assets before offsetting totalled CHF 19.9 million. For further information on income taxes, see notes 45 and 52.

C Explanation to certain positions of the consolidated financial statements

31 Segment information

Arbonia is organised into the divisions and segments, respectively Building Technology, Windows, Doors and Industrial Services (until its sale as of 12 December 2017). 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 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, Russia, Poland and the Czech Republic.

Windows Division

The Windows Division with the brands EgoKiefer, Slovaktual, Dobroplast and Wertbau is one of the largest international European window and door manufacturers. The division develops, produces, assembles and sells a full range of windows and exterior doors. The products are

made of materials such as wood, synthetics and aluminium and are manufactured in own plants in Slovakia, Poland, Germany and Switzerland.

Doors Division

The Doors Division consists of the business units Doors and Profile Systems. The business unit Doors owns the brands RWD Schlatter, Prüm, Garant, Invado and TPO. RWD Schlatter is specialized in the production of special wooden doors for interiors. Prüm and Garant are among the leading manufacturers of interior doors and door frames in Europe and Invado to the leading suppliers of interior doors and door frames in Poland. The products are developed and produced in Switzerland, Germany and Poland. 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. On 14 December 2017, Arbonia signed a contract for the sale of the business unit Profile Systems. The closing of the transaction occurred in January 2018.

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. The business unit was sold as of 12 December 2017, therefore the results of this segment are only included through this period.

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".

	2017					
	Building Technology	Windows	Doors	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	554 965	350 965	416 519	56 325	-318	1 378 456
Sales with other segments	24	7		2	-33	
Net revenues	554 989	350 972	416 519	56 327	-351	1 378 456
Segment results I (EBITDA)	64 147	29 735	45 438	12 912	-11 667	140 565
<i>in % of net revenues</i>	<i>11.6</i>	<i>8.5</i>	<i>10.9</i>	<i>22.9</i>		<i>10.2</i>
Depreciation and amortisation	-20 218	-14 754	-22 931	-7 983	-1 977	-67 863
Impairment property, plant and equipment/investment properties					-1 009	-1 009
Reversal of impairment	591	64				655
Segment results II (EBIT)	44 520	15 045	22 507	4 929	-14 653	72 348
<i>in % of net revenues</i>	<i>8.0</i>	<i>4.3</i>	<i>5.4</i>	<i>8.8</i>		<i>5.2</i>
Interest income	157	62	65		639	923
Interest expenses	-2 839	-4 445	-2 580	-195	1 638	-8 421
Minority share from associated companies		-1 244				-1 244
Other financial result	-2 734	-3 197	-2 583	-114	7 911	-717
Result before income tax	39 104	6 221	17 409	4 620	-4 465	62 889
Income tax expense	-8 949	-1 155	-4 621	-1 079	670	-15 134
Result after income tax	30 155	5 066	12 788	3 541	-3 795	47 755
Average number of employees	3 019	2 859	2 026	170	65	8 139
Total assets	522 801	289 714	581 646		19 631	1 413 792
thereof associated companies		5 786				5 786
Total liabilities	269 917	253 605	193 367		-165 534	551 355
Purchases of property, plant and equipment, investment properties and intangible assets¹	45 147	26 756	25 284	6 535	1 400	105 122

¹ without acquisition of subsidiaries

restated ¹						2016
	Building Technology	Windows	Doors	Industrial Services	Others and eliminations	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 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 employees²	2 835	2 995	436		60	6 325
Total assets	446 753	235 402	504 361	130 075	56 117	1 372 708
thereof associated companies		4 173				4 173
Total liabilities	217 404	234 689	183 490	40 911	91 461	767 955
Purchases of property, plant and equipment, investment properties and intangible assets³	28 924	21 629	1 779		28 651	80 983

¹ see note 2 "Restatement of prior year figures"

² without Looser Group

³ 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.

The consolidated financial statements were prepared in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" and the related disclosures and adjustments of certain prior-year figures.

The above-mentioned segment information however follows internal management reporting, which is why the discontinued operations per note 36 consisting of Profile Systems and Industrial Services are also included.

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

	2017				
	Continuing operations	Discontinued operations Industrial Services	Discontinued operations Profile Systems	Others and eliminations	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	1 245 565	56 326	76 566	-1	1 378 456
Segment results I (EBITDA)	120 306	11 018	8 473	768	140 565
<i>in % of net revenues</i>	<i>9.7</i>	<i>19.6</i>	<i>11.1</i>		<i>10.2</i>
Segment results II (EBIT)	61 260	3 036	7 286	766	72 348
<i>in % of net revenues</i>	<i>4.9</i>	<i>5.4</i>	<i>9.5</i>		<i>5.2</i>
Interest result	-7 458	-162	24	98	-7 498
Other financial result	-3 435	-148	-652	2 274	-1 961
Result before income tax	50 367	2 726	6 658	3 138	62 889
Income tax expense	-12 819	-1 079	-1 236		-15 134
Result after income tax	37 548	1 647	5 422	3 138	47 755
Total assets	1 368 946		44 845		1 413 792
Total liabilities	540 776		10 579		551 355

	2016				
	Continuing operations	Discontinued operations Industrial Services	Discontinued operations Profile Systems	Others and eliminations	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	916 440		78 907		995 347
Segment results I (EBITDA)	65 312		2 964	411	68 687
<i>in % of net revenues</i>	<i>7.1</i>		<i>3.8</i>		<i>6.9</i>
Segment results II (EBIT)	27 234		1 435	411	29 080
<i>in % of net revenues</i>	<i>3.0</i>		<i>1.8</i>		<i>2.9</i>
Interest result	-8 209		-71	226	-8 054
Other financial result	-5 644		-543	783	-5 404
Result before income tax	13 381		821	1 420	15 622
Income tax expense	-8 028		9		-8 019
Result after income tax	5 353		830	1 420	7 603
Total assets	1 208 561	130 075	34 072		1 372 708
Total liabilities	718 350	40 911	8 694		767 955

The segment results of continuing operations include intra-group expenses concerning allocation of costs on the discontinued operations, that will be incurred by the group despite the abandonment of the discontinued operations. This leads to a discharge for the discontinued operations. Discontinued operations already include sales costs in 2017 (see note 36).

Information about geographical areas

	2017			
	Switzer-land	Germany	Other countries	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	417 086	537 510	423 860	1 378 456
Property, plant and equipment, investment properties, intangible assets and goodwill	124 288	442 851	347 002	914 141

	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	243 934	389 508	283 691	917 133

Major customers

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

32 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
CHF	46 960	51 578
EUR	15 833	48 211
PLN	2 627	5 774
USD	124	212
GBP	454	1 093
CZK	1 759	1 816
RUB	12 122	1 054
Other currencies	2 824	2 016
Total	82 703	111 754

The effective interest on bank deposits is 0.0% (2016: between 0.0% and 0.01%).

33 Accounts receivables

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Accounts receivable	138 745	126 233
Allowance for accounts receivable	-12 358	-10 456
Total	126 387	115 777

The ageing analysis is as follows:

	31/12/2017		31/12/2016	
	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	110 211	109 134	95 987	91 469
Overdue up to 30 days	14 010	9 447	13 255	13 198
Overdue more than 30, less than 60 days	3 105	2 856	4 935	4 876
Overdue more than 60, less than 90 days	1 548	1 377	1 597	1 569
Overdue more than 90, less than 180 days	2 614	2 098	3 245	2 935
Overdue more than 180, less than 360 days	1 445	764	1 990	1 287
Overdue more than 360 days	5 812	711	5 224	443
Total	138 745	126 387	126 233	115 777

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 16.4 million (2016: CHF 18.4 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:

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	-10 456	-9 050
Foreign exchange differences	-785	76
Changes in scope of consolidation	376	-937
Additional allowances	-6 845	-5 263
Used during year	5 001	4 566
Unused amounts reversed	73	152
Reclassification to assets held for sale	278	
Balance at 31/12	-12 358	-10 456

In the allowance for doubtful debts, specific allowances in the amount of CHF 4.8 million (2016: CHF 3.7 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 2017 the book value of the transferred receivables amounted to CHF 14 million (2016: CHF 9.4 million). Thereof Arbonia already received from the factor CHF 11.7 million (2016: CHF 8.1 million) of cash and the difference of CHF 2.3 million (2016: CHF 1.3 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2016: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2016: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2017 to CHF 0.003 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.02 million.

34 Inventories

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Raw material and supplies	73 432	66 726
Semi-finished and finished goods	87 656	85 294
Goods purchased for resale	7 085	19 695
Prepayments	385	1 318
Total	168 558	173 033

A provision of CHF 15.3 million (2016: CHF 19.8 million) has been provided for obsolete and slow-moving items and is deducted from inventories. As of the balance sheet date, there are no inventories written down to the net realisable value (2016: CHF 0.2 million). In 2017 no write-downs to net realisable value were recorded (2016: CHF 0.02 million).

35 Financial assets

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Investments in associated companies >20% <50%	5 786	4 173
Other financial assets	417	411
Loans	4 004	4 742
Total	10 207	9 326
thereof disclosed as current assets		1 200

Associated companies

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	4 173	
Foreign exchange differences	503	-119
Acquisition of associated companies	2 354	4 414
Minority share from associated companies	-1 244	-122
Balance at 31/12	5 786	4 173

As of 30 March 2017, Arbonia acquired a 35% minority share of a German online windows dealer through payment of CHF 2.4 million. Arbonia can exercise a call option to acquire the remaining shares in 2021 or 2022. The current shareholders can exercise in 2022 or 2023 their put option to sell the remaining shares.

As of 18 April 2016, Arbonia acquired a 31% minority share of 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 remaining current 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 these associated companies is disclosed in condensed form.

Associated companies - Balance sheet

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Current assets	23 822	19 952
Non-current assets	10 036	10 167
Total assets	33 858	30 119
Current liabilities	18 674	12 391
Non-current liabilities	9 781	9 750
Shareholders' equity	5 404	7 978
thereof other comprehensive income	-48	5
Total liabilities and shareholders' equity	33 858	30 119

Associated companies - Income statement

	2017	2016
	in 1000 CHF	in 1000 CHF
Net revenues	72 992	60 423
Group results after taxes	-4 007	-3 310

Business transactions with associated companies

Sale of goods and services	4 276	1 685
Purchase of services	110	
Receivables at balance sheet date	87	174

Loans

Two loans with a book value of CHF 2.3 million (2016: 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. As a result of the published insolvency of the debtor originating from the sale of the kitchen business, the remaining loan of CHF 1.2 million was written-off during the reporting period. Further

loans relate to the sale of a business within the Looser Group.

The ageing analysis for loans is as follows:

	31/12/2017	
	Gross amount loans	thereof not impaired
	in 1000 CHF	in 1000 CHF
Not yet due	5 758	4 004
Overdue more than 30, less than 60 days	600	
Overdue more than 60, less than 90 days	1 200	
Overdue more than 90, less than 180 days	1 200	
Total	8 758	4 004

	31/12/2016	
Not yet due	8 152	4 742
Total	8 152	4 742

As of the balance sheet date, Arbonia has secured loans in the amount of CHF 4.1 million (2016: CHF 3.8 million).

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

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	-3 410	-4 552
Foreign exchange differences	-144	2
Additional allowances	-1 200	
Used during year		1 140
Balance at 31/12	-4 754	-3 410

In the impairment of loans, specific impairments of CHF 4.8 million (2016: CHF 3.4 million) are included.

36 Non-current assets held for sale and discontinued operations

On 14 December 2017, a contract for the sale of the business unit Profile Systems was signed between Arbonia and Belgian Reynaers Group. The closing of the transaction occurred in January 2018. In accordance with IFRS 5, Arbonia reports the business unit Profile Systems as of 31 December 2017 as discontinued operations. All prior-year figures in the income statement and the accompanying notes have been adjusted accordingly. Previous year's figures in the balance sheet, however, were not adjusted.

Likewise Arbonia reports the business unit Industrial Services, which was sold as of 12 December 2017, as discontinued operations. In the consolidated balance sheet as of 31 December 2017, assets and liabilities of the discontinued operations Profile Systems and remaining parts of the segment Coatings, are disclosed in the respective held for sale asset and liability positions.

Assets held for sale and discontinued operations

	31/12/2017	31/12/2016 ¹
	in 1000 CHF	in 1000 CHF
Cash and cash equivalents	6 196	
Accounts receivable	8 591	
Other current assets	1 001	
Inventories	13 429	
Accrued income	876	
Current income tax receivables	58	
Property, plant and equipment	5 567	
Intangible assets	2 919	
Deferred income tax assets	23	
Capitalised pension surplus	6 238	
Assets of the segment Coatings ¹	2 827	154 143
Total	47 725	154 143

¹ see note 2 "Restatement of prior year figures"

Liabilities associated with assets held for sale and discontinued operations

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Accounts payable	2 959	
Advance payments by customers	87	
Other liabilities	742	
Financial debts	1	
Accruals and deferred income	2 054	
Current income tax liabilities	774	
Provisions	378	
Deferred income tax liabilities	3 232	
Employee benefit obligations	353	
Liabilities of the segment Coatings	2 144	30 145
Total	12 724	30 145

Discontinued and sold operations

Disposal of Industrial Services

	2017
	in 1000 CHF
Assets	
Cash and cash equivalents	4 467
Accounts receivable	6 555
Other current assets	395
Inventories	11 226
Deferred expenses	166
Property, plant and equipment	72 005
Intangible assets	41 479
Total assets	136 293
Liabilities	
Accounts payable	3 487
Other liabilities	2 314
Financial debt	9 975
Accruals and deferred income	4 317
Current income tax liabilities	470
Provisions	39
Deferred income tax liabilities	16 979
Employee benefit obligations	4 169
Total liabilities	41 750
Net assets	94 543
Cash and cash equivalents disposed	-4 467
Net assets excluding cash and cash equivalents	90 076
Gain on disposal	3 326
Net cash inflow from disposal	93 402

On 03 July 2017, Arbonia announced its intention to consider new owners for the business unit Industrial Services. On 13 November 2017, Arbonia and German Paragon Partners signed a contract for the sale of this business. The closing of the transaction occurred on

12 December 2017. From the sale of this operation, accumulated currency translation differences in the amount of CHF 0.3 million resulted, which have been transferred from equity to the income statement and credited to the financial result of discontinued operations.

Disposal of Coatings

	2017
	in 1000 CHF
Assets	
Cash and cash equivalents	14 534
Other current assets	55 280
Non-current assets	82 495
Total assets	152 309
Liabilities	
Current liabilities	27 427
Non-current liabilities	5 753
Total liabilities	33 180
Net assets	119 129
Cash and cash equivalents disposed	-14 534
Net assets excluding cash and cash equivalents	104 595
Deferred purchase price payment	-2 486
Gain on disposal	1 295
Net cash inflow from disposal	103 404

On 9 August 2016, the Looser Group announced its intention to begin the sales process of the segment Coatings. Arbonia therefore disclosed the segment Coatings in accordance with IFRS 5 as of 31 December 2016 as discontinued operations. The assets and liabilities of the discontinued segment were shown in the consolidated balance sheet as of 31 December 2016 in one line item in the respective assets held for sale and liabilities held for sale positions. On 26 June 2017, the last business of the Coatings segment was sold. The first of two instalments from the deferred purchase price of CHF 2.5 million was paid on time in November 2017. The second instalment will become due by the end of May 2018.

From the sale of this operation, accumulated currency translation differences in the amount of CHF 0.1 million resulted, which have been transferred from equity to the income statement and credited to the financial result of discontinued operations.

Result from discontinued operations

	2017	2016
	in 1000 CHF	in 1000 CHF
Net revenues	181 627	78 907
Other operating income	1 094	543
Capitalised own services	273	51
Changes in inventories of semi-finished and finished goods	-2 653	-1 130
Cost of material and goods	-78 446	-38 000
Personnel expenses	-50 787	-23 782
Other operating expenses	-35 412	-13 214
EBITDA	15 696	3 375
Depreciation, amortisation and impairments	-9 170	-1 529
EBIT	6 526	1 846
Financial result	260	395
Result from discontinued operations before income tax	6 786	2 241
Income tax expense	-2 583	9
Result from discontinued operations	4 203	2 250
Gain on disposal of discontinued operations	4 621	
Net result from discontinued operations	8 824	2 250

Discontinued operations include the results of the business unit Profile Systems for the entire two year period. The results of the business unit Industrial Services and Coatings are included in 2017 for the period up to the respective sale.

The results for the reporting period comprise sales costs for the disposal of the Coatings segment of CHF 6 million, of which CHF 1 million is included in personnel

expenses and CHF 5 million in other operating expenses. The results for the reporting period comprise sales costs for the disposal of the business unit Industrial Services of CHF 2.5 million, of which CHF 0.6 million is included in personnel expenses and CHF 1.9 million in other operating expenses. From the sale of these two segments, accumulated currency translation differences in the amount of CHF 0.4 million resulted, which have been transferred from equity to the income statement and credited to the financial result.

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

Cash flow from discontinued operations

	2017	2016
	in 1000 CHF	in 1000 CHF
Cash flow from operating activities	11 471	2 541
Cash flow from investing activities	-8 761	-713
Cash flow from financing activities	-1 778	

Neither the cash inflows nor the sales costs from the two segments sold in 2017 are included in the above table.

37 Property, plant and equipment

	Land and buildings ¹	Plant and machinery ¹	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 01/01/2016	178 949	99 261	14 435	12 717	305 362
Cost					
Balance at 01/01/2016	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 ¹	49 177	29 854	46 766	4 904	130 701
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 31/12/2016¹	348 885	391 045	98 553	61 682	900 165
Foreign exchange differences	25 126	32 498	4 608	5 931	68 163
Change in scope of consolidation	-17 860	404	-51 899	-5 333	-74 688
Additions	10 068	18 123	24 030	67 646	119 867
Disposals	-40 126	-30 441	-16 771	-1 058	-88 396
Reclassification to assets held for sale	-111	-38 161	-1 494	-1 310	-41 076
Reclassifications	20 317	35 273	1 957	-62 883	-5 336
Balance at 31/12/2017	346 299	408 741	58 984	64 675	878 699

	Land and buildings ¹	Plant and machinery ¹	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 01/01/2016	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
Foreign exchange differences	8 225	19 963	2 937	1 119	32 244
Change in scope of consolidation	-294		-3 099		-3 393
Depreciation	8 500	24 015	11 648		44 163
Impairment	75				75
Reversal of impairment		-655			-655
Disposals	-29 774	-30 020	-6 909		-66 703
Reclassification to assets held for sale	-6	-34 739	-765		-35 510
Reclassifications	38	3 000	115	-5 959	-2 806
Balance at 31/12/2017	108 999	248 346	41 172	9 129	407 646
Net book value at 31/12/2016	226 650	124 263	61 308	47 713	459 934
Net book value at 31/12/2017	237 300	160 395	17 812	55 546	471 053
thereof under financial lease or with a purchase obligation	24 083	3 300	2 870		30 253
				Previous year	31 237

¹ see note 2 "Restatement of prior year figures"

In addition to other smaller disposals, a property in Switzerland was sold in 2017, resulting in a sales gain of CHF 14.5 million.

In 2017, other equipment in the amount of CHF 0.7 million (2016: CHF 28.4 million of property, plant, machinery and other equipment via finance lease or a purchase commitment) was acquired via finance lease. Assets under construction include CHF 0.1 million of capitalised borrowing costs.

Other equipment includes, in the line items additions and disposals, investments and divestments in the rental park of the business unit Industrial Services. Those transactions are reported in the cash flow statement under operating activities in the reporting period (see note 55). Other equipment in the previous year contained the rental park of the business unit Industrial Services with a net book value of CHF 41.8 million. The business was sold in 2017.

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 agreement 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 was reported in the 2016 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 qualified 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.

Future aggregate minimum lease payments

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

31/12/2017			
	Operating leases	Finance leases	Total
	in 1000 CHF	in 1000 CHF	in 1000 CHF
within 1 year	13 165	2 672	15 837
between 1 and 5 years	21 800	7 002	28 802
after 5 years	12 511	6 114	18 625
Total	47 476	15 788	63 264
Interest charge		-2 874	
Present value of finance leases		12 914	

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	

The income statement contains for the continuing operations expenses for operating leases of CHF 17.2 million (2016: CHF 13.6 million).

The largest lease contract in 2017 with a commitment of CHF 21.1 million relates to the rental of a production and office building in Germany and has a duration until 1 June 2027.

The maturities of the net present value from finance leases are as follows:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
within 1 year	2 010	2 115
between 1 and 5 years	5 546	5 854
after 5 years	5 358	6 367
Total	12 914	14 336

Leasehold property obligation

	31/12/2017	31/12/2016
	in 1000 CHF	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 existed up until their sale in the business unit Industrial Services and included only leasehold property interests. The leasehold property obligations had 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:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Property, plant and equipment	37 190	40 287
Intangible assets	763	123
Total	37 953	40 410

The capital commitments as of 31 December 2017 only include commitments for the continuing operations.

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

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Buildings	591 152	524 016
Plant and machinery	667 800	707 298
Total	1 258 952	1 231 314

The fire insurance values as of 31 December 2017 only include the values for the continuing operations.

Land and buildings amounting to CHF 55 million (2016: CHF 62.7 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 01/01/2016	5 203	6 196	11 399
Cost			
Balance at 01/01/2016	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
Foreign exchange differences	6	161	167
Additions		110	110
Disposals	-482	-8 593	-9 075
Reclassifications	2 786	998	3 784
Balance at 31/12/2017	11 283	42 239	53 522
Accumulated depreciation			
Balance at 01/01/2016	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
Foreign exchange differences	6	163	169
Depreciation		467	467
Impairment		933	933
Disposals	-187	-8 595	-8 782
Balance at 31/12/2017	499	39 516	40 015
Net book value at 31/12/2016	8 293	3 015	11 308
Net book value at 31/12/2017	10 784	2 723	13 507
Fair values of investment properties at 31/12/2016			28 703
Fair values of investment properties at 31/12/2017			25 466

In 2017, two investment properties in Switzerland and Germany were sold, resulting in a sales gain of CHF 7 million.

Rental income from investment properties amounted to CHF 2.8 million (2016: CHF 2.2 million) and is included in other operating income. Related direct operating expenses were CHF 2 million (2016: 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 ¹	Goodwill ¹	Total
	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net book value at 01/01/2016	57 901	41 085	98 986
Cost			
Balance at 01/01/2016	141 519	121 801	263 320
Foreign exchange differences	-1 342	-281	-1 623
Change in scope of consolidation ¹	176 073	177 686	353 759
Additions	699		699
Disposals	-409		-409
Reclassifications	1 020		1 020
Balance at 31/12/2016¹	317 560	299 206	616 766
Foreign exchange differences	22 784	17 583	40 367
Change in scope of consolidation	-17 117	-23 955	-41 072
Additions	2 798		2 798
Disposals	-278		-278
Reclassification to assets held for sale	-5 557		-5 557
Reclassifications	2 535		2 535
Balance at 31/12/2017	322 725	292 834	615 559
Accumulated amortisation			
Balance at 01/01/2016	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
Foreign exchange differences	4 547		4 547
Change in scope of consolidation	-1 353		-1 353
Amortisation	23 232		23 232
Disposals	-255		-255
Reclassification to assets held for sale	-2 638		-2 638
Reclassifications	54		54
Balance at 31/12/2017	113 747	80 716	194 463
Net book value at 31/12/2016	227 400	218 490	445 890
Net book value at 31/12/2017	208 978	212 118	421 096

¹ see note 2 "Restatement of prior year figures"

Intangible assets include acquired intangible assets from business combinations with a net book value of CHF 201.5 million as of 31 December 2017 (2016: CHF 221.8 million). Thereof, CHF 104.8 million (2016: CHF 113.3 million) relates to customer relationships, CHF 74.6 million (2016: CHF 85.1 million) to brands and CHF 18.2 million (2016: CHF 17 million) to technologies.

Expenses for research and development in the amount of CHF 17.4 million (2016: CHF 17.1 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. Thereof, CHF 14.4 million (2016: CHF 12 million) relate to the continuing operations. In the assets under construction of property, plant and equipment, there are capitalised development costs

of CHF 0.9 million (2016: CHF 0.8 million under assets under construction) included. The additions under other intangible assets consist of CHF 0.6 million of own development costs and CHF 2.2 million of purchased or acquired items. In 2016, the additions only consisted of purchased or acquired items.

Goodwill

As of 31 December 2017 goodwill from business combinations is allocated to the Group's five cash-generating units (CGUs) Doors, Sanitary, Wertbau, Sabiana and Slovaktual.

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

	Doors ¹	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 31/12/2016¹	139 084	23 955	14 647	3 095	23 431	14 278	218 490
Acquisition/Divestments		-23 955					-23 955
Foreign exchange differences	13 876			281	2 129	1 297	17 583
Balance at 31/12/2017	152 960		14 647	3 376	25 560	15 575	212 118

¹ see note 2 "Restatement of prior year figures"

Goodwill impairment tests 2017

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

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations

used cash flow projections covering a five-year period. Cash flows beyond the five-year period were extrapolated using estimated growth rates. The underlying financial data consisting of one budget year and four plan years form part of the Group's medium term plan approved by the Board of Directors in early summer 2017 and were used for the impairment tests.

The value in use calculation for the annual 2017 impairment tests assumed the following key assumptions:

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
	in %	in %	in %	in %	in %
Budgeted gross margin	54.0	64.0	47.2	44.1	38.1
Growth rate	0.9	1.0	1.0	1.5	1.0
Discount rate	9.2	8.9	9.4	10.2	8.5

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 2017 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 54% to 52% would result in an impairment of the CGU Doors

amounting to CHF 53.9 million. At a budgeted gross margin of 53%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 0.9% to 0.4% would lead to an impairment of CHF 31.1 million. At a reduction of 6.5% in EBITDA and a simultaneous reduction of eternal growth to 0.7%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 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% 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% 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%, the recoverable amount was equal to their carrying amount.

A reduction in the budgeted gross margin from 36.8% to 35% 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% 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 2017

TPO Holz-Systeme GmbH

	Fair Value
	in 1 000 CHF
Assets	
Cash and cash equivalents	208
Receivables	178
Inventories	997
Property, plant and equipment	575
Intangible assets	1 756
Total assets	3 713
Liabilities	
Liabilities	477
Financial debts	350
Provisions	97
Deferred income tax liabilities	500
Total liabilities	1 424
Net assets acquired	2 290
Cost of acquisition	
Purchase price	2 290
Total cost of acquisition	2 290
Net cash outflow was as follows:	
Purchase price	2 290
Cash and cash equivalents acquired	–208
Net cash outflow on acquisition	2 081

As of 31 January 2017, Arbonia acquired 100% of the shares of German TPO Holz-Systeme GmbH, DE-Leutershausen. The company is a specialised doors manufacturer and is allocated to the Doors Division. The purchase price amounted to CHF 2.3 million.

From the date of acquisition, the company contributed CHF 3.1 million in net revenues and CHF 0.1 million in loss to the Group. The acquisition-related costs amount to CHF 0.02 million and are included in operating expenses.

Acquisitions 2016

Looser Group

	Fair Value	Restatement	Fair Value restated
	in 1000 CHF	in 1000 CHF	in 1000 CHF
Assets			
Cash and cash equivalents	43 599		43 599
Accounts receivables	19 083		19 083
Other current assets	3 921		3 921
Inventories	33 241		33 241
Deferred expenses	880		880
Assets held for sale	156 643	-2 500	154 143
Property, plant and equipment	120 267	1 871	122 138
Intangible assets	144 037	12 285	156 322
Financial assets	1 795		1 795
Total assets	523 466	11 656	535 122
Liabilities			
Accounts payables	10 381		10 381
Other liabilities	6 072		6 072
Financial debts	154 442		154 442
Finance lease liabilities	161		161
Accruals and deferred income	18 021		18 021
Current income tax liabilities	3 442		3 442
Liabilities associated with assets held for sale	30 145		30 145
Provisions	2 166	465	2 631
Deferred income tax liabilities	53 648	3 667	57 315
Employee benefit obligations	5 438		5 438
Total liabilities	283 916	4 132	288 048

	Fair Value	Restatement	Fair Value restated
	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net assets acquired including non-controlling interests	239 550	7 524	247 074
Non-controlling interests	-10 134		-10 134
Net assets acquired	229 416	7 524	236 940
Goodwill	170 563	-7 524	163 039
Purchase consideration	399 979		399 979
Cost of acquisition			
Purchase price	85 200		85 200
Purchase price in equity instruments	314 778		314 778
Total cost of acquisition	399 979		399 979
Net cash outflow was as follows:			
Purchase price	85 200		85 200
Cash and cash equivalents acquired - continuing operations	-43 599		-43 599
Cash and cash equivalents acquired - discontinued operations	-17 566		-17 566
Net cash outflow on acquisition	24 035		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 was an international industrial holding company and

active in the three segments doors, industrial services and coatings with approximately 2 260 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 2016 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 was 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 was allocated to the segments Doors and Industrial Services, 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 expected synergies within the segment Doors and cost-savings at

Corporate level. In addition, goodwill included 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 in the 2016 consolidated financial statements, since the acquisition occurred shortly before year-end and therefore not all assessments could be thoroughly carried out or checked. Within the prescribed

assessment period after the acquisition date, the definite fair values were determined in 2017. As a result, goodwill was reduced by CHF 7.5 million. The most significant effect came from more detailed information available on customers and brands, resulting in a reassessment of customer and brand valuation.

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

	Fair Value
	in 1000 CHF
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
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 complemented the product range of the Building Technology Division. The purchase price amounted to CHF 42 million. From the date of acquisition, Koralle Group contributed in 2016 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 2016 would have been CHF 48.8 million and loss would have been CHF 0.3 million. The loss included 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 were included in operating expenses in 2016. 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 expected synergies within the Building Technology Division. In addition, goodwill included the workforce know-how.

Sabiatherm SAS

	Fair Value
	in 1000 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
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	
Cost of acquisition	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 purchased goods from Sabiana and sold them in the French market. The newly acquired company was allocated to the Building Technology Division. The purchase price amounted to CHF 2.8 million. From the date of acquisition, Sabiatherm contributed in 2016 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 2016 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 0.14 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.1 million and were 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 option 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).

41 Financial debts

On 14 September 2016, Arbonia AG entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks, had a line of credit of CHF 100 million with a due date no later than 31 December 2017 and was used to finance the cash settlement of the Looser acquisition. The other line of credit of 400 million matures on 14 September 2021. However due to the sale of the business unit Industrial Services in 2017, the credit line was reduced to CHF 350 million. As a result of the new borrowing facility the existing syndicated loan of CHF 250 million, established on 2 December 2013 and maturing on 30 November 2018, was replaced prematurely. Due to the sale of the Coatings segment, the credit line of CHF 87 million used to finance the cash settlement of the Looser acquisition was completely repaid by 10 July 2017.

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:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Syndicated loan	103 675	311 570
Mortgages	13 097	25 215
Bank loans	2 769	5 645
Total	119 541	342 430

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 2017 and 2016.

The maturities of the financial debts are as follows:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
within 1 year	107 276	322 217
between 1 and 5 years	4 638	11 869
after 5 years	7 627	8 344
Total	119 541	342 430

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

31/12/2017			
	CHF	EUR	PLN
Financial debt	1.5%	1.8%	1.8%

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

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

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
CHF	10 003	171 808
EUR	107 820	169 090
PLN	1 719	1 532
Total	119 541	342 430

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

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:

31/12/2017							
	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	108 053	108 053	107 990	63			
Other liabilities (without derivatives)	38 867	47 076	25 799	24	1 208	45	20 000
Finance lease liabilities	12 914	15 786	1 367	1 317	2 472	4 517	6 113
Financial debts	119 541	121 586	106 973	1 541	1 489	4 781	6 802
Derivative financial instruments							
Interest rate swaps	1 797						
Cash outflow		1 797	139	135	252	611	661
Total	281 172	294 298	242 268	3 080	5 421	9 954	33 576

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.

	31/12/2016						
	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

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:

	31/12/2017					
	FA FVTPL designated	L&AR	FL FVTPL trading	FL AC/NPV	Book value at 31/12/2017	Fair Value at 31/12/2017
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Cash and cash equivalents		82 703			82 703	82 703
Accounts receivable		126 387			126 387	126 387
Other current assets		25 383			25 383	25 383
Other financial assets		417			417	417
Loans		4 004			4 004	4 004
Assets		238 894			238 894	238 894
Accounts payable				108 053	108 053	108 053
Other liabilities			1 797	38 866	40 663	40 663
Finance lease liabilities				12 914	12 914	13 952
Syndicated loan				103 675	103 675	103 675
Loans				2 769	2 769	2 769
Mortgages				13 097	13 097	14 140
Liabilities			1 797	279 374	281 171	283 252

Abbreviations in the header of this table are explained in note 9 "financial instruments" on page 97.

	31/12/2016					
	FA FVTPL designated	L&AR	FL FVTPL trading	FL AC/NPV	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
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			1 956	37 058	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
Mortgages				25 215	25 215	26 443
Liabilities			1 956	485 737	487 693	490 202

In the line item Other liabilities as of 31 December 2017, the purchase commitment of CHF 12.5 million (2016: CHF 11.7 million) for the Corporate Center in CH-Arbon towards Credit Suisse Funds AG is included. The purchase commitment was recorded at the balance sheet date at present value and at the time of transfer of ownership, the purchase price will amount to CHF 20 million (see note 37).

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 2	
	in 1000 CHF	Fair Value at 31/12/2017 in 1000 CHF	in 1000 CHF	Fair Value at 31/12/2016 in 1000 CHF
Assets				
Financial assets at fair value through profit or loss (FA FVTPL designated)				
Investment funds			2 360	2 360
Total assets			2 360	2 360
Liabilities				
Financial liabilities at fair value through profit or loss – trading (FL FVTPL trading)				
Interest rate swaps without hedges	1 797	1 797	1 956	1 956
Total liabilities	1 797	1 797	1 956	1 956

The fair value of interest rate swap transactions of level 2 is the present value of expected interest payments, which are discounted at market rates. The determination of the fair value of these transactions is made by the banks with which these transactions were entered into. The fair value of investment funds of level 2 was determined based on market prices in the OTC market.

In 2017 and 2016, 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 on non-controlling interests
	in 1000 CHF	in 1000 CHF
Balance 01/01/2016	554	7 879
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	2 436
Within financial results recognised income from derecognition	-608	
Settlement		-10 616
Balance 31/12/2016		

The contingent consideration liability concerned the acquisition of Bloxer Ronchi S.r.l. in 2015. Based on an assessment in 2016, the achievement of certain agreed targets for the years 2016 to 2018 was considered to be highly unlikely. Consequently, the fair value of the contingent consideration liability was reversed completely by the year-end 2016.

The purchase commitment on non-controlling interests related 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 ¹	Personnel	Restructuring	Other provisions	Total
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Balance at 01/01/2016	10 982	4 500	16 947	12 336	44 765
Foreign exchange differences	-77	-70	-41	-23	-211
Change in scope of consolidation ¹	1 175	2 842		433	4 450
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 31/12/2016¹	12 284	8 219	11 188	3 212	34 903
Foreign exchange differences	822	741	137	59	1 759
Change in scope of consolidation	-22	42		43	63
Additional provisions	7 871	2 007	1 005	3 298	14 181
Used during the year	-7 131	-1 985	-6 322	-1 419	-16 857
Unused amounts reversed	-317	-150	-1 628	-620	-2 715
Reclassification to liabilities associated with assets held for sale	-169		-207		-376
Balance at 31/12/2017	13 338	8 874	4 173	4 573	30 958
thereof current at 31/12/2016	7 863	3 152	10 498	2 323	23 836
thereof current at 31/12/2017	8 892	3 456	4 173	4 291	20 812

¹ see note 2 "Restatement of prior year figures"

The current provision is expected to be fully utilised during 2018. 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	4 446	4 402		11	8 859
after 5 years		1 016		269	1 285

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 2016, the restructuring provision comprised costs of CHF 8.5 million in connection with the reorganisations announced on 3 March 2015 and 13 August 2015 for the heating and window business in Switzerland. Furthermore the position included CHF 2.5 million of restructuring costs of 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. In the reporting period, incurred costs for those three restructurings of CHF 6.3 million were booked against this provision, CHF 1 million were additionally

booked due to new estimates and CHF 1.6 million were reversed as a result of voluntary staff departures and risk reduction measures. The restructuring of the heating business was completed in 2017. The remaining provision of CHF 4.1 million is considered adequate. It is assumed that the relocation from Vlotho to Plattling will be completed by spring 2018 and the restructuring of the window business in the second half of 2018.

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 2017 and 2016 share occurred as expected. Other provisions also include costs for environmental risks, legal claims 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:

	31/12/2017		31/12/2016	
	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				
Cash and cash equivalents and securities	3			19
Accounts receivable	681	216	790	564
Other current assets		46		200
Inventories	1 291	176	1 032	2 419
Non-current assets held for sale		7		
Property, plant and equipment ¹		17 554	3	28 226
Investment property	981		1 186	
Intangible assets ¹	6	52 031	40	55 505
Capitalised pension surplus and financial assets	263	7 131	477	2 717
Liabilities				
Current liabilities	3 657	1 902	4 623	2 952
Non-current liabilities		84		143
Current and non-current provisions ¹	683	304	519	1 109
Employee benefit obligations	7 903	7	9 634	3
Deferred taxes from timing differences	15 468	79 458	18 304	93 857
Deferred tax assets derived from tax loss carryforwards	19 631		21 874	
Valuation allowance	-15 195		-15 634	
Net deferred taxes from timing differences	19 904	79 458	24 544	93 857
Offset of deferred tax assets and liabilities	-14 334	-14 334	-15 595	-15 595
Total deferred taxes¹	5 570	65 124	8 949	78 262

¹ see note 2 "Restatement of prior year figures"

From the capitalised pension surplus and employee benefit obligations, CHF 5.8 million (2016: CHF 1 million) of deferred taxes were recorded in comprehensive income of the continuing operations. 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 66.2 million (2016: CHF 55.1 million) in conjunction with investments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12. There are also deductible temporary differences of CHF 2.8 million on which no deferred tax assets have been recognised.

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

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	69 313	10 128
Change in scope of consolidation ¹	-16 471	60 912
Changes to other comprehensive income for continuing operations	5 736	230
Changes to other comprehensive income for discontinued operations	503	762
Changes to the income statement for continuing operations	-1 467	-2 210
Changes to the income statement for discontinued operations	325	-429
Reclassification to assets held for sale	23	
Reclassification to liabilities associated with assets held for sale	-3 232	
Foreign exchange differences	4 824	-80
Balance 31/12¹	59 554	69 313

¹ see note 2 "Restatement of prior year figures"

Unrecognised tax loss carryforwards	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Tax loss carryforwards	208 556	230 169
thereof recognised as deferred taxes	-40 239	-49 703
Unrecognised tax loss carryforwards	168 317	180 466
Portion expiring:		
within 1 year	16 116	12
between 1 and 5 years	130 790	75 904
after 5 years	21 411	104 550
Total	168 317	180 466
Tax effect on unrecognised tax loss carryforwards	15 195	15 634
thereof pertaining to tax rates below 15%	11 900	13 201
thereof pertaining to tax rates between 15% and 20%	2 363	1 356
thereof pertaining to tax rates between 21% and 25%		284
thereof pertaining to tax rates between 26% and 30%	932	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 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:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Present value of funded obligations	300 841	382 342
Fair value of plan assets	329 885	377 048
Over-/underfunding	-29 044	5 294
Present value of unfunded obligations	51 200	49 275
Adjustment to asset ceiling		2 116
Liability (net) recognised in the balance sheet	22 156	56 685
thereof recorded as employee benefit obligations	55 698	62 618
thereof recorded as capitalised pension surplus	-33 542	-5 933

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

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	431 617	391 859
Changes in scope of consolidation	-23 775	41 065
Interest cost	3 367	4 021
Current service cost	11 262	9 696
Past service cost	-3 412	
Contributions by plan participants	5 895	5 488
Benefits paid	-16 420	-17 141
Actuarial losses arising from changes in demographic assumptions		3 122
Actuarial gains/losses arising from changes in financial assumptions	-1 408	9 439
Actuarial losses/gains arising from experience adjustments	15 146	-4 230
Settlements/partial liquidation	-41 694	-11 498
Administration cost	189	176
Reclassification from/to liabilities associated with assets held for sale	-33 060	
Foreign exchange differences	4 336	-380
Balance at 31/12	352 041	431 617
thereof for active members	222 412	263 064
thereof for pensioners	126 354	166 397
thereof for deferred members	3 275	2 155

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

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	377 048	339 275
Changes in scope of consolidation	-19 607	30 723
Interest income	2 444	3 022
Return on plan assets excl. interest income	44 479	16 166
Contributions by the employer	8 437	7 934
Contributions by plan participants	5 895	5 488
Benefits paid	-16 347	-17 102
Settlements/partial liquidation	-33 499	-8 458
Reclassification from/to assets held for sale	-38 965	
Balance at 31/12	329 885	377 048

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

	2017	2016
	in 1000 CHF	in 1000 CHF
Balance at 01/01	2 116	2 026
Interest cost	15	90
Change in effect of asset ceiling excl. interest cost	-2 131	
Balance at 31/12		2 116

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

	2017	2016
	in 1000 CHF	in 1000 CHF
Actuarial gains	10 813	3 979
Actuarial gains from discontinued operations	2 925	4 352
Return on plan assets excl. interest income	-44 479	-16 166
Change in effect of asset ceiling excl. interest cost	-2 131	
Remeasurements of employee benefit obligations	-32 872	-7 835

The amounts recognised in the income statement are as follows:

	2017	2016
	in 1000 CHF	in 1000 CHF
Current service cost	11 262	9 696
Past service cost	-3 412	
Net interest result	923	999
Interest cost on effect of asset ceiling	15	90
Administration cost	189	176
Settlements/partial liquidation	-8 195	-3 040
Net charges for defined benefit plans	781	7 920
thereof recorded under personnel expenses from continuing operations	189	6 516
thereof recorded under financial expenses from continuing operations	938	1 076
thereof recorded under Group result from discontinued operations after taxes	-345	329

The principal actuarial assumptions used were as follows:

Weighted average	2017	2016	
Discount rate at 31/12	0.9%	0.8%	
Future salary increases	1.1%	1.1%	
Future pension increases	0.2%	0.2%	
Mortality tables	Switzerland Germany	BVG 2015 GT HB 2005 GT	BVG 2015 GT HB 2005 GT

The sensitivity of employee benefit obligations due to changes of principal assumptions for all operations are as follows:

Impact on employee benefit obligations	Change in assumption	2017	2016
Discount rate	- 0.25%	15 546	17 190
	+ 0.25%	-14 493	-16 020
Salary increases	- 0.25%	-1 285	-1 801
	+ 0.25%	1 291	1 780
Life expectancy	+ 1 year	10 173	11 467
	- 1 year	-10 325	-11 664
Service cost 2018 with discount rate	+ 0.25%	-600	-834

The weighted average duration of employee benefit obligations is 15.7 years.

The sensitivity analysis above is based on a change in an assumption while all other assumptions remain unchanged. In reality, this is unlikely to happen, because certain assumptions correlate. In the calculation of sensitivities of pension benefit obligations with the principal actuarial assumptions, the same method was applied (present value of the defined benefit obligation is calculated using the projected unit credit method at year-end) as for the calculation of the pension liability in these consolidated financial statements.

Plan assets at fair value consist of:

	quoted	unquoted	31/12/2017 Total	quoted	unquoted	31/12/2016 Total
Cash and cash equivalents	6 340	2 030	8 370	5 788	2 619	8 407
Equity instruments	45 343		45 343	49 305		49 305
Debt instruments	51 191		51 191	61 380	26	61 406
Real estate	8 128	128 029	136 157	8 272	111 889	120 161
Investment funds	51 118	3 403	54 521	55 131	3 470	58 601
Others	10 536	23 767	34 303	11 925	67 243	79 168
Total plan assets	172 656	157 229	329 885	191 801	185 247	377 048

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	1 300	1 336	4 694	9 317

Expected contributions to pension plans for the year ending 31 December 2018 for continuing operations amount to CHF 11.5 million (2017: CHF 15.8 million for all operations), of which CHF 6.9 million (2017: CHF 9.4 million for all operations) are attributable to the employer.

47 Share capital

The capital structure is as follows:

Category	31/12/2017			31/12/2016		
	Outstanding shares	Par value in CHF	Share capital in CHF	Outstanding shares	Par value in CHF	Share capital in CHF
Registered shares	69 473 243	4.20	291 787 621	68 485 790	4.20	287 640 318

On 28 April 2017, the Board of Directors of Arbonia AG approved two authorised capital increases. Both capital increases were completed on 28 June 2017. For the first transaction, the share capital was increased through the issue of 600 000 new registered shares with a par value of CHF 4.20 by CHF 2 520 000 to CHF 290 160 318. These new registered shares are designated for the participation of employees and the Board of Directors of Arbonia. For the second transaction, the share capital was increased through the issue of 387 453 new registered shares with a par value of CHF 4.20 by CHF 1 627 302.60 to CHF 291 787 620.60 (see note 50). These new shares with a current value of CHF 6.9 million were used for the remaining and by the cancellation affected shareholders of Looser Holding AG. The capital surplus resulting from this capital increase in the amount of CHF 5.2 million was allocated to share premium.

As a result of the completed authorised capital increase on 28 June 2017 of 600 000 new registered shares, the maximum amount and number of registered shares allocated to raise new capital were reduced to CHF 10 700 117.40 and 2 547 647 shares respectively.

On 1 November 2016, the Extraordinary Shareholders' Meeting of Arbonia 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 mil-

lion) was allocated to share premium. In November 2017, the Federal Tax Administration refunded to Arbonia AG CHF 3.1 million of the paid stamp duty, as this transaction was not subject to such duties. The amount was allocated to share premium.

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 were limited to an additional share capital of CHF 33 600 000.

Earnings per share	2017	2016
	in 1 000 CHF	in 1 000 CHF
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	37 489	5 353
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)	8 889	2 250
Group earnings for the year (in 1 000 CHF)	46 378	7 603
	2017	2016
Outstanding shares (average)	69 061 804	47 448 515
Less treasury shares (average)	-780 967	-576 710
Average number of shares outstanding for the calculation	68 280 838	46 871 805

There were no dilutive effects impacting the calculation.

48 Treasury shares

	2017			2016		
	Ø market value in CHF	Number of shares	Amount in 1 000 CHF	Ø market value in CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	13	664 351	8 576	15	509 681	7 553
Transfer for share based payments	13	-143 953	-1 846	14	-249 351	-3 404
Purchase	17	118 391	2 054	13	196 058	2 555
Sale	12	-115 468	-1 372	14	-192 108	-2 673
Purchase of non-controlling interests	13	-129 173	-1 668			
Share capital increase	4	600 000	2 520	11	400 071	4 545
Balance at 31/12	8	994 148	8 265	13	664 351	8 576

The balance of treasury shares has been increased on a net basis by 329 797 since 31 December 2016 mainly due to the capital increase carried out in June 2017.

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 31/12/2017	Other reserves	Retained earnings	Total other comprehensive income 31/12/2016
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Remeasurements of employee benefit obligations		32 871	32 871		7 835	7 835
Deferred tax effect		-6 239	-6 239		-992	-992
Total items that will not be reclassified to income statement		26 632	26 632		6 843	6 843
Currency translation differences	57 587		57 587	-2 706		-2 706
Cumulative currency translation differences transferred to the income statement	-367		-367	15		15
Total items that may be subsequently reclassified to income statement	57 220		57 220	-2 691		-2 691
Other comprehensive income after taxes	57 220	26 632	83 852	-2 691	6 843	4 152

Other reserves

	Currency translation	Total
	in 1000 CHF	in 1000 CHF
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
Currency translation differences	57 220	57 220
Balance at 31/12/2017	-29 759	-29 759

50 Non-controlling interests

On 27 January 2017 and 28 June 2017, Arbonia increased its share in Looser Holding AG from 97.53% to 98.15% and 100%, respectively. The offer price for one registered share of Looser Holding AG amounted to 5.5 shares of Arbonia AG plus CHF 23 in cash. On 27 January 2017, 129 173 treasury shares plus CHF 0.54 million in cash were used for the purchase of 23 486 registered shares of Looser Holding AG. On 28 June 2017, 387 453 newly created shares of Arbonia AG plus CHF 1.62 million in cash were used for the remaining 70 446 shares of

Looser Holding AG to compensate those shareholders affected by the cancellation. In order to increase Arbonia's share of Looser Holding AG from 97.53% to 100%, a cash consideration totalling CHF 2.16 million was spent during the reporting period. Altogether the outstanding non-controlling interests with a book value of CHF 10.1 million were purchased at a price of CHF 11.3 million. The proportion of the price exceeding the carrying value of the non-controlling interests has been recognised directly in equity.

51 Financial results

	2017	2016
	in 1000 CHF	in 1000 CHF
Financial income		
Bank and other interest	749	1 021
Interest on net pension surplus	52	19
Total interest income	801	1 040
Impact of exchange rate fluctuations		78
Income from securities designated at fair value through profit or loss	181	327
Held for trading derivative financial instruments	313	13
Other financial income	1 255	7
Total other financial income	1 749	425
Total financial income	2 550	1 465
Financial expenses		
Bank and other interest	492	1 609
Interest on finance leases	602	365
Interest on non-current financial debts and syndicated loan	5 275	3 045
Interest on net employee benefit obligations	990	1 095
Amortisation charges on bond		201
Compounding of liabilities	900	2 934
Total interest expenses	8 259	9 249
Impact of exchange rate fluctuations	687	
Expenses from securities designated at fair value through profit or loss	7	
Held for trading derivative financial instruments	25	7
Foreign currency exchange loss from sale/liquidation of subsidiaries		15
Minority share from associated companies	1 244	122
Impairment on loans	1 200	
Bank charges and other financial expenses	2 021	5 925
Total other financial expenses	5 184	6 069
Total financial expenses	13 443	15 318
Total net financial results	-10 893	-13 853

52 Income taxes

	2017	2016
	in 1000 CHF	in 1000 CHF
Current income taxes	14 286	10 238
Changes in deferred income taxes	-1 467	-2 210
Total	12 819	8 028

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:

	2017	2016
	in 1000 CHF	in 1000 CHF
Earnings before income tax	50 367	13 381
Weighted average tax rate in %	24.5	39.4
Expected tax expense	12 328	5 269
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	-2 579	-1 709
Effect of not capitalised losses for the year	1 931	1 887
Effect of non-tax-deductible expenses and non-taxable income	551	1 752
Effect of income and expenses taxed at special rates	513	261
Effect of tax charges related to prior years	72	1 079
Effect of tax rate changes	637	34
Change in unrecognised deferred tax assets	-842	-343
Other items	209	-202
Effective tax expense	12 819	8 028
Effective tax rate in %	25.5	60.0

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

The expected weighted average tax rate decreased significantly compared to previous year. The decrease is predominantly due to the significant increased share of taxable profit of some Swiss companies with significant lower tax rates compared to those of foreign companies. There were no significant changes in local tax rates compared to 2016.

53 Financial risk management

Risk management principles

Arbonia has a centralised risk management system. The risk management process is carried out as stated in the internal guidelines. Any potential and material risks have been identified and quantified according to the likelihood 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's continuing operations as of the balance sheet date accounted for a share of 20.4% (2016: 10.3% for all operations) of existing trade receivables. The 10 largest customers of the continuing operations generated 20.4% (2016: 20.7% for all operations) of the Group's net revenues in the year under review.

To minimise financial default risks, cash and cash equivalents, fixed-term deposits and derivative financial instruments are only deposited or entered into with banks which are specifically defined in the treasury policy. The three largest banks accounted for 52%/18%/9% of total liquid funds as of the balance sheet date (2016: 21%/17%/13% for all operations).

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:

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Cash and cash equivalents and securities	82 703	114 114
+ undrawn credit facilities	306 772	199 448
Total available liquidity	389 475	313 562

The syndicated loan includes covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2017 and 2016, Arbonia complied with all covenants. Due to restrictions on the leverage ratio, undrawn credit facilities are not fully utilisable.

The contractually agreed maturities of financial liabilities within the meaning of IFRS 7 are set forth in note 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 company's functional currency. The standard policy is that subsidiaries must hedge 100% of the relevant net risk position for the risk horizon period through hedging transactions via group treasury. 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 (2016: 5%), a 5% increase (decrease) of the CZK against the CHF (2016: 5%) or a 5% increase (decrease) of the PLN against the CHF (2016: 5%) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

31/12/2017			
	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	5 444	701	531
Impact of a decrease on group earnings	-5 444	-701	-531

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

(b) Interest rate risk

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

Group companies are exclusively funded via group treasury on terms in line with the market and on a decentralised basis only in exceptional cases and 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 (2016: 50 basis points) or by 50 basis points for EUR interest rates (2016: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

31/12/2017		
	CHF interest rate	EUR interest rate
	in 1000 CHF	in 1000 CHF
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	170	-363
Impact of a decrease on group earnings	-170	363
Interest rate swaps		
Impact of an increase on group earnings		314
Impact of a decrease on group earnings		-328
31/12/2016		
	CHF interest rate	EUR interest rate
	in 1000 CHF	in 1000 CHF
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	-502	-494
Impact of a decrease on group earnings	502	494
Interest rate swaps		
Impact of an increase on group earnings		326
Impact of a decrease on group earnings		-326

(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 60.9% as of the balance sheet date (2016: 47.1%). The high increase in the equity ratio compared to the previous year is due to lower total assets as a result of the sales of the Industrial Services and Coatings businesses. Furthermore, currency translation differences declined due to the weaker CHF, whereas Group profit increased significantly.

With regard to the ordinary and authorised capital increases carried out in 2017 and 2016, 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.

54 Derivative financial instruments

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

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Liabilities		
Interest rate swaps without hedges	1 797	1 956

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.

55 Additional information on the cash flow statements

	2017	2016
	in 1000 CHF	in 1000 CHF
<i>Changes in non-cash transactions</i>		
Changes in deferred taxes	-1 169	-2 639
Changes in provisions	11 887	2 763
Changes in capitalised pension surplus/employee benefit obligations	-7 797	-52
Share based payments	3 301	3 089
Impairment on loans and compounding of liabilities	1 977	2 538
Minority share from associated companies	1 232	122
Other non-cash effects	5 066	-1 524
Total changes in non-cash transactions	14 497	4 297
<i>Changes in working capital</i>		
Changes in accounts receivable	-20 583	-4 667
Changes in inventories	-8 868	15 237
Investments/divestments rental park	-8 259	
Changes in other working capital items	-5 343	1 154
Total changes in working capital	-43 053	11 724
<i>Changes in liabilities</i>		
Changes in accounts payable	15 548	-2 901
Changes in advance payments by customers	-6 109	-10 886
Changes in provisions	-16 857	-16 865
Changes in other current liabilities	16 181	3 316
Total changes in liabilities	8 763	-27 336

	Current and non-current financial debts
	in 1000 CHF
Balance at 31/12/2016	342 430
Foreign exchange differences	1 503
Change in scope of consolidation	-9 625
Proceeds from financial debts	35 636
Repayments of financial debts	-267 305
Non-cash foreign exchange effects	16 902
Balance at 31/12/2017	119 541

	Finance lease liabilities
	in 1000 CHF
Balance at 31/12/2016	14 336
Foreign exchange differences	315
Finance lease additions	657
Finance lease liability payments	-2 394
Balance at 31/12/2017	12 914

56 Share based payments

For Group Management and certain other employees a share based payment plan exists. As part of this plan, Group Management members receive 40% (2016: 40%) and the other employees 30% (2016: 30%) 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 2017, Group Management and certain other employees received for their work in the year 2016 a total of

41 954 (2016: 30 585 shares) allotted shares at a fair value of CHF 0.7 million (2016: CHF 0.3 million) and CHF 17.08 per share respectively (2016: CHF 11.36). The CEO received a larger portion of his base compensation for his employment 2017 in shares. He was allocated 60 000 shares (2016: 60 000) at a fair value of CHF 1 million (2016: CHF 0.6 million) and CHF 16.66 per share respectively (2016: CHF 9.34). A Group Management member received in 2017 for his work 11 292 allotted shares at a fair value of CHF 0.2 million and CHF 16.61 per share respectively. The members of the Board of Directors received for their work from 23 April 2016 up to the Annual General Meeting on 28 April 2017 a total of 30 707 shares (2016: 45 767 shares) at a fair value of CHF 0.5 million (2016: CHF 0.5 million) and CHF 17.08 per share respectively (2016: CHF 11.36).

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 2017 for share based payments totalled CHF 2.9 million (2016: CHF 3 million).

57 Related party transactions

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

	2017	2016
	in 1 000 CHF	in 1 000 CHF
Salaries and other short-term employee benefits	2 882	3 081
Share based payments	2 149	1 458
Pension and social security contributions	729	748
Total	5 760	5 287

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 74–76.

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
	2017			31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel		41		30
Other related parties	41	1 482	44	108
Total	41	1 523	44	138

	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables
	2016			31/12/2016
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Other related parties	71	465	19	
Total	71	465	19	

The law firm Bratschi AG (previously Bratschi Wiederkehr & Buob AG), of which Christian Stambach (non-executive member of the Board of Directors until 28 April 2017) a partner is, charged in the reporting period up until 28 April 2017 for legal advice and representation TCHF 31 (2016: TCHF 70) 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 2017 and 2016 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 and outstanding balances with associated companies are disclosed in note 36.

Major shareholders are disclosed in the notes to the 2017 financial statements of Arbonia AG on page 177.

58 Contingencies

There were no contingencies.

59 Events after the balance sheet date

On 22 January 2018, the closing of the sale of the business unit Profile Systems to Belgian Reynaers Group, announced on 15 November 2017, was completed.

On 23 January 2018, Arbonia announced the splitting of the Building Technology Division, beginning in 2018, into two segments: the HVAC Division (Heating, Ventilation and Air Conditioning) and the Sanitary Equipment Division.

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2017 consolidated financial statements.

60 Subsidiaries

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Profile Systems and Doors Services/Finance
Building Technology Division							
Arbonia 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.	Stříbro, CZ	195.000 CZK	100%	▲	▲		
PZP Heating a.s.	Dobre, CZ	7.200 CZK	100%	▲			
Arbonia Riesa GmbH	Riesa, DE	0.614 EUR	100%	■			
Kermi GmbH	Plattling, DE	15.339 EUR	100%	▲	▲		
Kermi System GmbH	Plattling, DE	0.025 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	4.060 EUR	100%	▲			
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100%	■	■		
Windows Division							
EgoKiefer AG	Altstätten, CH	8.000 CHF	100%			▲	
Arbonia Windows AG	Altstätten, CH	0.250 CHF	100%				●
Wertbau GmbH	Langenwetzendorf, DE	0.025 EUR	100%			▲	
Wertbau-Elemente GmbH	Langenwetzendorf, DE	0.100 EUR	100%			▲	
InnoPaint GmbH	Langenwetzendorf, DE	0.100 EUR	100%			▲	
Dobroplast Fabryka Okien sp. z o.o.	Zambrow, PL	53.355 PLN	100%			▲	
Slovaktual s.r.o.	Pravenec, SK	0.500 EUR	100%			▲	
Doors Division							
Forster Profilsysteme AG	Arbon, CH	4.000 CHF	100%				▲
Arbonia Doors AG	Arbon, CH	0.250 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%				▲
TPO Holz-Systeme GmbH	Leutershausen, DE	0.025 EUR	100%				▲

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Profile Systems and Doors Services/Finance
Forster Profile Systems (UK) Ltd	Sheffield, GB	0.000 GBP	100%				■
Bloxer Ronchi S.r.l.	Villafranca Padovana, IT	0.100 EUR	100%				▲
Invado Sp. z o.o.	Dzielna, PL	20.000 PLN	100%				▲
Coatings							
FLH Holding AG	Arbon, CH	0.650 CHF	100%				●
Schekolin SEA Co. Ltd.	Bangkok, TH	3.425 THB	100%				
Schekolin US LLC	Charlotte, US	0.020 USD	100%				
Corporate Services							
Arbonia AG	Arbon, CH	291.8 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%				●
Arbonia Management AG	Arbon, CH	0.250 CHF	100%				●
Arbonia Services AG	Arbon, CH	0.250 CHF	100%				●
Looser Holding AG	Arbon, CH	32.047 CHF	100%				●
Looser Management AG	Arbon, 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 RUS	Moskau, RU	454.500 RUB	100%				●
AFG Middle East Fze.	Dubai, AE	1.000 AED	100%				●

▲ Production/Sales ■ Trade ● Services/Finances



Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arbonia AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 85 to 162) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters



Valuation of goodwill and intangible assets



Purchase price allocation (PPA) Looser Group



Discontinued operations

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



Valuation of goodwill and intangible assets

Key Audit Matter

As at 31 December 2017, the carrying amounts of the balance sheet line items "Goodwill" and "Intangible assets" amount to:

- Goodwill CHF 212.1 million
- Intangible assets CHF 209.0 million

Management assesses the valuation of goodwill and – in case of existence of impairment triggers – intangible assets based on projected results for the relevant cash generating units.

The impairment tests for these items require significant management judgment with regards to forecast cash flows, margins, growth rates as well as discount rates, and are therefore a key area of audit focus.

Our response

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

Amongst others, we performed the following audit procedures:

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

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

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

- Note 19 „Intangible assets“, page 100
- Note 20 „Impairment of assets“, page 101
- Note 21 „Estimated useful lives“, page 101
- Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, page 104
- Note 39 „Intangible assets“, page 124



Purchase price allocation (PPA) Looser Group

Key Audit Matter

On 13 December 2016, Arbonia AG acquired control of Looser AG, domiciled in Arbon ("Looser Group"). The purchase price amounted to CHF 400.0 million, with a provisional goodwill determined at CHF 170.6 million.

In the 2017 financial year, the purchase price allocation for the Looser Group was finalized. The final goodwill from this transaction amounted to CHF 163.0 million.

When identifying and valuing intangible assets and determining goodwill, management applies significant professional judgment. Therefore, the accounting treatment of the acquisition of the Looser Group is a key area of audit focus.

Our response

We assessed whether the material items on the final opening balance sheet as at 13 December 2016 were recognized in accordance with IFRS 3 "Business Combinations". We used our own valuation specialists to support our procedures.

Amongst others, we performed the following audit procedures:

- assessing the competence and independence of the external expert used to finalize the purchase price allocation;
- verifying the changes between the provisional and the final opening balance sheet;
- assessing the appropriateness of the model used for the valuation of the intangible assets and challenging the robustness of the key valuation parameters, including discount rates, residual useful lives, churn rates and royalty rates by comparing these with publicly available data;
- comparing the considerations received for the sales of the business units "Coatings" and "Industrial Services" with the net assets recognized in the final opening balance sheet;
- considering the appropriateness of the disclosures in the notes to the consolidated financial statements in relation to the finalization of the purchase price allocation.

For further information on the purchase price allocation for the Looser Group refer to the following:

- Note 1 „General information“, paragraph „restatement of prior year figures“, page 94
- Note 19 „Intangible assets“, page 100
- Note 21 „Estimated useful lives“, page 101
- Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, page 104
- Note 40 „Acquisitions“, section „Acquisitions 2016“, page 128



Discontinued operations

Key Audit Matter

In the past financial year, Arbonia AG disposed the entire business unit "Coatings", which it had acquired in the course of its acquisition of Looser Holding AG, in several transactions. The disposal of the business unit "Industrial Services" announced in July 2017 took place in November 2017. In December 2017, the sales contract for the business unit "Profile Systems" was signed.

Due to the significant impact on the consolidated financial statements, these transactions are a key area of audit focus.

Our response

We assessed whether completed, respectively announced sales transactions were disclosed in the consolidated financial statements in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations".

Amongst others, we performed the following audit procedures:

- reviewing the sales contracts including verifying the signing dates and the closing dates of the transactions;
- agreeing the sales prices according to the sales contracts with the journal entries in the companies involved, as well as with the bank statements for the significant cash flows;
- reviewing the deconsolidation entries including the recycling of the currency translation adjustments to the consolidated income statement;
- assessing the correct split between the results from operating and discontinued activities;
- assessing the disclosures related to the transactions.

For further information on the discontinued operations refer to the following:

- Note 5 „Capital consolidation“, page 96
- Note 16 „Assets held for sale and associated liabilities“, page 99
- Note 16.1 „Discontinued operations“, page 99
- Note 31 „Segment information“, paragraphs „Doors Division“ and „Business Unit Industrial Services“, page 106
- Note 36 „Non-current assets held for sale and discontinued operations“, page 115
- Note 59 „Events after the balance sheet date“, page 160

Other Matter

The consolidated financial statements of Arbonia AG for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 17 February 2017.

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial



statements, the stand-alone financial statements of the company, the compensation report and our auditor's reports thereon.

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2018

**FINANCIAL
STATEMENTS
ARBONIA AG**

Income Statement

	Note	2017		2016	
		in 1000 CHF	in %	in 1000 CHF	in %
Dividend income		2 000			
Financial income	2.6	11 487		16 932	
Other operating income		20		9	
Total income		13 507	100.0	16 941	100.0
Financial expenses	2.7	-23 273	-172.3	-19 846	-117.1
Personnel expenses		-961	-7.1	-882	-5.2
Other operating expenses	2.8	-5 438	-40.3	-5 468	-32.3
Total expenses		-29 672	-219.7	-26 196	-154.6
Net loss for the year		-16 165	-119.7	-9 255	-54.6

The notes on pages 174–178 are an integral part of these financial statements.

Balance Sheet

	Note	31/12/2017		31/12/2016	
		in 1000 CHF	in %	in 1000 CHF	in %
Assets					
Cash and cash equivalents		17 265		33 698	
Securities with stock exchange price				2 116	
Other receivables					
Third parties		99		778	
Shareholdings		136 701		316 300	
Deferred expenses		30		21	
Current assets		154 095	12.9	352 913	26.9
Loans to shareholdings		250 068		179 646	
Investments	2.1	788 812		777 400	
Non-current assets		1 038 880	87.1	957 046	73.1
Total assets		1 192 975	100.0	1 309 959	100.0

	Note	31/12/2017		31/12/2016	
		in 1000 CHF	in %	in 1000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable					
Third parties		80		2 398	
Shareholdings		7		8	
Interest bearing liabilities 2.2					
Bank loans		103 672		314 570	
Shareholdings		109 396			
Other liabilities					
Third parties		47		30	
Shareholdings				50	
Accruals and deferred income					
		1 770		5 569	
Current liabilities					
		214 972	18.0	322 625	24.6
Total liabilities					
		214 972	18.0	322 625	24.6
Share capital 2.3					
		291 788		287 640	
Legal capital reserves					
Capital contribution reserve	2.4	483 138		475 111	
Other capital reserves		42 812		42 812	
Voluntary reserves					
Free reserves		17 916		15 925	
Reserves for treasury shares				143	
Retained earnings		174 279		183 534	
Net loss for the year		-16 165		-9 255	
Treasury shares	2.5	-15 765		-8 576	
Shareholders' equity					
		978 003	82.0	987 334	75.4
Total liabilities and shareholders' equity					
		1 192 975	100.0	1 309 959	100.0

The notes on pages 174–178 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

1.1 General information

These financial statements 2017 were prepared under the provisions of the Swiss accounting law (32nd title of the Swiss Code of Obligations).

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

1.2 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 voluntary reserves.

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

Interest bearing liabilities are accounted for at nominal value.

2 Information and notes to the financial statements

2.1 Investments

Company	31/12/2017		31/12/2016	
	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 %
Arbonia Management AG, Arbon	250	100.00 %	250	100.00 %
Arbonia Services AG, Arbon	250	100.00 %	250	100.00 %
Looser Holding AG, Arbon	32 047	100.00 %	32 047	97.53 %

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

2.2 Current interest bearing liabilities

	31/12/2017	31/12/2016
	in 1000 CHF	in 1000 CHF
Bank loans – syndicated loan	103 672	311 570
Bank loans		3 000
Loans to shareholdings	109 396	
Total	213 068	314 570

On 14 September 2016, Arbonia AG entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks, had a line of credit of CHF 100 million with a due date no later than 31 December 2017 and was used to finance the cash settlement of the Looser acquisition. The other line of credit of 400 million matures on 14 September 2021. However due to the sale of the business unit Industrial Services in 2017,

the credit line was reduced to CHF 350 million. As a result of the new borrowing facility the existing syndicated loan of CHF 250 million, established on 2 December 2013 and maturing on 30 November 2018, was replaced prematurely. Due to the sale of the Coatings segment, the credit line of CHF 87 million used to finance the cash settlement of the Looser acquisition was completely repaid by 10 July 2017. The bond of CHF 200 million at 3.375% with a duration of 6 years was repaid on time by 12 May 2016.

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, 2016 and 2017 reduced by previous distributions.

The distribution from capital contribution reserve is fiscally treated like a redemption of share capital. The Swiss Federal Tax Administration (FTA) has confirmed the disclosed capital contribution reserve (balance as of 31 December 2016) as capital contribution within the meaning of article 5 para. 1bis VStG.

2.5 Treasury shares

	2017			2016		
	Ø market value in 1000 CHF	Number of shares	Amount in 1000 CHF	Ø market value in 1000 CHF	Number of shares	Amount in 1000 CHF
Balance at 01/01	13	664 351	8 576	15	509 681	7 553
Purchase	17	718 391	12 074	13	196 058	2 555
Share capital increase				11	400 071	4 545
Transfer for share based payments	17	-143 953	-2 454	11	-249 351	-2 750
Sale	17	-244 641	-4 280	13	-192 108	-2 534
Gain (+) / loss (-)			1 849			-792
Balance at 31/12	16	994 148	15 765	13	664 351	8 576

2.6 Financial income

Financial income totals CHF 11.5 million (2016: CHF 16.9 million) and consists mainly of interest income on loans to shareholdings and foreign currency exchange gains.

2.7 Financial expenses

Financial expenses totals CHF 23.3 million (2016: CHF 19.8 million) and consists mainly of bank interest and foreign currency exchange losses.

2.8 Other operating expenses

	2017	2016
	in 1000 CHF	in 1000 CHF
Administrative costs	4 799	3 662
Consultancy and audit fees	384	915
Other operating expenses	255	891
Total	5 438	5 468

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:

		31/12/2017	31/12/2016
UBS AG			
in favour of AFG Immobilien AG	in 1000 CHF	3 465	3 455
St.Galler Kantonalbank			
in favour of EgoKiefer AG	in 1000 CHF	1 000	1 000
UniCredit Bank			
in favour of Kermi GmbH	in 1000 EUR	1 500	2 000
in favour of Wertbau GmbH	in 1000 EUR	2 500	2 500
Commerzbank			
in favour of AFG Schoch GmbH	in 1000 EUR		1 000

3.2 Contingent liabilities

A joint and several liability exists towards the affiliated subsidiaries under the cash pooling agreement with Uni-Credit Bank AG.

3.3 Major shareholders

	31/12/2017	31/12/2016
	Voting and capital interest	Voting and capital interest
Artemis Beteiligungen I AG	21.53 %	20.48 %

3.4 Headcount in full-time equivalents

Arbonia AG does not employ any staff.

3.5 Disclosure of shareholding

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

	31/12/2017	31/12/2016
	Number of registered shares	Number of registered shares
Alexander von Witzleben (Chairman of the BoD and Group Management)	171 984	103 201
Peter Barandun (Member of the BoD)	23 801	17 945
Peter E. Bodmer (Member of the BoD)	12 813	9 482
Markus Oppliger (Member of the BoD)	17 557	14 629
Heinz Haller (Member of the BoD)	51 260	47 161
Michael Pieper (Member of the BoD)	14 954 493	14 022 597
Rudolf Huber (Member of the BoD from 13/12/2016)	129 873	129 873
Thomas Lozser (Member of the BoD from 13/12/2016)	397 294	397 294
Christian Stambach (Member of the BoD until 28/04/2017)		25 549
Felix Bodmer (Group Management)	68 168	50 374
Knut Bartsch (Group Management)	39 252	34 439
Harald Pichler (Group Management from 01/02/2016)	9 556	
Peter Spirig (Group Management from 01/05/2016)	2 733	
Total	15 878 784	14 852 544

3.6 Consistency in the presentation

The balance sheet item "Result from the sale of treasury shares" is now reported under the voluntary reserves and no longer as a separate item. Accordingly, previous year's figures were restated.

PROPOSAL OF THE BOARD OF DIRECTORS

The Board of Directors will propose at the Annual General Meeting of the shareholders on 20 April 2018 the following:

Appropriation of Retained Earnings

	2017	2016
	in 1000 CHF	in 1000 CHF
Retained earnings carried forward from previous year	174 279	183 534
Net loss for the year	- 16 165	- 9 255
Retained earnings	158 114	174 279
Retained earnings carried forward	158 114	174 279
Total	158 114	174 279



Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arbonia AG, which comprise the balance sheet as at 31 December 2017, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 171 to 177) for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

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



Valuation of investments and loans due from shareholdings

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



Valuation of investments and loans due from shareholdings

Key Audit Matter

The financial statements of Arbonia AG as at 31 December 2017 include investments amounting to CHF 788.9 million and loans due from shareholdings (included in the balance sheet items "Other receivables shareholdings" as well as "Loans to shareholdings") amounting to CHF 386.8 million. The company reviews the individual investments and loans due from shareholdings for impairment annually.

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

Our response

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

Amongst others, we performed the following audit procedures:

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

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

- Note 1.3 „Other current receivables“, page 174
- Note 1.4 „Non-current loans“, page 174
- Note 2.1 „Investments“, page 175

Other Matter

The financial statements of Arbonia AG for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on 17 February 2017.

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in



accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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



Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

A handwritten signature in black ink, appearing to read 'K. Stocker', written over a faint circular stamp.

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

A handwritten signature in black ink, appearing to read 'O. Eggenberger', written over a faint circular stamp.

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2018

SUPPLEMENTARY INFORMATION FOR INVESTORS

	2017	2016	2015	2014	2013
Number of shares					
Registered par value CHF 4.20	69 473 243	68 485 790	44 557 125	18 225 603	18 225 603
Registered par value CHF 4.20 average number	69 061 804	47 448 515	29 658 846	18 225 603	18 225 603
Stock market prices in CHF¹					
Highest	19.1	17.0	18.6	26.3	25.2
Lowest	15.1	8.8	8.7	14.0	16.9
31/12	16.3	16.4	10.1	18.2	23.2
Stock market capitalisation in CHF million (31/12)	1 128.9	1 123.2	450.0	449.3	573.2
Per share data¹					
Gross dividend in CHF ²	0.0	0.0	0.0	0.0	0.3
Pay-out ratio (in % of Group earnings)	0.0	0.0	0.0	0.0	n/a
Group earnings in CHF	0.7	0.2	-6.1	0.6	-2.1
Cash flow from operating activities in CHF	1.0	0.7	1.8	1.6	2.6
Shareholders' equity in CHF	12.4	10.5	7.9	14.7	14.9
Price/earnings ratio (highest)	28.4	106.1	-3.1	31.7	-9.2
Price/earnings ratio (lowest)	22.4	54.6	-1.5	16.9	-6.2
Price/earnings ratio (31/12)	24.2	102.3	-1.7	22.0	-8.5
Price/cash flow ratio (highest)	19.1	25.2	10.1	12.1	7.1
Price/cash flow ratio (lowest)	15.1	13.0	4.8	6.5	4.7
Price/cash flow ratio (31/12)	16.3	24.3	5.5	8.4	6.5

¹ Adjusted for 2015 capital increase

² 2018 proposal to the Annual General Meeting

GLOSSARY

Artemis Beteiligungen I AG Affiliated company that is controlled by Michael Pieper and has been the main shareholder in Arbonia AG since December 2014.

Bevel The corner joint of two strips that are not cut at a right angle. These two strips come together to form a defined angle in the corners (e.g. two strips with a 45° bevel = 90°).

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.

Cogeneration plant This refers to the simultaneous generation of mechanical and usable thermal energy (heat). The mechanical energy is normally converted into electrical power by a generator.

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.

Demographic shift The term “demographic shift” refers to changing age structures within a country's population.

EBIT Earnings Before Interests and Taxes: a company's operating results before interest and taxes are taken into account.

EBIT margin Indicates EBIT in relation to revenue.

EBITDA Earnings Before Interests and Taxes, Depreciations and Amortization: a company's operating results before interest, taxes, depreciation and amortization are taken into account. EBITDA is one of the most meaningful figures in evaluating a company's earning power.

EBITDA margin Indicates EBITDA in relation to revenue.

Equity ratio The equity ratio indicates the shareholders' equity in relation to total capital. It is used to assess a company's financial capacity and stability. If the equity ratio is high, you can assume that the company is less dependent on third-party funds.

Fan coil Depending on the temperature of the flow water for a connected water heater / chiller, fan coils are able to heat, cool and dehumidify a room, and are able to provide ventilation and the option of filtering indoor air in fan-only operation. This results in maximum comfort with optimum room air quality. A fan radiator is able to heat (but not cool) a room by means of convection when the fan is switched off.

Fitting Mechanical function element that is actuated via the handle to open and close a window. Window fittings connect the movable part of a window (window sash) with the fixed part (window frame).

Frame The fixed part that frames a door and from which the movable part swings open.

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.

General employment contract In Switzerland, a general employment contract is the contractual basis for any employment agreement for a particular profession or in a particular industry. It normally defines working hours, holiday allowances, notice periods and minimum wages. A general employment contract is negotiated by trade unions and corporate associations. There are general employment contracts that apply to the whole of Switzerland or just to a specific canton.

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.

Insulating glass Multi-pane insulating glass (MIG), also known as insulated glazing or double/triple glazing, is a construction element made up of at least two panes of glass and is used for windows or other glass features. The area between the panes is hollow and sealed against gas and moisture. This helps to keep noise out and heat in.

Market capitalisation A company's stock market value. It is calculated using the number of shares x the current share price.

Net indebtedness The total that remains when cash and cash equivalents are deducted from non-current liabilities. This indicates how much cash would be available for repaying loans if the cash and cash equivalents were already used up and the company had to liquidate its current assets.

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.

RFID (radio-frequency identification) Radio-frequency identification refers to the technology used by sender-receiver systems to automatically identify and locate objects and living organisms using radio waves, meaning that no contact is required.

Surface heating 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.

Webinar/web seminar A seminar that is conducted via the World Wide Web. The neologism is a portmanteau word made up of the words "web" (from World Wide Web) and "seminar".

HISTORY

In 1874, Franz Josef Forster opened a coppersmith's shop producing hot-water bottles, cookware and other receptacles. The company changed its name to Hermann Forster AG in 1922. By this time, it was manufacturing steel tubes.

In 1904, Karl Schnitzler set up a factory to make heat exchangers under the Arbonia brand.

In 1954, Arbonia AG was established.

In 1973, the majority of the shares in Hermann Forster AG were transferred to Arbonia AG, which had been wholly owned by Jakob Züllig since 1959. The Arbonia-Forster Group comprised Hermann Forster AG (steel tubes technology, kitchens and refrigeration equipment), Arbonia AG (radiators and heaters), Asta AG (road transport) and Buhler-Regina AG (embroidery supplies).

In 1987, AFG Arbonia-Forster-Holding AG was registered with the commercial register with CHF 30 million in share capital. A year later, the company was listed on the stock exchange.

In 1999, Jakob Züllig, majority shareholder and Chairman of the Board of Directors, died. Prolux Heizkörper AG was bought in the same year.

In 2001, AFG took over the German company Kermi GmbH, which provided a major boost for its radiator and shower stall business.

In 2003, the Züllig estate sold its majority interest to Dr Edgar Oehler, the new CEO and Chairman of the Board of Directors.

In 2004, there were three acquisitions: Bruno Piatti AG, Dietlikon ZH (CH); EgoKiefer AG, Altstätten SG (CH); and Spedition Gächter GmbH, Stachen-Arbon TG (CH).

In 2005, there followed a further acquisition: in September, AFG acquired Miele Kitchens, based in Warendorf (D), from the German company Miele & Cie. KG, based in Gütersloh (D).

In 2006, the Group acquired Schmidlin ASCO Swiss AG, Zwingen BL. The company specialises in underfloor convectors which, alongside their conventional heating function, can also be used for cooling.

In 2007, AFG acquired STI Surface Technologies International Holding AG, Steinach SG (CH) and RWD Schlatter AG, Roggwil SG (CH). In September, AFG acquired the British company Aqualux Products Holdings Ltd.

In 2008, AFG took over Slovaktual s.r.o., Slovakia's leading windows manufacturer. In October, AFG set up a new Asia Pacific regional branch with headquarters in Shanghai (CN).

In 2009, AFG presented its new Warendorf brand of kitchens. This represents the successor to the Miele Kitchens (Miele Die Küche) brand.

In 2010, shareholders at AFG's ordinary General Meeting approved the abolition of the hitherto unequal weighting of registered shares and bearer shares, introducing a single class of registered shares.

In 2011, Edgar Oehler was succeeded as Chairman of the Board of Directors by Paul Witschi on 29 April and as CEO by Daniel Frutig on 1 June.

In 2012, AFG sold its transport and logistics business Asta, its British subsidiary Aqualux and the German company Warendorf. With the acquisition of the Polish window manufacturer Dobroplast, it focused on expanding one of its core business areas.

In 2013, AFG intensified its focus on its core business based on building envelope and interior. It sold off Forster Refrigeration Technology as well as Forster Precision Steel Tubes.

In 2014, the AFG kitchen business and the STI Group were sold. AFG acquired Sabiana, a market leader in commercial heating, ventilation and air-conditioning. Artemis Beteiligungen I AG, led by Michael Pieper, became AFG's new main shareholder.

In 2015, the General Meeting elected Alexander von Witzleben as the new Chairman of the Board of Directors. In July, he also assumed the role of interim CEO. In August, the Board of Directors decided to relocate the production plants to other European countries as a result of significant pressure from competition. The Eastern German window manufacturer Wertbau GmbH was also acquired in August. As part of a capital increase carried out with the aim of strengthening the Group's financial standing, Artemis Beteiligungen I AG reaffirmed its commitment to the Group and, by the end of the year, had increased its stake to just under 28%.

In 2016, AFG acquired the Koralle Group, a specialist in sanitary facilities, from Geberit AG. The move marks an expansion of the Building Technology Division's product range and will help it enhance its position in the core markets of Switzerland, Germany and Austria with a lasting effect. To improve its value chain and market presence in France and Luxembourg, AFG took over the Sabiatherm, Sabiana's exclusive distribution partner in France. In September, AFG announced the takeover of the Looser Group, which is also active in the building supply business and consists of two main arms: doors (Prüm, Garant and Invado) and industrial services (Conducta). This transaction represents an important step in AFG's efforts to achieve its strategic goal of becoming a leading European building supplier. As part of this transaction, AFG Arbonia-Forster-Holding AG was renamed Arbonia AG.

In 2017, with the cancellation of the final Looser shares remaining in public hands, and the cash settlement paid to the shareholders affected by this, Arbonia's takeover of the Looser Group can come to a successful conclusion. Looser's Coatings business (Feyco Treffert, Schekolin, Ilag) will be sold in full in the first half of the year. In November, Arbonia is also selling Looser's Conducta Group. With the sale of the Profile Systems Business Unit and the associated companies Forster Profile Systems and Bloxer Ronchi in December, Arbonia will continue to focus on its three core areas of building technology, windows and doors. Following the split of the Building Technology Division in January 2018, this will become four core areas: HVAC, sanitary equipment, windows and doors.

ADRESSES

Arbonia AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41
holding@arbonia.com

Arbonia Doors AG
Amriswilerstrasse 50
9320 Arbon
Switzerland
info@arbonia.com

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

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

**Baduscho Dusch- und
Badeeinrichtungen
Produktions- und
Vertriebsgesellschaft
m.b.H**
Heidestrasse 9
2433 Margarethen
am Moos
Austria
T+43 22 30 28 05 0
info@baduscho.at
www.baduscho.at

Bekon-Koralle AG
Baselstrasse 61
6252 Dagmersellen
Switzerland
T +41 62 748 60 60
info@koralle.ch
www.koralle.ch

**Dobroplast
Fabryka Okien sp. z o. o.**
Produktionsbetrieb für
Dachflächenfenster
ul. Vetterów 7
20-277 Lublin
Poland
T +48 86 276 34 64
arkadiusz.albiniak@
dobroplast.pl

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

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

**GARANT Türen und
Zargen GmbH**
Garantstrasse 1
Ichtershausen
99334 Amt Wachsenburg
Germany
+49 36202 910
service@garant.de
www.garant.de

Invado Sp. z o.o.
Dzielna, ul. Lesna 2
42-793 Ciasna
Poland
+48 34 35 10 540
biuro@invado.pl
www.invado.pl

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

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

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

PRÜM-Türenwerk GmbH
Andreas-Stihl-Strasse 1
54595 Weinsheim
Germany
+49 6551 1201
kontakt@tuer.de
www.tuer.de

PZP HEATING a.s.
Dobré 149
517 93 Dobré
Czech Republic
T +420 494 664 203
info@pzpheating.com
www.pzpheating.com

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

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

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

**TPO Holz-Systeme
GmbH**
Färbereistrasse 8
91578 Leutershausen
Germany
T +49 9823 454
info@tpo-holz.de

WERTBAU GmbH
Am Dasslitzer Kreuz 3
07957 Langenwetzendorf
Germany
T +49 36625 6110
info@wertbau.de
www.wertbau.de

DATES

20 April 2018

31st Annual General Meeting
OLMA, Hall 2.1, St. Gallen (CH)

14 August 2018

Publication of first semester results
for 2018 financial year

PUBLICATION INFORMATION

Publisher

Arbonia AG
Corporate Communications
Amriswilerstrasse 50
9320 Arbon
Switzerland
T +41 71 447 41 41
media@arbonia.com
www.arbonia.com

Design

KA BOOM, Kommunikationsagentur AG, St. Gallen (CH)

Portrait photos

Haens Tobler, Goldach SG (CH)

Translation

Transline Deutschland GmbH, Reutlingen (D)

Printing

Vorarlberger Verlagsanstalt GmbH, Dornbirn (AT)

This Annual Report is published in German and English.
The original language is German.

This Annual report is printed on FSC-certified paper.