FINANCIAL STATEMENTS ARBONIA AG

Income Statement

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

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

Balance Sheet

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

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

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

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

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

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

1.7 Interest bearing liabilities
Interest bearing liabilities are accounted for at nominal value.

2 Information and notes to the financial statements

2.1 Investments

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

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

2.2 Current interest bearing liabilities

	31/12/2017	31/12/2016
	in 1 000 CHF	in 1 000 CHF
Bank loans – syndicated loan	103 672	311 570
Bank loans		3 000
Loans to shareholdings	109 396	
Total	**213 068**	**314 570**

On 14 September 2016, Arbonia AG entered into a syndicated loan for CHF 500 million. This loan, arranged with a consortium of banks, had a line of credit of CHF 100 million with a due date no later than 31 December 2017 and was used to finance the cash settlement of the Looser acquisition. The other line of credit of 400 million matures on 14 September 2021. However due to the sale of the business unit Industrial Services in 2017, the credit line was reduced to CHF 350 million. As a result of the new borrowing facility the existing syndicated loan of CHF 250 million, established on 2 December 2013 and maturing on 30 November 2018, was replaced prematurely. Due to the sale of the Coatings segment, the credit line of CHF 87 million used to finance the cash settlement of the Looser acquisition was completely repaid by 10 July 2017. The bond of CHF 200 million at 3.375% with a duration of 6 years was repaid on time by 12 May 2016.

2.3 Share capital

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

2.4 Capital contribution reserve

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

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

2.5 Treasury shares

	2017			2016		
	Ø market value in 1 000 CHF	Number of shares	Amount in 1 000 CHF	Ø market value in 1 000 CHF	Number of shares	Amount in 1 000 CHF
Balance at 01/01	**13**	**664 351**	**8 576**	**15**	**509 681**	**7 553**
Purchase	17	718 391	12 074	13	196 058	2 555
Share capital increase				11	400 071	4 545
Transfer for share based payments	17	–143 953	–2 454	11	–249 351	–2 750
Sale	17	–244 641	–4 280	13	–192 108	–2 534
Gain (+) / loss (–)			1 849			–792
Balance at 31/12	**16**	**994 148**	**15 765**	**13**	**664 351**	**8 576**

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

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

2.8 Other operating expenses

	2017	2016
	in 1 000 CHF	in 1 000 CHF
Administrative costs	4 799	3 662
Consultancy and audit fees	384	915
Other operating expenses	255	891
Total	**5 438**	**5 468**

3 Other disclosures

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

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

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

3.4 Headcount in full-time equivalents

Arbonia AG does not employ any staff.

3.5 Disclosure of shareholding

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

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

3.6 Consistency in the presentation

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

PROPOSAL OF THE BOARD OF DIRECTORS

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

Appropriation of Retained Earnings

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

Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

Valuation of investments and loans due from shareholdings

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

KPMG

Valuation of investments and loans due from shareholdings

Key Audit Matter

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

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

Our response

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

Amongst others, we performed the following audit procedures:

— Comparing the carrying amounts of the investments with the equity of the relevant companies, in some cases considering the pro-rata net assets of indirect investments or relying on management’s impairment reviews that had already been assessed during the group audit;

— Assessing the recoverability of loans due from shareholdings by analyzing the equity position of the borrower.

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

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

Other Matter

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

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2018

KPMG AG, Bogenstrasse 7, Postfach 1142, CH-900 St. Gallen

SUPPLEMENTARY INFORMATION FOR INVESTORS

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

[1] Adjusted for 2015 capital increase
[2] 2018 proposal to the Annual General Meeting