Financial Statements Arbonia AG

Income Statement

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

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

Balance sheet

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

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

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

Notes to the Financial Statements

1 Accounting policies

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

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

1.2 Securities with stock exchange prices
Short term held securities are valued at cost or lower stock market price at the balance sheet date.

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

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

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

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

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

2 Information and notes to the financial statements

2.1 Investments

	31/12/2016		31/12/2015	
Company	Share capital in 1 000 CHF	Capital and voting interest in %	Share capital in 1 000 CHF	Capital and voting interest in %
AFG Schweiz AG, Arbon	1 000	100.00 %	1 000	100.00 %
AFG International AG, Arbon	1 000	100.00 %	1 000	100.00 %
AFG Management AG, Arbon	250	100.00 %	250	100.00 %
AFG Services AG, Arbon	250	100.00 %	250	100.00 %
Looser Holding AG, Arbon	32 047	97.53 %		

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

2.2 Current interest bearing liabilities

	31/12/2016	31/12/2015
	in 1 000 CHF	in 1 000 CHF
Bank loans	3 000	1 000
Bank loans – syndicated loan	311 570	
Bond 2010 – 2016 3.375 %		199 799
Loans to group companies		3 596
Total	**314 570**	**204 395**

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

2.3 Share capital

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

2.4 Capital contribution reserve

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

The distribution from capital contribution reserve is fiscally treated like a redemption of share capital. The Swiss Federal Tax Administration (FTA) has confirmed the disclosed capital contribution reserve (balance as of 31 December 2015) as capital contribution within the meaning of article 5 para. 1 bis VStG.

2.5 Treasury shares

	2016			2015		
	Ø market value in CHF	Number of shares	Amount in 1 000 CHF	Ø market value in CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	**15**	**509 681**	**7 553**	**24**	**240 183**	**5 856**
Purchase	13	196 058	2 555	17	246 009	4 089
Share capital increase	11	400 071	4 545	8	314 916	2 551
Transfer for share based payments	11	–249 351	–2 750	16	–73 304	–1 156
Sale	13	–192 108	–2 534	16	–218 123	–3 547
Gain (+) / loss (-)			–792			–240
Balance at 31/12	**13**	**664 351**	**8 576**	**15**	**509 681**	**7 553**

2.6 Financial income
Financial income totals CHF 16.9 million (2015: CHF 14.9 million) and consists mainly of interest income on loans to investments and foreign currency exchange gains.

2.7 Financial expenses
Financial expenses totals CHF 19.8 million (2015: CHF 26.4 million) and consists mainly of bank interest, interest on the bond and foreign currency exchange losses.

2.8 Other operating expenses

	2016	2015
	in 1 000 CHF	in 1 000 CHF
Administrative costs	3 662	7 934
Consultancy and audit fees	915	440
Other operating expenses	891	36
Total	**5 468**	**8 410**

3 Other disclosures

3.1 Guarantees, warranty obligations and collateral in favour of third parties
The following guarantees were issued for the companies listed below:

		31/12/2016	31/12/2015
UBS AG			
in favour of AFG Immobilien AG	in 1 000 CHF	3 455	2 713
St.Galler Kantonalbank			
in favour of EgoKiefer AG	in 1 000 CHF	1 000	2 000
UniCredit Bank			
in favour of Kermi GmbH	in 1 000 EUR	2 000	2 000
in favour of Wertbau GmbH & Co. KG	in 1 000 EUR	2 500	2 500
Commerzbank			
in favour of AFG Schoch GmbH	in 1 000 EUR	1 000	1 000

3.2 Contingent liabilities
A joint and several liability exists towards the affiliated subsidiaries under the cash pooling agreement with UniCredit Bank AG.

3.3 Major shareholders

	31/12/2016	31/12/2015
	Voting and capital interest	Voting and capital interest
Artemis Beteiligungen I AG	20.48 %	27.52 %

3.4 Risk assessment
Refer to note 52 in the notes to the consolidated financial statements of Arbonia Group.

3.5 Headcount in full-time equivalents
Arbonia AG does not employ any staff.

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

	31/12/2016	31/12/2015
	Number of registered shares	Number of registered shares
Alexander von Witzleben (Chairman of the BoD from 17/04/2015 and Group Management from 01/07/2015)	103 201	30 000
Peter Barandun (Member of the BoD)	17 945	9 144
Christian Stambach (Member of the BoD)	25 549	22 248
Peter E. Bodmer (Member of the BoD)	9 482	4 861
Markus Oppliger (Member of the BoD)	14 629	10 228
Heinz Haller (Member of the BoD)	47 161	5 000
Michael Pieper (Member of the BoD from 17/04/2015)	14 022 597	12 259 974
Rudolf Huber (Member of the BoD from 13/12/2016)	129 873	
Thomas Lozser (Member of the BoD from 13/12/2016)	397 294	
Felix Bodmer (Group Management)	50 374	45 790
Knut Bartsch (Group Management)	34 439	30 372
Christoph Schönenberger (Group Management until 30/04/2016)		33 881
Total	**14 852 544**	**12 451 498**

Proposal of the Board of Directors

The Board of Directors will propose at the Annual General Meeting of the shareholders on 28 April 2017 the following:

Appropriation of Retained Earnings

	2016	2015
	in 1000 CHF	in 1000 CHF
Retained earnings carried forward from previous year	183 534	202 418
Net loss for the year	–9 255	–18 884
Retained earnings	**174 279**	**183 534**
Retained earnings carried forward	174 279	183 534
Total	**174 279**	**183 534**

Report of the Statutory Auditors on the Financial Statements

To the General Meeting of Arbonia AG Arbon

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arbonia AG, which comprise the balance sheet as at December 31, 2016, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at December 31, 2016 comply with Swiss law and the company's articles of incorporation.

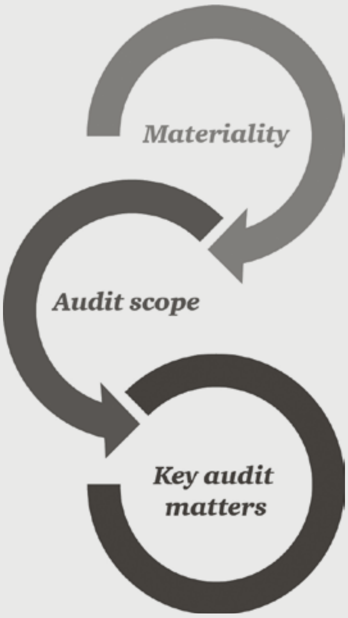
Basis for opinion

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

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 1.3 million

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

As a key audit matter, the following area of focus was identified:
Impairment testing of investments in subsidiaries

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

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

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

Overall materiality	CHF 1.3 million
How we determined it	0.1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of a holding company is most commonly measured.

We agreed with the Audit Committee that we would report to them misstatements above CHF 65,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

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

Impairment testing of investments in subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
We consider the impairment testing of investments in subsidiaries to be a key audit matter for the following two reasons: – Investments in the amount of CHF 777.4 million represent the largest asset category on the balance sheet (59.3 % of total assets). An impairment of these investments would have a significant impact on the equity of the Company.	With regard to the impairment testing of investments, our audit consisted principally of the following procedures: We compared the book value of the investments in the year under review with their prorata share of the respective company's equity or, in the case of the investment in the Looser Group, with the acquisition price. On the basis of our audit procedures, we have no findings to report.

– Testing for impairment depends on the future results of the companies concerned. In addition, there is significant scope for judgement in determining the assumptions underlying forecast results.

Please refer to the notes to the financial statements and, specifically, to the information regarding recognition, valuation and disclosure in note 2.1 'Investments'.

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

St.Gallen, February 17, 2017

Beat Inauen
Audit expert
Auditor in charge

Martin Knöpfel
Audit expert