Consolidated Financial Statements Arbonia Group

Consolidated Income Statement

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

Basic and diluted earnings are identical.

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Balance Sheet

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

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

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

Consolidated Cash Flow Statement

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

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

Consolidated Statement of Changes in Equity

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

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

Notes to the Consolidated Financial Statements

A – Accounting principles

1 General information

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

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

These consolidated financial statements have been approved for issue by the Board of Directors of Arbonia AG on 17 February 2017 and require approval from the Annual General Meeting on 28 April 2017. The publication of the consolidated financial statements occurred on 28 February 2017 at the media and analyst conference.

2 General principles and basis of preparation

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

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

Amendments to significant published standards effective in 2016
Arbonia has adopted in 2016 the following amended standards and annual specifications with smaller amendments on various standards and interpretations:

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

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

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

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

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

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

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

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

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

3 Reporting entity

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

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

The following material changes occurred in the Group:

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

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

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

4 Full consolidation

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

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

5 Capital consolidation

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

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

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

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

B – Summary of significant accounting policies

6 Significant accounting policies

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

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

7 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

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

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

The following foreign currency rates have been applied:

		2016		2015	
Currency	Unit	Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.073	1.090	1.081	1.067
GBP	1	1.251	1.335	1.471	1.470
USD	1	1.020	0.985	0.989	0.962
CZK	100	3.973	4.033	3.999	3.912
PLN	100	24.263	24.985	25.362	25.519
CNY	100	14.690	14.847	15.233	15.274
RUB	100	1.682	1.477	1.373	1.585

8 Maturities

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

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

9 Financial instruments

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

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

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

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

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

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

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

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

10 Derivative financial instruments

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

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

11 Fair value estimation of financial instruments

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

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

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

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

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

12 Cash and cash equivalents

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

13 Securities

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

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

14 Receivables

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

15 Inventories

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

16 Assets held for sale and associated liabilities

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

16.1 Discontinued operations

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

17 Property, plant and equipment

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

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

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

18 Investment property

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

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

19 Intangible assets

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

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

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

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

20 Impairment of assets

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

21 Estimated useful lives

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

Land is not systematically depreciated.

22 Provisions

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

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

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

23 Employee benefit obligations

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

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

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

24 Financial debts

Current and non-current financial debts consist of syndicated loans, bank loans, mortgages and a bond (until May 2016). Financial debts are initially recognised at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the financial debt, using the effective interest method.

25 Leases

Lessee

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

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

Lessor

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

26 Deferred income tax

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

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

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

27 Share based payment

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

28 Shareholders' equity

The share premium relates to the Company going public back in 1988 and the capital increases in 2007, 2009, 2015 and 2016.

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

29 Income statement

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

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

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

EBIT
EBIT shows earnings before financial results and tax.

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

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

30 Significant accounting judgments, estimates and assumptions

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

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

Inventory provision

In order to determine the adequacy of the inventory provision, factors such as expected sales prices, inventory turnover and coverage days of inventory are considered. As of 31 December 2016, the carrying amount of inventory was at CHF 173.0 million. Therein a provision for inventories of CHF 19.8 million is included. A falling market demand or falling sales prices could lead to additional provisions needed. For further information on the inventory provision, see note 34.

Useful lives for property, plant and equipment

Arbonia has a significant amount of its assets invested in property, plant and equipment. As of 31 December 2016, the carrying amount of property, plant and equipment totalled CHF 458.1 million. At the time of the purchase useful lives for such assets are based on estimates, as technical obsolescence or competition could lead to shorter useful lives than initially anticipated. Therefore the determination of useful lives is based on stringent standards and thereafter continuously reviewed and if necessary adjusted. A change in estimate could impact the level of future depreciation charges. For further information on property, plant and equipment, see note 37.

Estimated impairment of goodwill

As of 31 December 2016, the carrying amount of goodwill was at CHF 226.0 million. Arbonia tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as expected future cash flows, margins, discount rates and growth rates. These estimates could change or differ from the actual outcome and therefore lead to additional impairments. For further information on goodwill, see note 39.

Intangible assets acquired in a business combination

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

Provisions

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

Employee benefit obligations

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

Income taxes

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

C – Explanation to certain positions of the consolidated financial statements

31 Segment information

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

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

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

Building Technology Division

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

Building Envelope Division

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

Building Security Division

The Building Security Division consists of the business units Doors and Profile Systems. The business unit Doors owns the brands RWD Schlatter, Prüm, Garant and Invado. RWD Schlatter is specialized in the production of special wooden doors for interiors. Prüm and Garant are among the leading manufacturers of interior doors and door frames in Europe and Invado to the leading suppliers of interior doors and door frames in Poland. The products are developed and produced in Switzerland, Germany and Poland. Profile Systems manufacture their systems in steel and stainless steel for glazed doors, windows and facades, used in fire/smoke protection and security applications in public, commercial and industrial buildings. Their products are developed and produced mainly in Switzerland.

Business Unit Industrial Services

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

Corporate Services

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

						2016
	Building Technology	Building Envelope	Building Security	Industrial Services	Others and eliminations	Total Group
	in 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**
in % of net revenues	*11.0*	*2.3*	*3.7*			*6.9*
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**
in % of net revenues	*7.2*	*−1.4*	*1.8*			*2.9*
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 employees[1]	**2 835**	**2 995**	**436**		**60**	**6 325**
Total assets	**446 753**	**235 402**	**497 981**	**129 823**	**56 116**	**1 366 075**
thereof associated companies		4 173				4 173
Total liabilities	**217 404**	**234 689**	**179 609**	**40 659**	**91 462**	**763 823**
Purchases of property, plant and equipment investment properties and intangible assets[2]	**28 924**	**21 629**	**1 779**		**28 651**	**80 983**

1 without Looser Group
2 without acquisition of subsidiaries

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

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

1 without acquisition of subsidiaries

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

Information about geographical areas

				2016
	Switzerland	Germany	Other Countries	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	343 302	319 345	332 700	995 347
Property, plant and equipment, investment properties, intangible assets and goodwill	243 681	384 479	282 340	910 500

				2015
	Switzerland	Germany	Other Countries	Total Group
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Net revenues	346 881	282 440	312 103	941 424
Property, plant and equipment, investment properties, intangible assets and goodwill	105 500	94 805	215 443	415 748

Major customers

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

32 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

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

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

33 Accounts receivables

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

The ageing analysis is as follows:

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

With respect to accounts receivable that are not impaired, there are no indications as of the balance sheet date that the respective debtors will not meet their payment obligations. Outstanding accounts receivable amounting to CHF 18.4 million (2015: CHF 9.2 million) were secured and mainly consist of credit insurances.

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

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

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

Since February 2010 Arbonia sells receivables under a factoring agreement. Because Arbonia neither transfers nor retains substantially all the risks and rewards of ownership and still retains control, the receivables have to be recorded in the balance sheet to the extent of the so-called continuing involvement as stipulated under the provision of IAS 39. In particular the late payment risk is completely retained by Arbonia up until a certain point in time. As of 31 December 2016 the book value of the transferred receivables amounted to CHF 9.4 million (2015: CHF 7.3 million). Thereof Arbonia already received from the factor CHF 8.1 million (2015: CHF 7.1 million) of cash and the difference of CHF 1.3 million (2015: CHF 0.2 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2015: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2015: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2016 to CHF 0.001 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.01 million.

34 Inventories

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

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

35 Financial assets

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

Associated companies

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

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

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

Gaulhofer Industrie-Holding GmbH – Balance sheet

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

Gaulhofer Industrie-Holding GmbH – Income statement

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

Business transactions with associated companies

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

Loans

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

The ageing analysis for loans is as follows:

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

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

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

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

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

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

36 Non-current assets held for sale and discontinued operations

Assets held for sale and discontinued operations

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

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

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

Liabilities associated with asset held for sale and discontinued operations

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

37 Property, plant and equipment

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

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

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

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

On 16 June 2016, Arbonia and Credit Suisse Funds AG signed a purchase agreement for the Corporate Center in CH-Arbon with transfer of ownership in around eleven years. The two parties have signed a new lease 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 is reported in the cash flow statement under "purchases of property, plant and equipment". Due to the commitment to purchase the Corporate Center and the current lease agreement being valid until the moment of the transfer of ownership, this deal qualifies as a finance lease. Accordingly, the fair value of the Corporate Center of CHF 25 million was capitalised, the net present value of the lease payments and the discounted purchase price commitment recorded as liabilities (see note 43). The transaction resulted in an impairment on the Corporate Center of CHF 2.5 million.

Impairments 2015

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

Future aggregate minimum lease payments

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

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

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

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

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

Leasehold property obligation

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

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

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

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

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

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

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

38 Investment property

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

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

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

39 Intangible assets

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

Expenses for research and development in the amount of CHF 16.0 million (2015: CHF 16.0 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. In the assets under construction of property, plant and equipment, there are capitalised development costs of CHF 0.8 million (2015: CHF 0 million) included. All other additions under other intangible assets have been purchased or acquired.

Goodwill

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

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

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

Goodwill impairment tests 2016

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

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations used cash flow projections covering a five-year period for the CGUs Wertbau, Sabiana and Slovaktual. For the CGU Sanitary a three-year projection period was applied. Cash flows beyond the five-year period and the three-year period respectively were extrapolated using estimated growth rates. The underlying financial data formed part of the Group's medium term plan approved by the Board of Directors in early summer 2016.

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

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

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

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

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

A reduction in the budgeted gross margin from 36.8% to 35.0% would result in an impairment of the CGU Slovaktual amounting to CHF 3.9 million. At a budgeted gross margin of 35.4%, the recoverable amount was equal to their carrying amount. At a 10 % reduction in EBITDA and a simultaneous reduction of perpetual growth from 1.0 % to 0.5%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2015

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

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

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

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

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

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

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

The below-expectation growth and earnings as well as a reassessment of the main markets of the CGU Dobroplast led to lower future earnings potential. Due to the numerous changes in personnel since the acquisition of Dobroplast, an in-depth analysis of required capital expenditures could only be carried out time-delayed, with the result that sustainably higher capital expenditures were to be required. These new findings were taken into account in the medium term plan. The underlying value in use calculation resulted for the CGU Dobroplast in an impairment of CHF 18.2 million, which as a first step was allocated to goodwill. The remaining amount of CHF 1.1 million was assigned to intangible assets. A reassessment based on knowledge gained since the acquisition and ongoing integration process of Sabiana led to the awareness that the originally calculated synergies within the Division Building Technology were only to be eventuated with a certain delay and only be achievable with additional personnel expenses. These amended assumptions were incorporated in the medium term plan of the CGU Sabiana. The underlying value in use calculation resulted in an impairment of CHF 20.3 million, which was fully allocated to goodwill of the CGU Sabiana.

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

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

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

40 Acquisitions

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

Acquisitions 2016

Looser Group

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

	Fair Value
	in 1000 CHF
Net assets acquired including non-controlling interests	**239 550**
Non-controlling interests	– 10 134
Net assets acquired	**229 416**
Goodwill	170 563
Purchase consideration	**399 979**
Cost of acquisition	
Purchase price	85 200
Purchase price in equity instruments	314 778
Total cost of acquisition	**399 979**
Net cash outflow was as follows:	
Purchase price	85 200
Cash and cash equivalents acquired – continuing operations	–43 599
Cash and cash equivalents acquired – discontinued operations	– 17 566
Net cash outflow on acquisition	**24 035**

As of 14 September 2016, Arbonia concluded a purchase agreement with the existing major shareholders, members of the Board of Directors and Group Management for the purchase of 53.32 % of shares of Looser Holding AG, CH-Arbon, a company listed on the SIX Swiss Exchange. On 15 September 2016, Arbonia announced their plan to submit a public purchase and exchange offer to all shareholders. Accordingly, Arbonia published on 29 September 2016 a purchase and exchange offer for all outstanding registered shares. The offer price for one registered share of Looser Holding AG amounted to 5.5 shares of Arbonia AG plus CHF 23 in cash. The offer price was identical for the purchase agreement as well as for the purchase and exchange offer. By 13 December 2016, Arbonia had acquired 97.53 % of the shares of Looser Holding AG. The purchase price amounted in total to CHF 400 million, consisting of 20 373 996 newly issued registered shares of Arbonia AG at a fair value of CHF 15.45 per share, totalling CHF 314.8 million and the cash consideration of CHF 23 per share for the 3 704 363 offered Looser registered shares, totalling CHF 85.2 million. Looser Group is an international industrial holding company and active in the three segments doors, industrial services and coatings with approximately 2260 employees. Since the acquisition took place just a few days before year-end, Arbonia has renounced to consolidate the income statement of Looser Group based on materiality reasons. Had the acquisition taken place on 1 January 2016, net revenues for the reporting period would have been CHF 434.2 million and profit, including amortisation charges on intangible assets from acquisitions, would have been CHF 1.7 million. The gross carrying amount of accounts receivables amounted to CHF 19.5 million, of which CHF 0.4 million were considered uncollectable. The acquisition-related costs amounted to CHF 7.6 million. Thereof, CHF 2.3 million is included in operating expenses in 2016 and CHF 5.3 million stemming from the capital increase were offset with share premium. The goodwill from this acquisition, which is allocated to the segments Doors and Industrial Services, is due to the fact that certain intangible assets did not meet the criteria of IFRS 3 "business combinations" for the recognition as intangible assets at the date of acquisition. These intangible assets consist mainly of expected synergies within the segment Doors and cost-savings at Corporate level. In addition, goodwill includes the workforce know-how. The fair value of the acquired assets and especially the intangible assets and the fair value of the acquired liabilities could only be determined on a provisional basis, since the acquisition occurred shortly before year-end and therefore not all assessments could be thoroughly carried out or checked.

Koralle Group

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

	Fair Value
	in 1000 CHF
Net cash outflow was as follows:	
Purchase price	42 027
Cash and cash equivalents acquired	– 11 039
Repayment of a shareholder loan	873
Net cash outflow on acquisition	**31 862**

As of 20 September 2016, Arbonia acquired 100% of the shares of Koralle Group, consisting of Bekon-Koralle AG, CH-Dagmersellen, Koralle Sanitärprodukte GmbH, DE-Vlotho, and Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H, AT-Margarethen am Moos. The Koralle Group operates in the sanitary field and complements the product range of the Building Technology Division. The purchase price amounted to CHF 42 million. From the date of acquisition, Koralle Group contributed CHF 13 million in net revenues and CHF 0.6 million in loss to the Group. Had the acquisition taken place on 1 January 2016, net revenues for the reporting period would have been CHF 48.8 million and loss would have been CHF 0.3 million. The loss includes amortisation charges on intangible assets from acquisitions as well as the restructuring provision of CHF 2.5 million booked after the acquisition for the German site in Vlotho. The gross carrying amount of accounts receivables amounted to CHF 5.7 million, of which CHF 0.3 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.4 million and are included in operating expenses in 2016. The goodwill from this acquisition is due to the fact that certain intangible assets did not meet the criteria of IFRS 3 "business combinations" for the recognition as intangible assets at the date of acquisition. These intangible assets consist mainly of expected synergies within the Building Technology Division. In addition, goodwill includes the workforce know-how.

Sabiatherm SAS

	Fair value
	in 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**

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

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

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

Sabiana

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

Acquisitions 2015

Acquisition Wertbau Group

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

	Fair value
	in 1 000 CHF
Net cash outflow was as follows:	
Purchase price	18 923
Cash and cash equivalents acquired	–52
Net cash outflow on acquisition	**18 871**

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

Acquisition Bloxer S.r.l.

	Fair value
	in 1 000 CHF
Assets	
Cash and cash equivalents	373
Accounts receivables	1 374
Other current assets	55
Inventories	1 137
Property, plant and equipment	198
Intangible assets	2 377
Total assets	**5 514**

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

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

41 Financial debts

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

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

The financial debts are comprised of the following:

	31/12/2016	31/12/2015
	in 1000 CHF	in 1000 CHF
Syndicated loan	311 570	
Bond		199 799
Mortgage	25 215	15 568
Bank loans	5 645	4 772
Bank borrowings		4 323
Total	**342 430**	**224 462**

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

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

The maturities of the financial debts are as follows:

	31/12/2016	31/12/2015
	in 1000 CHF	in 1000 CHF
within 1 year	322 217	207 095
between 1 and 5 years	11 869	8 307
after 5 years	8 344	9 060
Total	**342 430**	**224 462**

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

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

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

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

	31/12/2016	31/12/2015
	in 1000 CHF	in 1000 CHF
CHF	171 808	203 799
EUR	169 090	20 663
PLN	1 532	
Total	**342 430**	**224 462**

42 Financial instruments

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

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

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

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

43 Additional disclosures on financial instruments

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

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

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

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

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

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

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

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

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

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

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

	Contingent consideration liability	Purchase commitment	Purchase commitment on non-controlling interests
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance 01/01/2015			**7 971**
Acquisition Bloxer Ronchi	509		
Within financial results recognised unrealised foreign exchange gains			–799
Within financial results recognised unrealised foreign exchange losses	14		
Within financial results recognised expenses from compounding	31		707
Balance 31/12/2015	**554**		**7 879**
Purchase agreement		11 322	
Within financial results recognised unrealised foreign exchange gains	–5		
Within financial results recognised unrealised foreign exchange losses			301
Within financial results recognised expenses from compounding	59	395	2 436
Within financial results recognised income from derecognition	–608		
Settlement			–10 616
Balance 31/12/2016		**11 717**	

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

The purchase commitment of CHF 11.3 million relates to the signed purchase agreement on 16 June 2016 between Arbonia and Credit Suisse Funds AG for the Corporate Center in CH-Arbon. The purchase commitment was recorded at the balance sheet date at fair value and at the time of transfer of ownership, the purchase price will amount to CHF 20 million (see note 37).

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

44 Provisions

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

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

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

Warranty

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

Personnel

Personnel provisions comprise mainly a provision for partial retirement.

Restructuring

As of 31 December 2015, the restructuring provision comprised mainly costs in connection with the reorganisations announced on 3 March 2015 and 13 August 2015 for the heating and window business in Switzerland. In the reporting period, incurred costs of CHF 6.2 million were booked against this provision, CHF 0.9 million were additionally booked due to new estimates and CHF 3.1 million were reversed as a result of voluntary staff departures and risk reduction measures. The remaining provision of CHF 8.5 million is considered adequate. It is assumed that the restructuring of the heating business will be completed by late summer 2017 and for the window business by early 2018. CHF 2.5 million of the restructuring provision shown in 2016 relates to costs in the Division Building Technology for personnel measures in the wake of the relocation of logistics and production activities within Germany from Vlotho to Plattling, planned for 2017.

Other provisions

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

45 Deferred income taxes

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

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

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

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

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

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

	2016	2015
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**10 128**	**27 524**
Change in scope of consolidation	57 245	809
Changes to other comprehensive income	992	−2 180
Changes to the income statement	−2 639	−14 961
Foreign exchange differences	−80	−1 064
Balance at 31/12	**65 646**	**10 128**

Unrecognised tax loss carryforwards	31/12/2016	31/12/2015
	in 1 000 CHF	in 1 000 CHF
Tax loss carryforwards	230 169	232 520
thereof recognised as deferred taxes	−49 703	−40 154
Unrecognised tax loss carryforwards	**180 466**	**192 366**
Portion expiring:		
within 1 year	12	
between 1 and 5 years	75 904	53 530
after 5 years	104 550	138 836
Total	**180 466**	**192 366**
Tax effect on unrecognised tax loss carryforwards	**15 634**	**16 776**
thereof pertaining to tax rates below 15 %	13 201	13 722
thereof pertaining to tax rates between 15 % and 20 %	1 356	2 699
thereof pertaining to tax rates between 21 % and 25 %	284	355
thereof pertaining to tax rates between 26 % and 30 %	793	

46 Employee benefit obligations

Pension plans in Switzerland

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

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

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

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

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

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

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

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

The following amounts are included in the consolidated financial statements:

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

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

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

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

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

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

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

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

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

The amounts recognised in the income statement are as follows:

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

The principal actuarial assumptions used were as follows:

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

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

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

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

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

Plan assets at fair value consist of:

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

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

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

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

Expected contributions to pension plans for the year ending 31 December 2017 amount to CHF 15.8 million (2016: CHF 13.9 million), of which CHF 9.4 million (2016: CHF 8.3 million) are attributable to the employer.

47 Share capital

The capital structure is as follows:

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

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

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

As a result of the completed authorised capital increase on 12 December 2016, Arbonia AG still possesses authorised capital in the amount of CHF 2 243 866.80 and 534 254 shares respectively for the completion of the Looser acquisition. On 1 November 2016, the Extraordinary Shareholders' Meeting approved the reduction of the maximum amount and number of registered shares for new authorised and new conditional capital to CHF 13 220 117.40 and 3 147 647 shares respectively.

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

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

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

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

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

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

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

Earnings per share	2016	2015
	in 1 000 CHF	in 1 000 CHF
Earnings per share	7 603	– 177 106
	2016	2015
Outstanding shares (average)	47 448 515	29 658 846
Less treasury shares (average)	– 576 710	– 394 948
Average number of shares outstanding for the calculation	**46 871 805**	**29 263 898**

There were no dilutive effects impacting the calculation.

48 Treasury shares

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

The balance of treasury shares has been increased on a net basis by 154 670 since 31 December 2015 mainly due to the capital increase carried out in June 2016.

49 Other comprehensive income and other reserves

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

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

Other reserves

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

50 Financial results

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

51 Income taxes

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

The tax on Group earnings before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings before tax of the consolidated companies as follows:

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

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

The expected weighted average tax rate increased significantly compared to previous year. The increase is predominantly due to the high share of taxable profit of foreign companies with significant higher tax rates and high losses of some Swiss companies with significant lower tax rates. There were no significant changes in local tax rates compared to 2015.

52 Financial risk management

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

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

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

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

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

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

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

To minimise financial default risks, cash and cash equivalents, fixed-term deposits and derivative financial instruments are only deposited or entered into with banks which are specifically defined in the treasury policy. The three largest banks accounted for 21 % / 17 % / 13 % of total liquid funds as of the balance sheet date (2015: 48 % / 25 % / 12 %).

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

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

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

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

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

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

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

Market risk

(a) Currency risk

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

A currency risk arises from transactions settled in foreign currencies (transaction risks) and paid in the Group 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 (2015: 5 %), a 5 % increase (decrease) of the CZK against the CHF (2015: 5 %) or a 5 % increase (decrease) of the PLN against the CHF (2015: 5 %) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

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

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

(b) Interest rate risk

Interest rate risks arise from interest rate fluctuations which may have a negative effect on the Group's asset and earnings position. Interest rate fluctuations result in changes in interest income and expenses relating to interest-bearing assets and liabilities. In addition, they may also affect the fair value of certain financial assets, 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 (2015: 50 basis points) or by 50 basis points for EUR interest rates (2015: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

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

(c) Other market risks

Fair value risk

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

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

As of the balance sheet date, Arbonia reported no significant equity instruments under investments or securities classified as available-for-sale.

Equity management

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

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

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

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

53 Derivative financial instruments

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

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

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

54 Additional information on the cash flow statements

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

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

55 Share based payments

For Group Management and certain other employees a share based payment plan exists. As part of this plan, Group Management members receive 40 % (2015: 33 %) and the other employees 30 % (2015: 25 %) of their bonus in shares. This equity-settled variable remuneration is measured at fair value and recognised as an increase in equity. The determination of the number of shares is based on the volume weighted average share price of 20 trading days, less a 20% discount for the restriction period. These shares granted have a restriction period of four years. A share based payment plan also exists for members of the Board of Directors. Under this plan, members receive a minimum of 50% of their compensation in shares. This plan has the same features as the one for Group Management.

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

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

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

56 Related party transactions

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

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

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

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

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

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

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

57 Contingencies

There were no contingencies.

58 Events after the balance sheet date

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

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

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

59 Subsidiaries

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

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

▲ Production / Sales ■ Trade ● Services / Finances

Report of the Statutory Auditors on the Consolidated Financial Statements

To the General Meeting of Arbonia AG Arbon

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arbonia AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

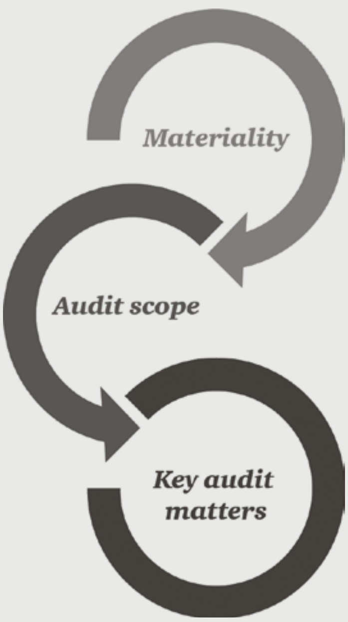
Basis for opinion

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

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

Our audit approach

Overview



Overall Group materiality: CHF 3.4 million

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

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

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

As key audit matters, the following areas of focus were identified:
– Impairment testing of goodwill and intangible assets
– Acquisition of the Looser Group

Audit scope

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

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

Materiality

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

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

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

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

Key audit matters

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

Impairment testing of goodwill and intangible assets

Key audit matter	*How our audit addressed the key audit matter*
We consider the impairment testing of goodwill and intangible assets as a key audit matter for the following two reasons. – Goodwill and intangible assets represent a significant amount on the balance sheet (goodwill of CHF 226.0 million and intangible assets of CHF 215.1 million) and together make up 29 % of total assets. – Goodwill is not regularly amortised but tested for impairment at least annually. In calculating the value-inuse for these tests, the Board of Directors and Management have significant scope for judgement, specifically in determining future revenue and margin growth assumptions and the discount rates to be applied to the expected cash flows and in identifying the cash generating unit (CGU). Intangible assets are amortised over their estimated useful lives. Impairment testing is performed on the basis of a defined process, which uses the budgets approved by the Board of Directors and the multi-year fore-casts. Any assessment of forecasts is subject to inherent uncertainty. Management addresses this uncertainty by preparing scenarios. With regard to the accounting and disclosure principles for goodwill and intangible assets, please refer to the notes to the consolidated financial statements, notes 19 to 21 ('Intangible assets', 'Impairment of assets' and 'Estimated useful lives') and note 30 ('Significant accounting judgements, estimates and assumptions') and note 39 ('Intangible assets').	The impairment testing of goodwill and intangible assets can be described as follows: – By comparing the business results of the year under review with the forecasted results from the prior year, we assessed the appropriateness of the prior year's assumptions. – We checked for plausibility the assumptions applied by Management concerning revenue and margin growth and the change in net working capital. For the assessment of the discount rates, we involved our internal valuation experts, who compared the components used to calculate each discount rate with information from public sources and research databases. – In addition, we tested the sensitivity analyses for the key assumptions. These analyses enabled us to test the potential for an impairment of the goodwill or of the intangible assets. Our audit results corroborate the impairment testing of goodwill and other intangible assets as of 31 December 2016. The assumptions used with regard to impairment testing were consistent and in line with our expectations.

Acquisition of the Looser Group

Key audit matter	*How our audit addressed the key audit matter*
On December 13, 2016, Arbonia AG acquired control of Looser Holding AG, headquartered in Arbon ('Looser Group'). The purchase price was CHF 400 million and the provisional calculation of goodwill amounted to CHF 170.6 million. The assessment of the acquisition of the Looser Group was deemed a key audit matter because of the critical estimates made by Management concerning the provisional opening balance sheet. In particular, the identification and valuation of intangible assets and goodwill involved significant scope for judgement. Please refer to the notes to the consolidated financial statements, notes 19 to 21 ('Intangible assets', 'Impairment of assets' and 'Estimated useful lives') and note 30 ('Significant accounting judgements, estimates and assumptions') and note 39 ('Intangible assets') and note 40 ('Acquisitions').	We checked that all identified material matters regarding the provisional opening balance sheet as at December 31, 2016 were accounted for in accordance with IFRS 3 'Business Combinations' and the purchase agreement. To this end, the main audit procedures we performed were as follows: – We compared the key assumptions underlying the multiyear plan with industry-specific forecasts to assess the initial valuation of the acquired intangible assets (brands, customer relationships), which was performed by an external specialist, and the goodwill. – In addition, we involved our internal valuation specialists who assessed, in particular, the appropriateness of the valuation model used and compared the discount rate with that of similar transactions and other market data. – We reconciled the property valuations to the valuation reports of independent external valuation specialists. – We reconciled the pension liabilities to the actuarial reports of independent actuaries. – Further, we assessed the presentation of the transaction in the notes to the consolidated financial statements. – With regard to the acquired assets of the Coatings division, which are earmarked for sale, we checked their fair values for plausibility using available information. The results of our audit procedures did not give rise to any reservations concerning recognition and measurement in the opening balance sheet of the Looser Group or the presentation of the acquisition in the consolidated financial statements.

Other information in the annual report

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

St.Gallen, February 17, 2017

Beat Inauen
Audit expert
Auditor in charge

Martin Knöpfel
Audit expert