CONSOLIDATED FINANCIAL STATEMENTS ARBONIA GROUP

Consolidated Income Statement

	Note	2018		2017	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Continuing operations					
Net revenues	31	**1 374 007**	**100.0**	**1 245 565**	**100.0**
Other operating income		42 379	3.1	35 068	2.8
Capitalised own services		5 857	0.4	4 183	0.3
Changes in inventories of semi-finished and finished goods		−1 833	−0.1	399	0.0
Cost of material and goods		−633 737	−46.1	−570 691	−45.8
Personnel expenses		−454 654	−33.1	−411 576	−33.0
Other operating expenses		−201 519	−14.7	−182 642	−14.7
EBITDA		**130 500**	**9.5**	**120 306**	**9.7**
Depreciation, amortisation and impairments	37-39	−50 695	−3.7	−39 880	−3.2
Amortisation of intangible assets from acquisitions	39	−18 827	−1.4	−19 166	−1.6
EBIT	31	**60 978**	**4.4**	**61 260**	**4.9**
Financial income	51	2 889	0.2	2 550	0.2
Financial expenses	51	−14 058	−1.0	−13 443	−1.1
Group result before income tax		**49 809**	**3.6**	**50 367**	**4.0**
Income tax expense	52	−11 122	−0.8	−12 819	−1.0
Group result from continuing operations		**38 687**	**2.8**	**37 548**	**3.0**
Group result from discontinued operations after taxes	36	**7 339**	**0.5**	**8 824**	**0.7**
Group result		**46 025**	**3.3**	**46 371**	**3.7**
Attributable to:					
Shareholders of Arbonia AG		46 025		46 378	
Non-controlling interests				−7	
Earnings per share from continuing operations in CHF	47	0.56		0.55	
Earnings per share from discontinued operations in CHF	47	0.11		0.13	
Earnings per share in CHF	47	0.67		0.68	
Basic and diluted earnings are identical.					

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Group result	**46 025**	**46 371**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	3 780	32 871
Deferred tax effect	−973	−6 239
Total items that will not be reclassified to income statement	**2 807**	**26 632**
Items that may be subsequently reclassified to income statement		
Currency translation differences	−28 642	57 587
Cumulative currency translation differences transferred to the income statement	69	−367
Total items that may be subsequently reclassified to income statement	**−28 573**	**57 220**
Other comprehensive income after taxes	**−25 766**	**83 852**
Total comprehensive income	**20 259**	**130 223**
Attributable to:		
Shareholders of Arbonia AG	20 259	130 085
Non-controlling interests		138
Total comprehensive income from continuing operations	19 158	118 482
Total comprehensive income from discontinued operations	1 101	11 603

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	31/12/2018		31/12/2017	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Assets					
Cash and cash equivalents	32	70 877		82 703	
Accounts receivable	33	135 490		126 387	
Other current assets		34 198		26 261	
Inventories	34	168 424		168 558	
Contract assets	33	27 968			
Deferred expenses		6 679		6 441	
Current income tax receivables		2 714		3 569	
Financial assets	35	10 047			
Assets held for sale	36	237		47 725	
Current assets		**456 634**	**30.2**	**461 644**	**32.6**
Property, plant and equipment	37	577 990		471 053	
Investment property	38	6 815		13 507	
Intangible assets	39	209 559		208 978	
Goodwill	39	204 068		212 118	
Deferred income tax assets	45	5 664		5 570	
Capitalised pension surplus	46	44 631		33 542	
Financial assets	35	6 487		10 207	
Non-current assets		**1 055 214**	**69.8**	**954 975**	**67.4**
Total assets		**1 511 848**	**100.0**	**1 416 619**	**100.0**

	Note	31/12/2018		31/12/2017	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable		127 913		108 053	
Advance payments by customers				20 636	
Contract liabilities	33	6 701			
Other liabilities		34 200		27 539	
Financial debts	41	23 066		107 276	
Finance lease liabilities	37	2 617		2 010	
Accruals and deferred income		80 747		74 221	
Current income tax liabilities		12 888		12 968	
Provisions	44	24 864		20 812	
Liabilities associated with assets held for sale	36	371		12 724	
Current liabilities		**313 367**	**20.7**	**386 239**	**27.3**
Financial debts	41	151 725		12 265	
Finance lease liabilities	37	10 540		10 904	
Other liabilities		15 245		13 124	
Provisions	44	12 543		10 146	
Deferred income tax liabilities	45	70 957		65 124	
Employee benefit obligations	46	49 744		55 698	
Non-current liabilities		**310 754**	**20.6**	**167 261**	**11.8**
Total liabilities		**624 121**	**41.3**	**553 500**	**39.1**
Share capital	47	291 787		291 787	
Share premium		526 319		526 319	
Treasury shares	48	−7 101		−8 265	
Other reserves	49	−58 332		−29 759	
Retained earnings		135 054		83 037	
Shareholders' equity attributable to equity holders of Arbonia AG		**887 727**	**58.7**	**863 119**	**60.9**
Non-controlling interests	50				
Shareholders' equity		**887 727**	**58.7**	**863 119**	**60.9**
Total liabilities and shareholders' equity		**1 511 848**	**100.0**	**1 416 619**	**100.0**

The notes on pages 101 to 170 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2018	2017
		in 1 000 CHF	in 1 000 CHF
Group result		**46 025**	**46 371**
Depreciation, amortisation and impairments	37 – 39	69 522	68 216
Profit/loss on disposal of non-current assets and subsidaries	35 – 38	– 35 138	– 26 038
Changes in non-cash transactions	55	11 308	14 497
Changes in working capital (excluding cash and cash equivalents)	55	– 21 984	– 43 053
Changes in current liabilities	55	– 180	8 763
Cash flows from operating activities - net		**69 553**	**68 756**
To investment activities			
Purchases of property, plant and equipment	37	– 131 627	– 101 549
Purchases of investment properties	38	– 8	– 110
Purchases of intangible assets	39	– 3 070	– 2 938
Acquisition of subsidiaries/businesses (net of cash acquired)	40	– 66 147	– 2 081
Issuance of financial assets		– 14 105	– 2 441
From divestment activities			
Proceeds from sale of property, plant and equipment	36/37	22 982	26 615
Proceeds from sale of investment properties	38	23 205	7 283
Proceeds from sale of intangible assets		8	67
Disposal of subsidiaries (net of cash disposed)	36	38 985	196 806
Repayment of financial assets	35	6 446	10
Cash flows from investing activities - net		**– 123 331**	**121 662**

	Note	2018	2017
		in 1 000 CHF	in 1 000 CHF
From financing activities			
Proceeds from financial debts	41/55	233 672	35 636
Net proceeds from issuance of share capital	47		3 032
Proceeds from sale of treasury shares			2 032
To financing activities			
Repayments of financial debts	41/55	−193 087	−267 305
Finance lease liability payments		−2 508	−2 394
Purchase of non-controlling interests	50		−2 160
Purchase of treasury shares	48		−2 054
Cash flows from financing activities - net		**38 077**	**−233 213**
Effects of translation differences on cash and cash equivalents		−2 348	2 638
Change in cash and cash equivalents		**−18 049**	**−40 157**
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	82 703	111 754
Cash and cash equivalents as of 01/01 discontinued operations		6 460	17 566
Cash and cash equivalents as of 31/12 continuing operations	32	70 877	82 703
Cash and cash equivalents as of 31/12 discontinued operations		237	6 460
Change in cash and cash equivalents		**−18 049**	**−40 157**
Supplementary information for operating activities:			
Interest paid		2 522	6 233
Interest received		78	798
Income tax paid		16 450	12 970

The notes on pages 101 to 170 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 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance at 31/12/2016		**287 640**	**518 043**	**–8 576**	**–86 979**	**8 489**	**718 617**	**10 134**	**728 751**
Group result						46 378	46 378	–7	46 371
Other comprehensive income after taxes	49				57 075	26 632	83 707	145	83 852
Total comprehensive income					**57 075**	**73 010**	**130 085**	**138**	**130 223**
Issuance of share capital (net)	47	4 147	8 276				12 423		12 423
Changes in treasury shares	48			–1 535		1 241	–294		–294
Share based payments	56			1 846		1 456	3 302		3 302
Purchase of non-controlling interests	50				145	–1 159	–1 014	–10 272	–11 286
Total transactions with owners		**4 147**	**8 276**	**311**	**145**	**1 538**	**14 417**	**–10 272**	**4 145**
Balance at 31/12/2017		**291 787**	**526 319**	**–8 265**	**–29 759**	**83 037**	**863 119**		**863 119**
Restatement IFRS 15 [1]						1 233	1 233		1 233
Balance at 01/01/2018		**291 787**	**526 319**	**–8 265**	**–29 759**	**84 270**	**864 352**		**864 352**
Group result						46 025	46 025		46 025
Other comprehensive income after taxes	49				–28 573	2 807	–25 766		–25 766
Total comprehensive income					**–28 573**	**48 832**	**20 259**		**20 259**
Changes in treasury shares						1 220	1 220		1 220
Share based payments	48			1 164		732	1 896		1 896
Total transactions with owners				**1 164**		**1 952**	**3 116**		**3 116**
Balance at 31/12/2018		**291 787**	**526 319**	**–7 101**	**–58 332**	**135 054**	**887 727**		**887 727**

[1] see note 2 "First time adoption of IFRS 15"

The notes on pages 101 to 170 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 four main divisions, namely HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. Manufacturing plants are located in Switzerland, Germany, Italy, the Czech Republic, Poland, Slovakia, Belgium and the Netherlands. Arbonia owns major brands such as Kermi, Arbonia, Prolux, Koralle, Sabiana, Vasco, Brugman, Superia, EgoKiefer, Slovaktual, Dobroplast, Wertbau, RWD Schlatter, Prüm, Garant and Invado and possesses a strong position in its home markets in Switzerland and Germany. The Group focuses mainly on the development of existing markets in Central and Eastern Europe. Arbonia is represented in over 70 countries worldwide.

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

These consolidated financial statements have been approved for issue by the Board of Directors of Arbonia AG on 19 February 2019 and require approval from the Annual General Meeting on 12 April 2019. The publication of the consolidated financial statements occurred on 26 February 2019 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.

When compared to the consolidated financial statements 2017, new accounting estimates and assumptions arose in the context of the introduction of IFRS 15 "Revenue from contracts with customers" which affect revenue recognition in the project business starting from the financial year 2018.

Amendments to significant published standards effective in 2018

The accounting policies adopted in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the following new and amended standards, which Arbonia has implemented in 2018:

- IFRS 9 "Financial instruments: classification and measurement"
- Amendments to IFRS 9 "Financial instruments" – mandatory effective date of IFRS 9 and transition disclosures
- Amendments to IFRS 9 "Financial instruments" – hedge accounting
- IFRS 15 "Revenue from contracts with customers"

First time adoption of IFRS 9

IFRS 9 "Financial instruments" replaces IAS 39 "Financial instruments: Recognition and Measurement", bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. The effect of adopting IFRS 9 can be summarised as follows:

- classification and measurement: IFRS 9 contains a new classification and measurement approach for financial assets that reflects Group's business model for managing the assets and the instrument's contractual cash flows. This results in the following three measurement categories for financial assets: measured at amortised cost (FA AC), at fair value through equity (FA FVTOCI) and at fair value through profit or loss (FA FVTPL). There were no material changes in the classification and measurement of financial liabilities.
  The application of this new valuation rules did not have any significant effects on Arbonia. The items previously assigned to the IAS 39 category "loans and receivables" (L&AR) continue to meet the criteria for measurement at amortised cost and are now assigned to the IFRS 9 category "amortised cost" (FA AC). Otherwise, there were no changes in the allocation to the measurement categories.

- Impairment: IFRS 9 replaces IAS 39's "incurred loss" approach with a forward-looking model of "expected credit losses".
  Arbonia's impact assessment has shown that the introduction of the new impairment model does not have a material impact on the consolidated financial statements.
- Hedge accounting: Arbonia does not apply hedge accounting and consequently there are no effects.

Arbonia makes use of the exception not to restate comparative information in respect of changes in classification. There were no valuation adjustments and therefore no effect from the first-time application of IFRS 9 in equity.

First time adoption of IFRS 15

Arbonia has adopted IFRS 15 including all the related interpretations, as of 1 January 2018. For the initial application of this standard, the modified retrospective method was used. Accordingly, the information presented for 2017 has not been restated. Instead of restating the previous year figures, the cumulative first-time effect of IFRS 15 has been recognised in equity. As of 1 January 2018, retained earnings have been increased by CHF 1.2 million net of deferred taxes (CHF 0.3 million). IFRS 15 replaced IAS 11 "Construction contracts" and IAS 18 "Revenue" as well as all related interpretations. The standard changes the basis to assess whether revenue has to be recognised over time or at a point in time. The core principle of 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.

Arbonia has analysed the impact of this standard for all companies. There have been only changes for companies that are operating in the project business. Previously, revenue was recognised only with the existence of a signed acceptance protocol. With the new standard, as of 2018, revenue recognition for these transactions occurs in the amount of the expected consideration over the period of the provided services (planning, production, assembly, acceptance). Revenue is recognised over the period of the provided services, as the custom-made doors and windows offer no alternative use and the Group has an enforceable right to payment for performance completed to date.

The Windows and Doors Divisions are resellers/commercial dealers on the one hand and operate in the project business on the other hand. The project business is characterised by long-term contracts which partially have a duration of over one year. The businesses of resale/commercial deals and the project business represent one single performance obligation. The performance obligation in the project business is progressively satisfied over the period of the provided services using the cost-to-cost method. Therefore, from financial year 2018 onwards, revenue is recognised over the term of a contract. If revenue is recognised as mentioned before, but the expected amount of consideration has not yet been invoiced, then a contract asset is recognised due to the conditional right to consideration. Contract assets are presented on a net contract-by-contract basis, e.g. less the received partial payments. Accounts receivable from project business are recognised when the right to the consideration becomes unconditional. This right becomes unconditional when an acceptance protocol is signed and accordingly the invoice is issued to the customer. The contract liability relates to contracts whose partial payments exceed the stage of completion or the revenue already recognised respectively, on a net contract-by-contract basis. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied.

For the project business, Arbonia determines the stage of completion by using the cost-to-cost method. In Arbonia's opinion, this method best depicts the transfer of control of the products to the customer. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Changes due to post calculations and actively managed project controlling are taken into account when determining the stage of completion. Such changes in estimates are recognised prospectively. Revenue is recognised proportionally as costs are incurred. If the expected margin cannot be measured reliably, then revenue is recognised only in the amount of costs incurred. The treatment of loss-making contracts occurs regardless of the stage of completion by recognising a provision amounting to the total contract loss resulting from the total budgeted costs not covered by the total amount of the transaction price. Variable considerations such as discounts or construction rebates which can be measured reliably, are deducted from the transaction price at the beginning of the contract term. The allocation of the transaction price to the separate performance obligations is not required because of the existence of only one performance obligation regarding the project business.

The major part of Arbonia's revenue is recognised at a point in time. The transfer of control and thus revenue recognition of these products occurs when the performance obligation is satisfied. In general, the performance obligation is satisfied when delivery of shipment has been accepted. As a result of that, an invoice is issued subsequently and hence recognition of a contract asset is not required. Variable considerations are recognised as sales deductions.

The following tables show the impact on the balance sheet and income statements as of 31 December 2018, had IAS 18 instead of IFRS 15 been applied. Items that are not affected by the changes are combined under "Others".

Consolidated Balance Sheet (Excerpt)

	31/12/2018		31/12/2018
	published	IFRS 15 adjustments	without application of IFRS 15
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Assets			
Accounts receivable	135 490	4 950	140 440
Inventories	168 424	36 678	205 102
Contract assets	27 968	-27 968	
Others	1 179 966		1 179 966
Total assets	**1 511 848**	**13 660**	**1 525 508**
Liabilities and shareholders' equity			
Contract liabilities	6 701	17 522	24 223
Accruals and deferred income	80 747	500	81 247
Provisions	24 864	-10	24 854
Deferred income tax liabilities	70 957	-802	70 155
Others	440 852		440 852
Total liabilities	**624 121**	**17 210**	**641 331**
Retained earnings	135 054	-3 550	131 504
Others	752 673		752 673
Shareholders' equity	**887 727**	**-3 550**	**884 177**
Total liabilities and shareholders' equity	**1 511 848**	**13 660**	**1 525 508**

Consolidated Income Statement (Excerpt)

	2018		2018
	published	IFRS 15 adjustments	without application of IFRS 15
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	**1 374 007**	**-5 970**	**1 368 037**
Changes in inventories of semi-finished and finished goods	-1 833	3 304	1 471
Cost of material and goods	-633 737	-170	-633 907
Others	-688 628		-688 628
Group result before income tax	**49 809**	**-2 836**	**46 973**
Income tax expense	-11 122	519	-10 603
Group result from continuing operations	**38 687**	**-2 317**	**36 370**

The adoption of the remaining new or amended standards had no material impact on the Group's financial statements.

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

Standard	effective date
IFRS 16 "Leases"	01 January 2019

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 mainly 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. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the new right-of-use assets and interest expense on the new lease liabilities.

Arbonia has completed the impact assessment on its consolidated financial statements. The effect of the new leases to be accounted for as at 1 January 2019 amounts to CHF 55.4 million (on a discounted basis). This assessment is subject to possible changes until publication of the 2019 consolidated financial statements. The most significant impact is that the Group will have to recognise real estate and vehicle contracts which have been classified as operating leases under IAS 17.

Arbonia will apply the exemptions regarding short-term leases and leases of low-value assets. Additionally, Arbonia will apply IFRS 16 using the modified retrospective method on transition. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 January 2019, with no restatement of comparative information. When applying the modified retrospective approach, the lessee can elect to apply a number of optional exemptions, which Arbonia plans to make use of.

The adoption of the remaining new or amended standards will not have a material impact on 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 2018
- As of 22 January 2018, Arbonia sold the business unit Profile Systems (see note 36).
- As of 16 May 2018, Arbonia acquired 100% of the shares of Belgian Vasco Group, BE-Dilsen (see note 40).
- As of 24 September 2018, Arbonia acquired 100% of Tecnologia de Aislamientos y climatizacion S.L., ES-Algete (see note 40).

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

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

4 Full consolidation

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

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

5 Capital consolidation

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

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

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

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

B Summary of significant accounting policies

6 Significant accounting policies

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

These consolidated financial statements are based on the annual financial statements of the Group companies prepared in accordance with the Group's uniform accounting policies. Balance sheet items are generally stated at cost as modified by the revaluation of financial instruments at fair value through profit or loss. Assets held for sale and disposal groups are measured at the lower of its carrying amount and fair value less costs to sell.

7 Foreign currency translation

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

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

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

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

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

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

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

The following foreign currency rates have been applied:

Currency	Unit	2018		2017	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.1270	1.1547	1.1709	1.1115
GBP	1	1.2542	1.3055	1.3196	1.2682
USD	1	0.9849	0.9780	0.9763	0.9847
CZK	100	4.3810	4.5050	4.5846	4.2262
PLN	100	26.1858	27.1184	28.0731	26.1310
CNY	100	14.3616	14.8067	14.9985	14.5783
RUB	100	1.4183	1.5622	1.7002	1.6888

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.

Policy applicable from 1 January 2018
Financial assets are divided into the following three categories: (1) Financial assets measured at amortised cost (FA AC), (2) Financial assets measured at fair value through profit or loss (FA FVTPL), (3) Financial assets measured at fair value through other comprehensive income (FA FVTOCI). The classification depends on the company's business model for managing financial assets and on the contractual cash flows. Management determines the classification upon initial recognition and reviews it at each balance sheet date. Arbonia's financial assets include cash and cash equivalents (category 1), trade accounts receivable (1), other assets (1), deferred expenses (1), loans (1) and investments < 20% (2).

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.

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.

The subsequent measurement of debt instruments depends on the classification: (1) Assets held to collect contractual cash flows, for which these cash flows represent exclusively interest and principal payments, are measured at amortised cost. (2) Assets that do not meet the criteria of category 1 or 3 are classified as at fair value through profit or loss. (3) Assets held to collect contractual cash flows and to sell financial assets, where the cash flows are exclusively interest and principal payments, are measured at fair value through equity. Subsequent measurement of the equity instruments held is at fair value.

There are no financial assets designated as at fair value through profit or loss (fair value option).

At each balance sheet date, financial assets that are not measured at fair value through profit or loss are assessed for expected credit losses. Indications that the creditworthiness of assets is impaired include financial difficulties, breaches of contract and possible bankruptcy of the contracting party. A default with respect to a financial asset exists if it appears unlikely that the contracting party will meet its contractual payments to the Group in full. If loans or receivables have been impaired, the company continues to enforce the receivable to recover it. Financial assets are written-off as soon as there is no reasonable expectation of recovery. Among the indicators that there is no reasonable expectation of recovery is the bankruptcy of the counterparty. Further information on the impairment of financial assets is provided in the accounting policies for the individual assets (in particular on accounts receivable and contract assets in note 13).

Financial liabilities are divided into the following two categories: (1) Financial liabilities measured at fair value through profit or loss (FL FVTPL), this category being further subdivided into financial liabilities classified as held for trading from the inception and those designated at fair value through profit or loss from the inception and (2) financial liabilities measured at amortised cost (FL AC). Arbonia's financial liabilities comprise trade accounts payable (2), other liabilities (2), finance lease liabilities (2), accruals and deferred income (2), financial debts (2) and derivative financial liabilities (1).

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.

Policy applicable before 1 January 2018
Arbonia makes use of the exception not to restate comparative information in respect of changes in classification. As a result, comparative information continues to be accounted for using the same accounting policies.

Until 31 December 2017 financial assets were 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 depended on the purpose for which the financial assets have been acquired. In concrete terms, the financial assets of Arbonia comprised cash and cash equivalents (category 2), secu-

rities (1), trade accounts receivable (2), other assets (2) and loans (2).

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

The remaining provisions do not differ significantly from the accounting policies applied as of 1 January 2018.

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.

Arbonia does not apply hedge accounting in accordance with IFRS 9. Derivatives are measured at fair value through profit or loss and disclosed in the balance sheet as other current assets or other current liabilities.

11 Fair value estimation of financial instruments

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

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

Financial instruments measured at fair value are disclosed under the following hierarchy:
Level 1 – quoted prices in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).
Level 3 – unobservable market data.

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

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

12 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with post and banks, other short-term highly liquid investments with original maturities not exceeding three months. Cash and cash equivalents are subject to the impairment provisions of IFRS 9, but as the expected losses are completely insignificant, no impairment losses have been recognised.

13 Receivables and contract assets

Accounts receivable and other current assets are measured at amortised cost using the effective interest method, less provision for impairment. Accounts receivable and contract assets are regularly monitored and expected credit defaults assessed. The expected losses are estimated as part of the determination of specific allowances. The assessment is based both on historical experience and on current circumstances, as well as on forward-looking information. This includes an assessment of the expected business and economic conditions as well as the future financial performance of the contracting party. On the basis of the overdue period in days, lump-sum value adjustments are made to the receivables remaining after specific allowances. Collateral received is taken into account when calculating the provision for impairment. Impairment losses on receivables are recognised using an allowance account.

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. In particular the late payment risk is completely retained by Arbonia up until a certain point in time.

Other current assets include WIR credits, which are measured at amortised cost less an appropriate provision.

14 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.

15 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 Discontinued operations

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

17 Property, plant and equipment

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

The business unit Industrial Services, which was sold in 2017, operated the rental and trading of assets (space systems, cranes, construction equipment and mobile sanitary units), which generated sustained investment and divestment activities.

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

18 Investment property

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

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

19 Intangible assets

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

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

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

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

20 Impairment of assets

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

Land is not systematically depreciated.

22 Provisions

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

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

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

23 Employee benefit obligations

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

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

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

24 Financial debts

Current and non-current financial debts consist of promissory note loans, syndicated loans, bank loans and mortgages. 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

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.

26 Deferred income tax

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

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

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

27 Share based payment

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

28 Shareholders' equity

The share premium relates to the Company going public back in 1988 and the capital increases in 2007, 2009, 2015, 2016 and 2017. Retained earnings include also remeasurements of employee benefit obligations.

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

29 Income statement

Net revenue

The Heating, Ventilation and Air Conditioning Division (HVAC) generates its sales in the heating technology sector by selling individual product components as well as complete system solutions for residential, commercial and public construction. In the ventilation and air conditioning sector, the product portfolio includes fan coils, ceiling systems, air heaters and ventilation units, as well as systems for residential, commercial and industrial buildings. In addition, radiators, underfloor heating systems, heating walls and underfloor convectors are sold.

The Sanitary Equipment Division generates its sales through the sale of shower areas, shower enclosures and shower stalls for individual bathroom situations.

Contracts within these divisions may include several different products which qualify as separate performance obligations. The performance obligation is generally fulfilled when the customer has received delivery. The individual products of a contract are delivered at the same time. It is therefore not necessary to allocate the transaction price to the individual performance obligations. At the time of delivery the invoice is issued and hence a recognition of a contract asset is not required. Revenue is therefore recognized at a point in time. Production in the HVAC and Sanitary Equipment divisions is based on short-term series production. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component. The timing of revenue recognition for the HVAC and Sanitary Equipment divisions has not changed compared to prior year.

The Windows Division generates its sales through the sale of windows and window systems, including exterior doors, in a wide variety of designs and configurations.

The Doors Division generates its sales by selling interior and functional doors in a wide variety of designs and configurations.

The above-mentioned divisions are resellers/commercial dealers on the one hand and operate in the project business on the other hand. The project business is characterised by long-term contracts which partially have a duration of over one year. The businesses of resale/commercial deals and the project business always consist of one single performance obligation.

The performance obligation in the resale/commercial business is fulfilled when the customer has received the delivery. As a result of that, an invoice is issued and hence recognition of a contract asset is not required. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component. The timing of revenue recognition for the resale/commercial business has not changed compared to prior year.

The performance obligation in the project business is progressively satisfied over the period of the provided services (planning, production, assembly, acceptance) using the cost-to-cost method. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Revenue is recognised in proportion to the contract costs incurred. Therefore, revenue is recognised over the term of a contract.

If revenue is recognised as mentioned before, but the expected amount of consideration has not yet been invoiced, then a contract asset is recognised due to the conditional right to consideration. Accounts receivable from project business are recognised when the right to the consideration becomes unconditional. The right becomes unconditional when an acceptance protocol is signed and accordingly the invoice is issued to the customer. Payment periods customary in the industry are granted unless special payment periods have been agreed. The contract liability relates to contracts whose partial payments exceed the stage of completion or the revenue already recognised respectively, on a net contract-by-contract basis. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied. Based on the analysed order durations, there are no significant financing components.
The treatment of loss-making contracts occurs regardless of the stage of completion by recognising a provision amounting to the total contract loss resulting from the total budgeted costs not covered by the total amount of the transaction price. Variable considerations such as discounts or construction rebates which can be measured reliably, are deducted from the transaction price at the beginning of the contract term. The allocation of the transaction price to the separate performance obligations is not required because of the existence of only one performance obligation in the project business.

Revenue recognition has changed significantly for the project business, as revenue was recognised at a certain point in time prior to the introduction of IFRS 15.

Net revenues are reported net of sales or value-added taxes and are shown net of sales deductions.

Cost incurred in the course of initiating or fulfilling a contract with a customer is not capitalised.

Revenues from contracts with customers are broken down by category in the segment reporting. Segment reporting also shows a breakdown of revenues recognised at a point in time and satisfied over time.

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.

EBITA
EBITA shows earnings before amortisation of intangible assets from acquisitions, financial results and tax.

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.

Revenue recognition

Determination of the transaction price: With regards to sales recognised at a point in time, the variable considerations are taken into account as sales deductions. These can be reliably measured at the time the performance obligation is fulfilled.
With regards to sales recognised over time, variable considerations such as discounts or construction rebates which can be measured reliably are deducted from the transaction price at the beginning of the contract term. In this way, these revenue reductions can be realised proportionally to the revenue recognition over the contract term. For reasons of materiality, it is not necessary to adjust the consideration for the time value of money or to measure non-cash consideration.
The assessment of right of return, refund and similar obligations is not necessary as they do not constitute an integral part of Arbonia's business.

Allocation of the transaction price: It is not necessary to allocate the transaction price to the individual performance obligations because there is only one performance obligation or, if there are several performance obligations, the time of fulfilment of the obligations is the same.

Revenue recognition: With regards to performance obligations that are fulfilled at a point in time, there are no significant estimates when assessing the point in time. Revenue is recognised when the goods are delivered to the customer.
In project business, sales are realised over a period of time. Arbonia determines the stage of completion by using the cost-to-cost method. In Arbonia's opinion, this method best depicts the transfer of control of the products to the customer. Under the cost-to-cost method, the stage of completion is measured based on the ratio of costs incurred to date to the total budgeted costs. Changes due to post calculations and actively managed project controlling are taken into account when determining the stage of completion. Such changes in estimates are recognised prospectively. Costs for future activities, such as costs for materials not yet installed or inefficiencies due to revisions (error costs), are charged directly to the income statement and are not included in the calculation of the stage of completion. Revenue is recognised proportionally as costs are incurred. If the expected margin cannot be measured reliably, then revenue is recognised only in the amount of costs incurred.

Inventory provisionn

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 2018, the carrying amount of inventory was at CHF 168.4 million. Therein a provision for inventories of CHF 20.2 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 2018, the carrying amount of property, plant and equipment totalled CHF 578.0 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 2018, the carrying amount of goodwill was at CHF 204.1 million. Arbonia tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 20. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as expected future cash flows, margins, discount rates and growth rates. These estimates could change or differ from the actual outcome and therefore lead to additional impairments. For further information on goodwill, see note 39.

Intangible assets acquired in a business combination

Brands, technologies, client relationships and distribution channels are amortised over their estimated useful lives. This involves the use of estimates and assumptions on expected future cash flows such as sales prices, margins, discount rates, attrition rates of clients and technological development which of course are exposed to some uncertainties. As of 31 December 2018, the carrying amount of intangible assets acquired in a business combination amounted to CHF 200.2 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 2018, the carrying amount of the provisions totalled CHF 37.4 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 2018, the underfunding amounted to CHF 5.1 million, thereof CHF 44.6 million recorded in the balance sheet as capitalised pension surplus and CHF 49.7 million as employee benefit obligation. For further information on employee benefit obligation, see note 46.

Income taxes

Arbonia is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Arbonia recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax assets, including those on tax loss carryforwards and expected tax credits, are only recognised if it is probable that they can be used by future taxable profits. The assessment of the recoverability of those deferred tax assets is therefore based on estimates, which could differ from actual results and consequently lead to valuation allowances. As of 31 December 2018, the carrying amount of deferred tax assets before offsetting totalled CHF 26.7 million. For further information on income taxes, see notes 45 and 52.

C Explanation to certain positions of the consolidated financial statements

31 Segment information

With effect from 1 January 2018, Arbonia is organised into the divisions or segments HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. As a result of the splitting of the former Building Technology Division into the two new segments HVAC and Sanitary Equipment, prior year figures of the segment information have been restated. 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 shown separately.

For the monitoring and assessment of the financial performance, EBITDA, EBITA 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 "Eliminations".

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

HVAC Division
The Heating, Ventilation and Air Conditioning Division is a leading and highly integrated provider to the industry. Under the main brands – Kermi, Arbonia, Prolux, Sabiana, Vasco, Superia and Brugman – it sells its wide product range across Europe. Production takes place in Germany, the Czech Republic, Italy, Belgium, the Netherlands, Poland and Russia. On an international scale, the division has its own distribution companies in Switzerland, France, Spain, Great Britain, Denmark and China.

Sanitary Equipment Division
The Sanitary Equipment Division is one of the leading providers of shower solutions in Europe and markets the Kermi, Koralle, Bekon-Koralle and Baduscho brands in its target markets through its own distribution networks and dealer structures. Production takes place in Germany and Switzerland.

Windows Division
The Windows Division with the brands EgoKiefer, Slovaktual, Dobroplast and Wertbau is one of the largest international European window and door manufacturers. The division develops, produces, assembles and sells a full range of windows and exterior doors. The products are made of materials such as wood, synthetics and aluminium and are manufactured in own plants in Slovakia, Poland, Germany and Switzerland.

Doors Division
The Doors Division owns the brands RWD Schlatter, Prüm, Garant, Invado and TPO. RWD Schlatter is specialized in the production of special wooden doors for interiors. Prüm and Garant are among the leading manufacturers of interior doors and door frames in Europe and Invado to the leading suppliers of interior doors and door frames in Poland. The products are developed and produced in Switzerland, Germany and Poland.

Corporate Services
Corporate Services consists of service, finance, real estate and investment companies and provide their services almost entirely to Group companies.

								2018
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Sales with third parties at point in time	505 496	144 797	245 131	291 540	1 186 964	3		1 186 967
Sales with third parties over time			121 106	65 934	187 040			187 040
Sales with other segments	2		27	15	44		-44	
Net revenues	**505 498**	**144 797**	**366 264**	**357 489**	**1 374 048**	**3**	**-44**	**1 374 007**
Segment results I (EBITDA)	**46 933**	**11 705**	**19 740**	**39 637**	**118 015**	**12 438**	**47**	**130 500**
in % of net revenues	*9.3*	*8.1*	*5.4*	*11.1*	*8.6*			*9.5*
Depreciation and amortisation	-18 408	-2 490	-15 155	-10 671	-46 724	-1 717		-48 441
Reversal of impairment on property, plant and equipment			1 928		1 928			1 928
Impairment property, plant and equipment	-2 587	-244	-1 351		-4 182			-4 182
Segment results II (EBITA)	**25 938**	**8 971**	**5 162**	**28 966**	**69 037**	**10 721**	**47**	**79 805**
in % of net revenues	*5.1*	*6.2*	*1.4*	*8.1*	*5.0*			*5.8*
Amortisation of intangible assets from acquisitions	-3 122	-1 799	-3 615	-10 290	-18 827			-18 827
Segment results III (EBIT)	**22 816**	**7 172**	**1 547**	**18 676**	**50 210**	**10 721**	**47**	**60 978**
in % of net revenues	*4.5*	*5.0*	*0.4*	*5.2*	*3.7*			*4.4*
Interest income	162	46	1 025	70	1 303	7 186	-7 930	559
Interest expenses	-4 208	-437	-2 700	-2 566	-9 911	-2 987	7 999	-4 899
Minority share from associated companies			-715		-715			-715
Other financial result	-1 615	-1 125	-498	-1 186	-4 423	11 961	-13 652	-6 114
Result before income tax	**17 154**	**5 656**	**-1 340**	**14 994**	**36 464**	**26 881**	**-13 536**	**49 809**
Income tax expense	-4 273	-1 093	1 806	-2 221	-5 781	-5 341		-11 122
Result after income tax	**12 881**	**4 563**	**466**	**12 773**	**30 683**	**21 540**	**-13 536**	**38 687**
Average number of employees	**2 609**	**798**	**2 859**	**1 869**	**8 134**	**64**		**8 198**
Total assets	**558 675**	**110 831**	**280 178**	**495 171**	**1 444 855**	**1 095 826**	**-1 029 070**	**1 511 611**
thereof associated companies			2 672		2 672			2 672
Total liabilities	**308 953**	**59 495**	**185 983**	**196 951**	**751 382**	**255 908**	**-383 540**	**623 750**
Purchases of property, plant and equipment, investment properties and intangible assets [1]	**61 776**	**9 594**	**28 835**	**34 193**	**134 398**	**1 555**		**135 953**

[1] without acquisition of subsidiaries

In the HVAC Division, impairment property, plant and equipment mainly includes an impairment of machinery in connection with the relocation and closure of a production site in Belgium. In the Windows Division, the impairment and reversal of impairment of property, plant and equipment mainly relates to two similar production machines from the relocation of production from Switzerland to Slovakia. The originally planned machine had to be taken out of service and replaced by a machine which had been impaired in 2015.

restated								2017
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Sales with third parties	408 290	146 675	350 965	339 953	1 245 883	-318		1 245 565
Sales with other segments	24		7		31		-31	
Net revenues	**408 314**	**146 675**	**350 972**	**339 953**	**1 245 914**	**-318**	**-31**	**1 245 565**
Segment results I (EBITDA)	**50 119**	**14 028**	**29 735**	**36 688**	**130 570**	**-11 032**	**768**	**120 306**
in % of net revenues	*12.3*	*9.6*	*8.5*	*10.8*	*10.5*			*9.7*
Depreciation and amortisation	-13 981	-2 301	-11 168	-10 100	-37 550	-1 976		-39 526
Reversal of impairment on property, plant and equipment	591		64		655			655
Impairment property, plant and equipment/investment properties						-1 009		-1 009
Segment results II (EBITA)	**36 729**	**11 727**	**18 631**	**26 588**	**93 675**	**-14 017**	**768**	**80 426**
in % of net revenues	*9.0*	*8.0*	*5.3*	*7.8*	*7.5*			*6.5*
Amortisation of intangible assets from acquisitions	-2 140	-1 796	-3 586	-11 643	-19 165			-19 166
Segment results III (EBIT)	**34 589**	**9 931**	**15 045**	**14 945**	**74 510**	**-14 017**	**768**	**61 260**
in % of net revenues	*8.5*	*6.8*	*4.3*	*4.4*	*6.0*			*4.9*
Interest income	112	45	62	58	277	9 100	-8 576	801
Interest expenses	-2 434	-307	-4 445	-2 647	-9 833	-6 381	7 955	-8 259
Minority share from associated companies			-1 244		-1 244			-1 244
Other financial result	-3 047	216	-3 197	-1 886	-7 915	69 130	-63 406	-2 191
Result before income tax	**29 220**	**9 884**	**6 221**	**10 469**	**55 794**	**57 832**	**-63 259**	**50 367**
Income tax expense	-7 694	-1 255	-1 155	-3 378	-13 482	670	-7	-12 819
Result after income tax	**21 526**	**8 629**	**5 066**	**7 091**	**42 312**	**58 502**	**-63 266**	**37 548**
Average number of employees	**2 200**	**819**	**2 859**	**1 811**	**7 689**	**65**		**7 754**
Total assets	**411 614**	**111 191**	**289 714**	**536 801**	**1 349 320**	**1 073 904**	**-1 054 278**	**1 368 946**
thereof associated companies			5 786		5 786			5 786
Total liabilities	**215 254**	**54 663**	**253 605**	**182 788**	**706 310**	**231 777**	**-397 311**	**540 776**
Purchases of property, plant and equipment, investment properties and intangible assets [1]	**38 073**	**7 074**	**26 756**	**23 165**	**95 068**	**1 400**		**96 468**

[1] without acquisition of subsidiaries

The reconciliation of the continuing and discontinued operations to the segment information disclosed in the 2017 consolidated financial statements is as follows:

					2017
	Continuing operations	Discontinued operations Industrial Services	Discontinued operations Profile Systems	Others and eliminations	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	**1 245 565**	**56 326**	**76 566**	**–1**	**1 378 456**
Segment results I (EBITDA)	**120 306**	**11 018**	**8 473**	**768**	**140 565**
in % of net revenues	*9.7*	*19.6*	*11.1*		*10.2*
Segment results II (EBIT)	**61 260**	**3 036**	**7 286**	**766**	**72 348**
in % of net revenues	*4.9*	*5.4*	*9.5*		*5.2*
Interest result	–7 458	–162	24	98	–7 498
Other financial result	–3 435	–148	–652	2 274	–1 961
Result before income tax	**50 367**	**2 726**	**6 658**	**3 138**	**62 889**
Income tax expense	–12 819	–1 079	–1 236		–15 134
Result after income tax	**37 548**	**1 647**	**5 422**	**3 138**	**47 755**
Total assets	**1 368 946**		**44 845**		**1 413 792**
Total liabilities	**540 776**		**10 579**		**551 355**

The segment results of continuing operations included intra-group expenses concerning allocation of costs on the discontinued operations, that had been incurred by the group despite the abandonment of the discontinued operations. This led to a discharge for the discontinued operations. Discontinued operations already included sales costs in 2017.

Information about geographical areas

	2018			
	Switzer-land	Germany	Other countries	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	355 549	552 949	465 509	1 374 007
Property, plant and equipment, investment properties, intangible assets and goodwill	100 532	475 450	422 450	998 432

	2017 (restated)			
	Switzer-land	Germany	Other countries	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	346 553	512 160	386 852	1 245 565
Property, plant and equipment, investment properties, intangible assets and goodwill	118 990	442 376	344 290	905 656

Major customers

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

32 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
CHF	26 105	46 960
EUR	27 123	15 833
PLN	7 365	2 627
USD	196	124
GBP	62	454
CZK	2 114	1 759
RUB	5 341	12 122
others	2 571	2 824
Total	**70 877**	**82 703**

The effective interest on bank deposits is 0.0% (2017: 0.0%).

33 Accounts receivable/ contract balances

Accounts receivable

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Accounts receivable	150 933	138 745
Allowance for accounts receivable	– 15 443	– 12 358
Total	**135 490**	**126 387**
thereof accounts receivable project business	30 338	

The allowance for accounts receivable includes expected credit losses and cash discounts.

The ageing analysis is as follows:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Not yet due	108 314	109 134
Overdue up to 30 days	16 119	9 447
Overdue more than 30, less than 60 days	4 795	2 856
Overdue more than 60, less than 90 days	1 994	1 377
Overdue more than 90, less than 180 days	2 034	2 098
Overdue more than 180, less than 360 days	1 840	764
Overdue more than 360 days	394	711
Total accounts receivable, net	**135 490**	**126 387**

Outstanding accounts receivable amounting to CHF 15.6 million (2017: CHF 16.4 million) were secured and mainly consist of credit insurances. No allowances are made on the secured receivables.

The expected credit losses on accounts receivable developed as follows:

	2018
	in 1 000 CHF
Balance at 01/01	−7 077
Foreign exchange differences	322
Changes in scope of consolidation	−1 279
Additional allowances	−3 211
Used during year	377
Unused amounts reversed	637
Balance at 31/12	−10 230

	2017
	in 1 000 CHF
Balance at 01/01	−10 456
Foreign exchange differences	−785
Changes in scope of consolidation	376
Additional allowances	−6 845
Used during year	5 001
Unused amounts reversed	73
Reclassification to assets held for sale	278
Balance at 31/12	−12 358
thereof cash discounts	−5 281
thereof expected credit losses	−7 077

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. In particular the late payment risk is completely retained by Arbonia up until a certain point in time. As of 31 December 2018 the book value of the transferred receivables amounted to CHF 14.6 million (2017: CHF 14.0 million). Thereof Arbonia already received from the factor CHF 12.7 million (2017: CHF 11.7 million) of cash and the difference of CHF 1.9 million (2017: CHF 2.3 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2017: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2017: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2018 to CHF 0.002 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.02 million.

Contract balances

	31/12/2018
	in 1 000 CHF
Contract assets project business	27 968
Total contract assets	**27 968**
Contract liabilities project business	1 451
Other advance payments by customers	5 250
Total contract liabilities	**6 701**

The contract balances project business result from Arbonia's longer-term contracts. Revenues recognised over the term of a contract are shown as contract assets. Contract assets are presented on a net contract-by-contract basis, e.g. less the received partial payments. As soon as the acceptance protocol is signed, the final invoice is issued and the items are transferred to accounts receivable. The movement in the contract assets is as follows:

	2018
	in 1 000 CHF
Balance at 01/01	
Restatement IFRS 15 [1]	15 894
Reclassification of contract assets existing at the beginning of the period to accounts receivable	-14 514
Revenue recognition on projects in progress as of the balance sheet date based on percentage of completion	48 786
Offset against contract liabilities due to partial payments received	-22 197
Balance at 31/12	**27 968**

[1] see note 2 "First time adoption of IFRS 15"

The contract liabilities project business relate to contracts whose partial payments exceed the stage of completion. Contract liabilities are recognised as revenue when the contractual performance obligation has been satisfied. The movement in the contract liabilities project business is as follows:

	2018
	in 1 000 CHF
Balance at 01/01	
Restatement IFRS 15 [1]	1 827
Revenue recognised from amounts included in the contract liabilities at the beginning of the period	-1 568
Partial payments received for projects in progress at the balance sheet date	23 390
Offset against contract assets	-22 197
Balance at 31/12	**1 451**

[1] see note 2 "First time adoption of IFRS 15"

In 2018, there were no known default risks and therefore no need for specific allowances on contract assets. The expected credit losses are estimated to be insignificant and therefore no allowance was made.

There have been no general changes in the timeframe until an enforceable right for consideration or a performance obligation is fulfilled.

The expected revenues to be recognised on the current order backlog are as follows:

	within 1 year	in 1-2 years	after 2 years
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2018	110 859	5 797	2 254

These amounts only include contracts of project business with an expected original duration of more than one year.

34 Inventories

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Raw material and supplies	94 163	73 432
Semi-finished and finished goods	67 250	87 656
Goods purchased for resale	6 927	7 085
Prepayments	84	385
Total	**168 424**	**168 558**

A provision of CHF 20.2 million (2017: CHF 15.3 million) has been provided for obsolete and slow-moving items and is deducted from inventories. 2018 and 2017, there are no inventories written down to the net realisable value and no write-downs to net realisable value were recorded.

35 Financial assets

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Investments < 20 %	3 721	
Investments in associated companies > 20 % < 50 %	2 672	5 786
Other financial assets	91	417
Loans	10 050	4 004
Total	**16 534**	**10 207**
thereof disclosed as current assets	10 047	

As of 12 September 2018, Arbonia acquired a minority share of the German KIWI-KI GmbH, DE-Berlin. The purchase price amounted to CHF 3.7 million. The company develops keyless entry systems for house and apartment doors.

Associated companies

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**5 786**	**4 173**
Foreign exchange differences	-351	503
Acquisition of associated companies		2 354
Sale of associated companies	-2 048	
Minority share from associated companies	-715	-1 244
Balance at 31/12	**2 672**	**5 786**

As of 14 August 2018, Arbonia sold its minority share of 31% in the Austrian window manufacturer Gaulhofer back to the former owner for CHF 2.6 million.

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

Subsequently, the financial information of these associated companies is disclosed in condensed form, whereby Gaulhofer is only included up to the date of its disposal.

Associated companies – Balance sheet

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Current assets	2 666	23 822
Non-current assets	1 162	10 036
Total assets	**3 828**	**33 858**
Current liabilities	1 857	18 674
Non-current liabilities	264	9 781
Shareholders' equity	1 707	5 404
thereof other comprehensive income		-48
Total liabilities and shareholders' equity	**3 828**	**33 858**

Associated companies – Income statement

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Net revenues	45 218	72 992
Group results after taxes	-2 506	-4 007

Business transactions with associated companies

Sale of goods and services	3 436	4 276
Purchase of services		110
Receivables at balance sheet date	88	87
Liabilities at balance sheet date	21	

Loans
Loans resulting from the sale of a company by the Looser Group were sold under an agreement dated 20 December 2018. Accordingly, the loan was reclassified to other current assets as of 31 December 2018 and payment was received on 14 January 2019.

In July 2018, Arbonia AG granted Arbonia Vorsorge an interest-bearing, repayable loan of CHF 10 million. In January 2019, a large portion of the loan was repaid.

In the first half of 2018, the loan of CHF 3.9 million from the sale of the property of AFG Warendorfer Immobilien GmbH in 2013 and partially impaired in 2016 was repaid. The transaction resulted in a gain of CHF 1.5 million, which is included in the financial result under other financial income. In the statement of cash flow the cash inflow is shown in the position repayment of financial assets.

A fully impaired loan originates from the sale of the kitchen business in 2014. As a result of the published insolvency of the debtor, the remaining loan of CHF 1.2 million was written-off in 2017.

The ageing analysis for loans is as follows:

	31/12/2018	
	Gross amount loans	thereof not impaired
	in 1 000 CHF	in 1 000 CHF
Not yet due	10 047	10 047
Overdue up to 30 days	3	3
Overdue more than 360 days	3 000	
Total	**13 050**	**10 050**

	31/12/2017	
Not yet due	5 758	4 004
Overdue more than 30, less than 60 days	600	
Overdue more than 60, less than 90 days	1 200	
Overdue more than 90, less than 180 days	1 200	
Total	**8 758**	**4 004**

As of the balance sheet date, Arbonia has no secured loans (2017: CHF 4.1 million).

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**-4 754**	**-3 410**
Foreign exchange differences	22	-144
Additional allowances		-1 200
Used during year	231	
Unused amounts reversed	1 982	
Reclassification to other current assets	-481	
Balance at 31/12	**-3 000**	**-4 754**

In the impairment of loans, specific impairments of CHF 3.0 million (2017: CHF 4.8 million) are included.

36 Non-current assets held for sale and discontinued operations

On 14 December 2017, a contract for the sale of the business unit Profile Systems was signed between Arbonia and Belgian Reynaers Group. The closing of the transaction occurred as of 22 January 2018. In accordance with IFRS 5, Arbonia reported the business unit Profile Systems as of 31 December 2017 as discontinued operations.

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

Assets held for sale and discontinued operations

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents	237	6 196
Accounts receivable		8 591
Other current assets		1 001
Inventories		13 429
Accrued income		876
Current income tax receivables		58
Property, plant and equipment		5 567
Intangible assets		2 919
Deferred income tax assets		23
Capitalised pension surplus		6 238
Assets of the segment Coatings		2 827
Total	**237**	**47 725**

One property in Switzerland was sold in the first half of 2018, resulting in a gain of CHF 4.4 million. The property was reclassified from property, plant and equipment to assets held for sale prior to disposal.

Liabilities associated with assets held for sale and discontinued operations

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Accounts payable		2 959
Advance payments by customers		87
Other liabilities		742
Financial debts		1
Accruals and deferred income	54	2 054
Current income tax liabilities	17	774
Provisions	300	378
Deferred income tax liabilities		3 232
Employee benefit obligations		353
Liabilities of the segment Coatings		2 144
Total	**371**	**12 724**

Sold operations 2018

Disposal of Profile Systems

	2018
	in 1 000 CHF
Assets	
Cash and cash equivalents	6 196
Accounts receivable	9 681
Other current assets	1 623
Inventories	13 326
Deferred expenses	895
Current income tax receivables	60
Property, plant and equipment	5 515
Intangible assets	2 919
Deferred income tax assets	23
Capitalised pension surplus	4 543
Financial assets	21
Total assets	**44 802**
Liabilities	
Accounts payable	3 048
Advance payments by customers	87
Other liabilities	743
Accruals and deferred income	2 063
Current income tax liabilities	774
Provisions	378
Deferred income tax liabilities	1 869
Employee benefit obligations	353
Total liabilities	**9 315**
Net assets	**35 487**
Cash and cash equivalents disposed	-6 196
Net assets excluding cash and cash equivalents	**29 291**
Gain on disposal	7 208
Net cash inflow from disposal	**36 499**

The sale of the business unit Profile Systems on 22 January 2018 resulted in a disposal gain of CHF 7.2 million. From the sale of this business unit, accumulated currency translation differences in the amount of CHF 0.3 million resulted, which have been transferred from equity to the income statement and debited to the financial result from discontinued operations.

Disposal of Coatings

In 2018, the second instalment from the deferred purchase price of CHF 2.5 million from the sale of the Coatings segment was paid on time. This cash inflow is contained in the cash flow statement under disposal of subsidiaries.

Discontinued and sold operations 2017

Disposal of Industrial Services

	2017
	in 1 000 CHF
Assets	
Cash and cash equivalents	4 467
Accounts receivable	6 555
Other current assets	395
Inventories	11 226
Deferred expenses	166
Property, plant and equipment	72 005
Intangible assets	41 479
Total assets	**136 293**
Liabilities	
Accounts payable	3 487
Other liabilities	2 314
Financial debt	9 975
Accruals and deferred income	4 317
Current income tax liabilities	470
Provisions	39
Deferred income tax liabilities	16 979
Employee benefit obligations	4 169
Total liabilities	**41 750**
Net assets	**94 543**
Cash and cash equivalents disposed	-4 467
Net assets excluding cash and cash equivalents	**90 076**
Gain on disposal	3 326
Net cash inflow from disposal	**93 402**

On 03 July 2017, Arbonia announced its intention to consider new owners for the business unit Industrial Services. On 13 November 2017, Arbonia and German Paragon Partners signed a contract for the sale of this business. The closing of the transaction occurred on 12 December 2017. From the sale of this operation, accumulated currency translation differences in the amount of CHF 0.3 million resulted, which have been transferred from equity to the income statement and credited to the financial result of discontinued operations.

Disposal of Coatings

	2017
	in 1 000 CHF
Assets	
Cash and cash equivalents	14 534
Other current assets	55 280
Non-current assets	82 495
Total assets	**152 309**
Liabilities	
Current liabilities	27 427
Non-current liabilities	5 753
Total liabilities	**33 180**
Net assets	**119 129**
Cash and cash equivalents disposed	-14 534
Net assets excluding cash and cash equivalents	**104 595**
Deferred purchase price payment	-2 486
Gain on disposal	1 295
Net cash inflow from disposal	**103 404**

On 9 August 2016, the Looser Group announced its intention to begin the sales process of the segment Coatings. Arbonia therefore disclosed the segment Coatings in accordance with IFRS 5 as discontinued operations. On 26 June 2017, the last business of the Coatings segment was sold. The first of two instalments from the deferred purchase price of CHF 2.5 million was paid on time in November 2017. From the sale of this operation, accumulated currency translation differences in the amount of CHF 0.1 million resulted, which have been transferred from equity to the income statement and credited to the financial result of discontinued operations.

Result from discontinued operations

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Net revenues		**181 627**
Other operating income		1 094
Capitalised own services		273
Changes in inventories of semi-finished and finished goods		-2 653
Cost of material and goods		-78 446
Personnel expenses		-50 787
Other operating expenses	-303	-35 412
EBITDA	**-303**	**15 696**
Depreciation, amortisation and impairments		-9 170
EBIT	**-303**	**6 526**
Financial result	23	260
Result from discontinued operations before income tax	**-280**	**6 786**
Income tax expense	411	-2 583
Result from discontinued operations	**131**	**4 203**
Gain on disposal of discontinued operations	7 208	4 621
Net result from discontinued operations	**7 339**	**8 824**

In 2018, costs abroad still were incurred for the sale of the Coatings segment and a tax provision was not utilised to the expected extent.

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

The results 2017 comprised sales costs for the disposal of the Coatings segment of CHF 6.0 million, of which CHF 1.0 million were included in personnel expenses and CHF 5.0 million in other operating expenses. The results 2017 comprised sales costs for the disposal of the business unit Industrial Services of CHF 2.5 million, of which CHF 0.6 million were included in personnel expenses and CHF 1.9 million in other operating expenses. From the sale of these two segments, accumulated currency translation differences in the amount of CHF 0.4 million resulted, which have been transferred from equity to the income statement and credited to the financial result.

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

Cash flow from discontinued operations

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Cash flows from operating activities	**-1 598**	**11 471**
Cash flows from investing activities	**28**	**-8 761**
Cash flows from financing activities		**-1 778**

Neither the cash inflows nor the sales costs from the three segments sold in 2017 and 2018 are included in the above table.

37 Property, plant and equipment

	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net book value at 01/01/2017	**226 650**	**124 263**	**61 308**	**47 713**	**459 934**
Cost					
Balance at 01/01/2017	**348 885**	**391 045**	**98 553**	**61 682**	**900 165**
Foreign exchange differences	25 126	32 498	4 608	5 931	68 163
Change in scope of consolidation	-17 860	404	-51 899	-5 333	-74 688
Additions	10 068	18 123	24 030	67 646	119 867
Disposals	-40 126	-30 441	-16 771	-1 058	-88 396
Reclassification to assets held for sale	-111	-38 161	-1 494	-1 310	-41 076
Reclassifications	20 317	35 273	1 957	-62 883	-5 336
Balance at 31/12/2017	**346 299**	**408 741**	**58 984**	**64 675**	**878 699**
Foreign exchange differences	-14 688	-16 509	-2 181	-6 353	-39 731
Change in scope of consolidation	38 513	17 636	553	1 660	58 362
Additions	19 558	23 155	6 252	83 910	132 875
Disposals	-4 284	-7 811	-4 958	-3 151	-20 204
Reclassification to assets held for sale	-11 003				-11 003
Reclassifications	8 754	23 632	1 895	-32 242	2 039
Balance at 31/12/2018	**383 149**	**448 844**	**60 545**	**108 499**	**1 001 037**

	Land and buildings	Plant and machinery	Other equip-ment	Prepayments and assets under construction	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Accumulated depreciation					
Balance at 01/01/2017	**122 235**	**266 782**	**37 245**	**13 969**	**440 231**
Foreign exchange differences	8 225	19 963	2 937	1 119	32 244
Change in scope of consolidation	-294		-3 099		-3 393
Depreciation	8 500	24 015	11 648		44 163
Impairment	75				75
Reversal of impairment		-655			-655
Disposals	-29 774	-30 020	-6 909		-66 703
Reclassification to assets held for sale	-6	-34 739	-765		-35 510
Reclassifications	38	3 000	115	-5 959	-2 806
Balance at 31/12/2017	**108 999**	**248 346**	**41 172**	**9 129**	**407 646**
Foreign exchange differences	-3 762	-9 010	-1 377	-924	-15 073
Depreciation	9 592	29 441	5 803		44 836
Impairment	518	3 487	104	73	4 182
Reversal of impairment		-1 916	-12		-1 928
Disposals	-172	-7 356	-4 655	-73	-12 256
Reclassification to assets held for sale	-7 664				-7 664
Reclassifications		-2 892	-115	6 311	3 304
Balance at 31/12/2018	**107 511**	**260 100**	**40 920**	**14 516**	**423 047**
Net book value at 31/12/2017	**237 300**	**160 395**	**17 812**	**55 546**	**471 053**
Net book value at 31/12/2018	**275 638**	**188 744**	**19 625**	**93 983**	**577 990**
thereof under financial lease or with a purchase obligation	23 471	6 264	3 230		32 965
				Previous year	30 253

In addition to other smaller disposals, a property in Switzerland was sold in 2018, resulting in a sales gain of CHF 7.1 million.

In 2018, plant and machinery in the amount of CHF 0.4 million and other equipment in the amount of CHF 0.9 million (2017: CHF 0.7 million of other equipment) was acquired via finance lease. Assets under construction include CHF 0.8 million of capitalised borrowing costs (2017: CHF 0.1 million).

Future aggregate minimum lease payments

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

			31/12/2018
	Operating leases	Finance leases	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
within 1 year	15 950	3 164	19 114
between 1 and 5 years	30 750	7 556	38 306
after 5 years	12 286	4 804	17 090
Total	**58 986**	**15 524**	**74 510**
Interest charge		-2 367	
Present value of finance leases		**13 157**	

			31/12/2017
	Operating leases	Finance leases	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
within 1 year	13 165	2 672	15 837
between 1 and 5 years	21 800	7 002	28 802
after 5 years	12 511	6 114	18 625
Total	**47 476**	**15 788**	**63 264**
Interest charge		-2 874	
Present value of finance leases		**12 914**	

The income statement contains expenses for operating leases of CHF 20.0 million (2017: CHF 17.2 million).

The largest lease contract in 2018 with a commitment of CHF 18.0 million relates to the rental of a production and office building in Germany and has a duration until 1 June 2027.

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

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
within 1 year	2 617	2 010
between 1 and 5 years	6 155	5 546
after 5 years	4 385	5 358
Total	**13 157**	**12 914**

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:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Property, plant and equipment	27 162	37 190
Intangible assets	238	763
Total	**27 400**	**37 953**

Land and buildings amounting to CHF 53.0 million (2017: CHF 55.0 million) are pledged to secure mortgages.

38 Investment property

	Investment property – land	Investment property – buildings	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net book value at 01/01/2017	**8 293**	**3 015**	**11 308**
Cost			
Balance at 01/01/2017	**8 973**	**49 563**	**58 536**
Foreign exchange differences	6	161	167
Additions		110	110
Disposals	–482	–8 593	–9 075
Reclassifications	2 786	998	3 784
Balance at 31/12/2017	**11 283**	**42 239**	**53 522**
Foreign exchange differences	–28	–138	–166
Change in scope of consolidation	479	2 393	2 872
Additions		8	8
Disposals	–6 894	–16 537	–23 431
Balance at 31/12/2018	**4 840**	**27 965**	**32 805**
Accumulated depreciation			
Balance at 01/01/2017	**680**	**46 548**	**47 228**
Foreign exchange differences	6	163	169
Depreciation		467	467
Impairment		933	933
Disposals	–187	–8 595	–8 782
Balance at 31/12/2017	**499**	**39 516**	**40 015**
Foreign exchange differences		–2	–2
Depreciation		434	434
Disposals		–14 457	–14 457
Balance at 31/12/2018	**499**	**25 491**	**25 990**
Net book value at 31/12/2017	**10 784**	**2 723**	**13 507**
Net book value at 31/12/2018	**4 341**	**2 474**	**6 815**
Fair values of investment properties at 31/12/2017			**25 466**
Fair values of investment properties at 31/12/2018			**14 006**

In 2018, an investment property in Switzerland was sold, resulting in a sales gain of CHF 14.2 million.

Rental income from investment properties amounted to CHF 2.8 million (2017: CHF 2.8 million) and is included in other operating income. Related direct operating expenses were CHF 0.7 million (2017: CHF 2.0 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

	Intangible assets from business combinations	Other intangible assets	Total	Goodwill
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net book value at 01/01/2017	**221 765**	**5 635**	**227 400**	**218 490**
Cost				
Balance at 01/01/2017	**282 988**	**34 572**	**317 560**	**299 206**
Foreign exchange differences	21 642	1 142	22 784	17 583
Change in scope of consolidation	–16 207	–910	–17 117	–23 955
Additions		2 798	2 798	
Disposals		–278	–278	
Reclassification to assets held for sale	–3 281	–2 276	–5 557	
Reclassifications		2 535	2 535	
Balance at 31/12/2017	**285 142**	**37 583**	**322 725**	**292 834**
Foreign exchange differences	–11 113	–658	–11 771	–8 050
Change in scope of consolidation	26 065	756	26 821	
Additions		3 070	3 070	
Disposals		–354	–354	
Reclassifications		1 484	1 484	
Balance at 31/12/2018	**300 094**	**41 881**	**341 975**	**284 784**
Accumulated amortisation				
Balance at 01/01/2017	**61 223**	**28 937**	**90 160**	**80 716**
Foreign exchange differences	3 782	765	4 547	
Change in scope of consolidation	–1 098	–255	–1 353	
Amortisation	20 575	2 657	23 232	
Disposals	18	–273	–255	
Reclassification to assets held for sale	–873	–1 765	–2 638	
Reclassifications		54	54	
Balance at 31/12/2017	**83 627**	**30 120**	**113 747**	**80 716**
Foreign exchange differences	–2 564	–418	–2 982	
Amortisation	18 827	3 170	21 997	
Disposals		–354	–354	
Reclassifications		8	8	
Balance at 31/12/2018	**99 890**	**32 526**	**132 416**	**80 716**
Net book value at 31/12/2017	**201 515**	**7 463**	**208 978**	**212 118**
Net book value at 31/12/2018	**200 204**	**9 355**	**209 559**	**204 068**

Of the intangible assets from business combinations, CHF 102.9 million (2017: CHF 104.8 million) relates to customer relationships, CHF 77.4 million (2017: CHF 74.6 million) to brands and CHF 15.8 million (2017: CHF 18.2 million) to technologies.

Expenses for research and development in the amount of CHF 15.2 million (2017: CHF 14.4 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 0.9 million (2017: CHF 0.9 million under assets under construction) included. The additions under other intangible assets consist of CHF 0.8 million (2017: CHF 0.6 million) of own development costs and CHF 2.3 million (2017: CHF 2.2 million) of purchased or acquired items.

Goodwill

As of 31 December 2018 goodwill from business combinations is allocated to the Group's five cash-generating units (CGUs) Doors, Sanitary, Wertbau, Sabiana and Slovaktual.

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

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance at 31/12/2017	**152 960**	**14 647**	**3 376**	**25 560**	**15 575**	**212 118**
Foreign exchange differences	–6 381		–127	–959	–583	–8 050
Balance at 31/12/2018	**146 579**	**14 647**	**3 249**	**24 601**	**14 992**	**204 068**

Goodwill impairment tests 2018

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

The recoverable amount of the CGUs was determined based on value in use calculations. These calculations used cash flow projections covering a five-year period. Cash flows beyond the five-year period were extrapolated using estimated growth rates. The underlying financial data consisting of one budget year and four plan years form part of the Group's medium term plan approved by the Board of Directors in autumn 2018 and were used for the impairment tests.

The value in use calculation for the annual 2018 impairment tests assumed the following key assumptions:

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
	in %	in %	in %	in %	in %
Budgeted gross margin	55.3	64.7	45.8	42.6	36.0
Growth rate	1.6	1.0	1.5	1.8	1.5
Discount rate	9.1	8.8	9.0	10.1	8.2

Budgeted gross margins are 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 2018 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 55.3% to 53.3% would result in an impairment of the CGU Doors amounting to CHF 59.1 million. At a budgeted gross margin of 54.3%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.6% to 1.1% would lead to an impairment of CHF 45.8 million. At a reduction of 5% in EBITDA and a simultaneous reduction of eternal growth to 1.3%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2017

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

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

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

Based on a reasonably possible change in the key assumptions, sensitivity analyses were calculated in 2017 on higher discount rates, lower than actually expected EBITDAs, lower gross margins and lower growth rates which only led to a possible impairment at the CGU Doors.

A reduction in the budgeted gross margin from 54.0% to 52.0% would have resulted in an impairment of the CGU Doors amounting to CHF 53.9 million. At a budgeted gross margin of 53.0%, the recoverable amount would have been equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 0.9% to 0.4% would have led to an impairment of CHF 31.1 million. At a reduction of 6.5% in EBITDA and a simultaneous reduction of eternal growth to 0.7%, the recoverable amount would have been 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 2018

Vasco Gruppe

	Fair Value
	in 1 000 CHF
Assets	
Cash and cash equivalents	3 214
Accounts receivables	15 962
Other current assets	1 754
Inventories	19 680
Deferred expenses	724
Current income tax receivables	1 009
Property, plant and equipment	57 620
Investment property	2 871
Intangible assets	18 583
Deferred income tax assets	1 577
Financial assets	28
Total assets	**123 022**
Liabilities	
Accounts payable	12 857
Other liabilities	2 511
Financial debts	20 002
Finance lease liabilities	1 498
Accruals and deferred income	8 694
Current income tax liabilities	1 044
Provisions	3 264
Deferred income tax liabilities	10 241
Employee benefit obligations	704
Total liabilities	**60 815**
Net assets acquired	**62 208**
Cost of acquisition	
Purchase price	62 208
Total cost of acquisition	**62 208**
Net cash outflow was as follows:	
Purchase price	62 208
Cash and cash equivalents acquired	–3 214
Net cash outflow on acquisition	**58 993**

As of 16 May 2018, Arbonia acquired 100% of the shares of Belgian Vasco Group, BE-Dilsen. The group produces and sells steel panel and design radiators, underfloor heating and residential ventilation and is allocated to the HVAC Division. The purchase price amounted to CHF 62.2 million. From the date of acquisition, Vasco Group contributed CHF 58.8 million in net revenues and CHF 4.1 million in loss to the Group. This result includes the amortisation of intangible assets from the acquisition and costs, including necessary impairments on property, plant and equipment, for the restructuring of the Belgian site in Zedelgem announced at the end of November 2018, amounting to CHF 9.6 million. Had the acquisition taken place on 1 January 2018, net revenues for 2018 would have been CHF 101.3 million and the loss would have been CHF 4.2 million. The gross carrying amount of accounts receivable amounted to CHF 17.6 million, of which CHF 1.6 million were considered uncollectable. The acquisition-related costs amounted to CHF 1.1 million and are included in operating expenses in 2017 and 2018.

Tecnologia De Aislamiento Y Climatizacion S.L.

	Fair Value
	in 1 000 CHF
Assets	
Cash and cash equivalents	1 528
Accounts receivables	4 793
Other current assets	217
Inventories	1 858
Property, plant and equipment	743
Intangible assets	8 238
Financial assets	44
Total assets	**17 421**
Liabilities	
Accounts payable	2 132
Other liabilities	444
Financial debts	1 597
Current income tax liabilities	320
Provisions	58
Deferred income tax liabilities	1 874
Total liabilities	**6 424**
Net assets acquired	**10 997**

	Fair Value
	in 1 000 CHF
Cost of acquisition	
Purchase price	8 682
Deferred purchase price	2 315
Total cost of acquisition	**10 997**
Net cash outflow was as follows:	
Purchase price	8 682
Cash and cash equivalents acquired	-1 528
Net cash outflow on acquisition	**7 154**

As of 24 September 2018, Arbonia acquired 100% of the shares of Tecnologia de Aislamientos y climatizacion S.L., ES-Algete. Tecna already purchased goods from Sabiana and sold them in the Spanish market. The newly acquired company is allocated to the HVAC Division. The purchase price amounted to CHF 11.0 million which includes a deferred purchase price payment of CHF 2.3 million. A first tranche of CHF 1.1 million will mature on 30 September 2019, a second tranche of CHF 0.5 million on 31 March 2021 and the last tranche of CHF 0.7 million on 30 September 2022. The deferred purchase price payment serves as security for any claims Arbonia may have against the former owners. From the date of acquisition, Tecna contributed CHF 5.0 million in net revenues and CHF 0.6 million in profit to the Group. Had the acquisition taken place on 1 January 2018, net revenues would have been CHF 16.0 million and profit, including amortisation charges on intangible assets from acquisitions, would have been CHF 1.5 million. The gross carrying amount of accounts receivable amounted to CHF 4.85 million, of which CHF 0.05 million were considered uncollectable. The acquisition-related costs amounted to CHF 0.2 million and are included in operating expenses in 2018.

Acquisitions 2017

TPO Holz-Systeme GmbH

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

As of 31 January 2017, Arbonia acquired 100% of the shares of German TPO Holz-Systeme GmbH, DE-Leutershausen. The company is a specialised doors manufacturer and was allocated to the Doors Division. The purchase price amounted to CHF 2.3 million. From the date of acquisition, the company contributed CHF 3.1 million in net revenues and CHF 0.1 million in loss to the Group in 2017. The acquisition-related costs amounted to CHF 0.02 million and were included in operating expenses in 2017.

41 Financial debts

On 20 April 2018, Arbonia has taken up a promissory note loan in the amount of EUR 125 million with maturities of five, seven and ten years.

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 matured 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. 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 financial debts are comprised of the following:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Promissory note loan	140 875	
Syndicated loan	20 000	103 675
Mortgages	11 553	13 097
Bank loans	2 362	2 769
Total	**174 790**	**119 541**

The syndicated loan includes 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 2018 and 2017.

The maturities of the financial debts are as follows:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
within 1 year	23 066	107 276
between 1 and 5 years	72 181	4 638
after 5 years	79 543	7 627
Total	**174 790**	**119 541**

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

		31/12/2018	
	CHF	EUR	PLN
Financial debt	1.0%	1.8%	

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

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

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

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
CHF	20 000	10 002
EUR	154 791	107 820
PLN		1 719
Total	**174 790**	**119 541**

42 Financial instruments

The impact of the first-time adoption of IFRS 9 on the consolidated financial statements is described in note 2 "First time adoption of IFRS 9".

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

31/12/2018	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 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Non-derivative financial instruments							
Accounts payable	127 913	127 913	127 913				
Other liabilities (without derivatives)	28 524	35 987	13 013	1 364	1 554	56	20 000
Finance lease liabilities	13 157	15 523	1 749	1 415	2 738	4 818	4 803
Accruals and deferred income	45 360	45 360	45 360				
Financial debts	174 790	191 345	25 338	1 147	3 521	78 014	83 325
Derivative financial instruments							
Interest rate swaps	1 575						
Cash outflow		1 575	132	128	236	557	522
Forward foreign exchange contracts	211						
Cash outflow		35 324	35 324				
Cash inflow		–35 113	–35 113				
Total	**391 530**	**417 914**	**213 716**	**4 054**	**8 049**	**83 445**	**108 650**

31/12/2017	Book value	Contractual cash flows	up to 6 months	7 to 12 months	between 1 and 2 years	between 2 and 5 years	after 5 years
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Non-derivative financial instruments							
Accounts payable	108 053	108 053	107 990	63			
Other liabilities (without derivatives)	38 867	47 076	25 799	24	1 208	45	20 000
Finance lease liabilities	12 914	15 786	1 367	1 317	2 472	4 517	6 113
Financial debts	119 541	121 586	106 973	1 541	1 489	4 781	6 802
Derivative financial instruments							
Interest rate swaps	1 797						
Cash outflow		1 797	139	135	252	611	661
Total	**281 172**	**294 298**	**242 268**	**3 080**	**5 421**	**9 954**	**33 576**

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

43 Additional disclosures on financial instruments

The impact of the first-time adoption of IFRS 9 on the consolidated financial statements is described in note 2 "First time adoption of IFRS 9". Arbonia makes use of the exception not to restate comparative information for prior periods in respect of changes in measurement category classification.

The relation between the relevant balance sheet items and the measurement categories in accordance with IFRS 9 and the disclosure of fair values of financial instruments is as follows:

						31/12/2018
	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value at 31/12/2018	Fair value at 31/12/2018
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents		70 877			70 877	70 877
Accounts receivable		135 490			135 490	135 490
Other current assets		6 563			6 563	6 563
Deferred expenses		3 428			3 428	3 428
Investments < 20%	3 721				3 721	3 721
Other financial assets		91			91	91
Loans		10 050			10 050	10 050
Assets	**3 721**	**226 499**			**230 220**	**230 220**
Accounts payable				127 913	127 913	127 913
Other liabilities			1 787	28 524	30 310	30 310
Finance lease liabilities				13 157	13 157	13 999
Accruals and deferred income				45 360	45 360	45 360
Promissory note loan				140 875	140 875	143 121
Syndicated loan				20 000	20 000	20 000
Loans				2 362	2 362	2 362
Mortgages				11 553	11 553	13 261
Liabilities			**1 787**	**389 744**	**391 530**	**396 326**

Abbreviations in the header of this table are explained in note 9 "financial instruments" on page 107.

						31/12/2017
	FA FVTPL designated	L&AR	FL FVTPL trading	FL AC/NPV	Book value at 31/12/2017	Fair value at 31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents		82 703			82 703	82 703
Accounts receivable		126 387			126 387	126 387
Other current assets		25 383			25 383	25 383
Other financial assets		417			417	417
Loans		4 004			4 004	4 004
Assets		**238 894**			**238 894**	**238 894**
Accounts payable				108 053	108 053	108 053
Other liabilities			1 797	38 866	40 663	40 663
Finance lease liabilities				12 914	12 914	13 952
Syndicated loan				103 675	103 675	103 675
Loans				2 769	2 769	2 769
Mortgages				13 097	13 097	14 140
Liabilities			**1 797**	**279 374**	**281 171**	**283 252**

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 31/12/2018	Level 2	Fair value at 31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Assets					
Financial assets at fair value through profit or loss (FA FVTPL)					
Investments < 20%		3 721	3 721		
Total assets		**3 721**	**3 721**		
Liabilities					
Financial liabilities at fair value through profit or loss (FL FVTPL)					
Interest rate swaps/ forward foreign exchange contracts without hedges	1 787		1 787	1 797	1 797
Total liabilities	**1 787**		**1 787**	**1 797**	**1 797**

The fair value of interest rate and currency swap transactions of level 2 is the present value of expected payments, which are discounted at market rates. The determination of the fair value of these transactions is made by the banks with which these transactions were entered into. The investments < 20% at fair value through profit or loss relate to the minority interest in the German KIWI-KI GmbH, DE-Berlin acquired in 2018. The fair value as at 31 December 2018 corresponds to the purchase price of CHF 3.7 million. In 2018 and 2017, no gains/losses resulted from level 3 financial instruments. Furthermore, no reclassifications occurred between the levels 1 and 2.

44 Provisions

	Warranty	Personnel	Restructuring	Onerous contracts project business	Other provisions	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Balance at 01/01/2017	**12 284**	**8 219**	**11 188**		**3 212**	**34 903**
Foreign exchange differences	822	741	137		59	1 759
Change in scope of consolidation	−22	42			43	63
Additional provisions	7 871	2 007	1 005		3 298	14 181
Used during the year	−7 131	−1 985	−6 322		−1 419	−16 857
Unused amounts reversed	−317	−150	−1 628		−620	−2 715
Reclassification to liabilities associated with assets held for sale	−169		−207			−376
Balance at 31/12/2017	**13 338**	**8 874**	**4 173**		**4 573**	**30 958**
Restatement IFRS 15 [1]				239	−361	−122
Foreign exchange differences	−429	−402	−151		−81	−1 063
Change in scope of consolidation	953	1 179			1 190	3 322
Additional provisions	8 310	2 620	6 414	24	1 505	18 873
Used during the year	−8 016	−2 049	−916		−948	−11 929
Unused amounts reversed	−93	−156	−1 626	−170	−587	−2 632
Balance at 31/12/2018	**14 063**	**10 066**	**7 894**	**93**	**5 291**	**37 407**
thereof current at 31/12/2017	8 892	3 456	4 173		4 291	20 812
thereof current at 31/12/2018	8 973	3 802	7 894	93	4 102	24 864

[1] see note 2 “First time adoption of IFRS 15”

The current provision is expected to be fully utilised during 2019. The non-current provision is expected to be utilised as follows:

	Warranty	Personnel	Other provisions	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
between 1 and 5 years	5 081	4 741	201	**10 023**
after 5 years	8	1 524	988	**2 520**

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 2017, the restructuring provision still comprised costs amounting to CHF 4.1 million in connection with the restructuring programme announced on 3 March 2015 and 13 August 2015 for the windows business in Switzerland and the relocation of logistics and production activities within Germany from Vlotho to Plattling in the Sanitary Equipment Division. In the reporting period, costs of CHF 0.9 million incurred for these restructuring measures were booked against the provision and CHF 1.6 million were released to income as a result of voluntary staff departures and risk reduction measures. The relocation in the Sanitary Equipment Division was completed in 2018. At the end of November 2018, the HVAC Division announced the relocation of production and closure of a site in Belgium. The restructuring provision recognised amounts to CHF 5.9 million. It is assumed that the restructuring of the windows and HVAC businesses will be completed by the end of 2019.

Other provisions

Other provisions include costs for environmental risks, legal claims and various risks that could arise in the normal course of business.

45 Deferred income taxes

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

		31/12/2018		31/12/2017
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Assets				
Cash and cash equivalents and securities		1	3	
Accounts receivable	905	188	681	216
Other current assets	348	824		46
Inventories	2 634		1 291	176
Contract assets project business	181			
Non-current assets held for sale				7
Property, plant and equipment	44	25 333		17 554
Investment property	64	201	981	
Intangible assets	47	51 656	6	52 031
Capitalised pension surplus and financial assets	18	9 279	263	7 131
Liabilities				
Current liabilities	6 877	3 154	3 657	1 902
Non-current liabilities	10	854		84
Current and non-current provisions	1 154	470	683	304
Employee benefit obligations	7 064	5	7 903	7
Deferred taxes from timing differences	**19 346**	**91 965**	**15 468**	**79 458**
Deferred tax assets derived from tax loss carryforwards	18 789		19 631	
Valuation allowance	−11 463		−15 195	
Net deferred taxes from timing differences	**26 672**	**91 965**	**19 904**	**79 458**
Offset of deferred tax assets and liabilities	−21 008	−21 008	−14 334	−14 334
Total deferred taxes	**5 664**	**70 957**	**5 570**	**65 124**

From the capitalised pension surplus and employee benefit obligations, CHF 1.0 million (2017: CHF 5.8 million) of deferred taxes were recorded in comprehensive income of the continuing operations. All other changes of assets and liabilities were recorded through the income statement.

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

There are temporary differences totalling CHF 80.4 million (2017: CHF 66.2 million) in conjunction with invest-

ments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12. There are also deductible temporary differences of CHF 1.2 million (2017: CHF 2.8 million) on which no deferred tax assets have been recognised.

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**59 554**	**69 313**
Restatement IFRS 15 [1]	284	
Change in scope of consolidation	10 538	–16 471
Changes to other comprehensive income for continuing operations	982	5 736
Changes to other comprehensive income for discontinued operations		503
Changes to the income statement for continuing operations	–3 632	–1 467
Changes to the income statement for discontinued operations		325
Reclassification to assets held for sale		23
Reclassification to liabilities associated with assets held for sale		–3 232
Foreign exchange differences	–2 433	4 824
Balance at 31/12	**65 293**	**59 554**

[1] see note 2 "First time adoption of IFRS 15"

Unrecognised tax loss carryforwards in 1'000 CHF	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Tax loss carryforwards	173 905	208 556
thereof recognised as deferred taxes	–48 925	–40 239
Unrecognised tax loss carryforwards	**124 980**	**168 317**
Portion expiring:		
within 1 year	599	16 116
between 1 and 5 years	112 084	130 790
after 5 years	12 297	21 411
Total	**124 980**	**168 317**
Tax effect on unrecognised tax loss carryforwards	**11 462**	**15 194**
thereof pertaining to tax rates below 15 %	8 788	11 899
thereof pertaining to tax rates between 15 % and 20 %	1 629	2 363
thereof pertaining to tax rates between 21 % and 25 %	65	
thereof pertaining to tax rates between 26 % and 30 %	980	932

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. A business acquired in 2017 participates 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.

In 2018, the obligation to provide pension benefits was partially transferred to other foundations (settlement) as a result of the sale of the business unit Profile Systems, which is why a partial liquidation must be carried out. The staff reductions in the Swiss windows business will lead to a further partial liquidation.

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:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Present value of funded obligations	294 327	300 841
Fair value of plan assets	338 579	329 885
Overfunding	**-44 251**	**-29 044**
Present value of unfunded obligations	49 364	51 200
Liability (net) recognised in the balance sheet	**5 113**	**22 156**
thereof recorded as employee benefit obligations	49 744	55 698
thereof recorded as capitalised pension surplus	-44 631	-33 542

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**352 041**	**431 617**
Changes in scope of consolidation	6 621	-23 775
Interest cost	3 280	3 367
Current service cost	8 676	11 262
Past service cost	-8 109	-3 412
Contributions by plan participants	4 498	5 895
Benefits paid	-24 134	-16 420
Actuarial losses arising from changes in demographic assumptions	396	
Actuarial gains arising from changes in financial assumptions	-373	-1 408
Actuarial losses arising from experience adjustements	2 050	15 146
Settlements/partial liquidation	-6 493	-41 694
Administration cost	166	189
Reclassification from/to liabilities associated with assets held for sale	7 368	-33 060
Foreign exchange differences	-2 294	4 336
Balance at 31/12	**343 692**	**352 041**
thereof for active members	206 576	222 412
thereof for pensioners	134 136	126 354
thereof for deferred members	2 981	3 275

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**329 885**	**377 048**
Changes in scope of consolidation	5 918	–19 607
Interest income	2 561	2 444
Return on plan assets excl. interest income	–385	44 479
Contributions by the employer	10 531	8 437
Contributions by plan participants	4 498	5 895
Benefits paid	–24 129	–16 347
Settlements/partial liquidation	–5 253	–33 499
Reclassification from/to assets held for sale	15 301	–38 965
Foreign exchange differences	–349	
Balance at 31/12	**338 579**	**329 885**

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01		**2 116**
Interest cost		15
Change in effect of asset ceiling excl. interest cost		–2 131
Balance at 31/12		

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Actuarial gains	2 073	10 813
Actuarial losses/gains from discontinued operations	–6 239	2 926
Return on plan assets excl. interest income	385	–44 479
Change in effect of asset ceiling excl. interest cost		–2 131
Remeasurements of employee benefit obligations	**–3 780**	**–32 871**

The amounts recognised in the income statement are as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Current service cost	8 676	11 262
Past service cost	-8 109	-3 412
Net interest result	718	923
Interest cost on effect of asset ceiling		15
Administration cost	166	189
Settlements/partial liquidation	-1 240	-8 195
Net charges for defined benefit plans	**211**	**781**
thereof recorded under personnel expenses from continuing operations	-507	189
thereof recorded under financial expenses from continuing operations	718	938
thereof recorded under Group result from discontinued operations after taxes		-345

The principal actuarial assumptions used were as follows:

Weighted average		2018	2017
Discount rate at 31/12		1.0%	0.9%
Future salary increases		1.1%	1.1%
Future pension increases		0.2%	0.2%
Mortality tables	Switzerland	BVG 2015 GT	BVG 2015 GT
	Germany	HB 2005 GT	HB 2005 GT

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

Impact on employee benefit obligations	Change in assumption	2018	2017
Discount rate	– 0.25%	12 985	15 546
	+ 0.25%	-12 127	-14 493
Salary increases	– 0.25%	-1 167	-1 285
	+ 0.25%	1 180	1 291
Life expectancy	+ 1 Year	9 013	10 173
	– 1 Year	-9 146	-10 325
Service cost 2019 with discount rate	+ 0.25%	-547	-600

The weighted average duration of employee benefit obligations is 14.9 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	31/12/2018 Total	quoted	unquoted	31/12/2017 Total
Cash and cash equivalents	13 689		13 689	6 340	2 030	8 370
Equity instruments	81 711		81 711	45 343		45 343
Debt instruments	63 398		63 398	51 191		51 191
Real estate	5 763	128 760	134 523	8 128	128 029	136 157
Investment funds				51 118	3 403	54 521
Others	30 070	15 188	45 258	10 536	23 767	34 303
Total plan assets	**194 631**	**143 948**	**338 579**	**172 656**	**157 229**	**329 885**

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 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Benefit payments	1 722	1 476	5 144	10 688

Expected contributions to pension plans for the year 2019 amount to CHF 11.6 million (2018: CHF 11.5 million), of which CHF 7.1 million (2018: CHF 6.9 million) are attributable to the employer.

47 Share capital

The capital structure is as follows:

	31/12/2018			31/12/2017		
Category	Outstanding shares	Par value in CHF	Share capital in CHF	Outstanding shares	Par value in CHF	Share capital in CHF
Registered shares	69 473 243	4.20	291 787 621	69 473 243	4.20	291 787 621

The proposed distribution per share for the 2018 financial year amounts to CHF 0.20 (2017: CHF 0.0).

On 20 April 2018, the Annual General Meeting of Arbonia AG approved amongst others the following: To authorise the Board of Directors to create additional share capital by a maximum amount of CHF 57’960’000 through the issue of a maximum 13’800’000 fully paid registered shares with a par value of CHF 4.20 each until 20 April 2020 (authorised capital increase). To increase the share capital by a maximum amount of CHF 57’960’000 by issuing a maximum of 13’800’000 fully paid up registered shares with a par value of CHF 4.20 (conditional capital increase). The authorised and conditional capital increase together were limited to an additional share capital of CHF 57’960’000.

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

Earnings per share	2018	2017
	in 1 000 CHF	in 1 000 CHF
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	38 686	37 489
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)	7 339	8 889
Group earnings for the year (in 1 000 CHF)	46 025	46 378
	2018	2017
Outstanding shares (average)	69 473 243	69 061 804
Less treasury shares (average)	−881 053	−780 967
Average number of shares outstanding for the calculation	**68 592 190**	**68 280 838**

There were no dilutive effects impacting the calculation.

48 Treasury shares

	2018			2017		
	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	**8.31**	**994 148**	**8 265**	**12.91**	**664 351**	**8 576**
Transfer for share based payments	8.31	– 140 094	– 1 164	12.82	– 143 953	– 1 846
Purchase				17.35	118 391	2 054
Sale				11.88	– 115 468	– 1 372
Purchase of non-controlling interests Looser Holding AG				12.91	– 129 173	– 1 668
Share capital increase				4.20	600 000	2 520
Balance at 31/12	**8.31**	**854 054**	**7 101**	**8.31**	**994 148**	**8 265**

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 31/12/2018	Other reserves	Retained earnings	Total other comprehensive income 31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Remeasurements of employee benefit obligations		3 780	3 780		32 871	32 871
Deferred tax effect		-973	-973		-6 239	-6 239
Total items that will not be reclassified to income statement		**2 807**	**2 807**		**26 632**	**26 632**
Currency translation differences	-28 642		-28 642	57 587		57 587
Cumulative currency translation differences transferred to the income statement	69		69	-367		-367
Total items that may be subsequently reclassified to income statement	**-28 573**		**-28 573**	**57 220**		**57 220**
Other comprehensive income after taxes	**-28 573**	**2 807**	**-25 766**	**57 220**	**26 632**	**83 852**

Other reserves

	Currency translation	Total
	in 1 000 CHF	in 1 000 CHF
Balance at 31/12/2016	**-86 979**	**-86 979**
Currency translation differences	57 220	57 220
Balance at 31/12/2017	**-29 759**	**-29 759**
Currency translation differences	-28 573	-28 573
Balance at 31/12/2018	**-58 332**	**-58 332**

50 Non-controlling interests

On 27 January 2017 and 28 June 2017, Arbonia increased its share in Looser Holding AG from 97.53% to 98.15% and 100%, respectively. The offer price for one registered share of Looser Holding AG amounted to 5.5 shares of Arbonia AG plus CHF 23 in cash. On 27 January 2017, 129'173 treasury shares plus CHF 0.54 million in cash were used for the purchase of 23'486 registered shares of Looser Holding AG. On 28 June 2017, 387'453 newly created shares of Arbonia AG plus CHF 1.62 million in cash were used for the remaining 70'446 shares of Looser Holding AG to compensate those shareholders affected by the cancellation. In order to increase Arbonia's share of Looser Holding AG from 97.53% to 100%, a cash consideration totalling CHF 2.16 million was spent in 2017. Altogether the outstanding non-controlling interests with a book value of CHF 10.1 million were purchased at a price of CHF 11.3 million. The proportion of the price exceeding the carrying value of the non-controlling interests has been recognised directly in equity.

51 Financial results

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Financial income		
Bank and other interest	242	749
Interest on net pension surplus	317	52
Total interest income	**559**	**801**
Income from securities	1	181
Gains derivative financial instruments	150	313
Foreign currency exchange gain from sale of associates	185	
Other financial income	1 994	1 255
Total other financial income	**2 330**	**1 749**
Total financial income	**2 889**	**2 550**
Financial expenses		
Bank and other interest	428	492
Interest on finance leases	600	602
Interest on non-current financial debts and syndicated loan	1 939	5 275
Interest on net employee benefit obligations	1 035	990
Compounding of liabilities	897	900
Total interest expenses	**4 899**	**8 259**
Impact of exchange rate fluctuations	4 955	687
Expenses from securities		7
Losses derivative financial instruments	224	25
Minority share from associated companies	715	1 244
Impairment on loans/ financial assets	290	1 200
Bank charges and other financial expenses	2 975	2 021
Total other financial expenses	**9 159**	**5 184**
Total financial expenses	**14 058**	**13 443**
Total net financial results	**–11 169**	**–10 893**

The classification of the financial result of financial instruments into the categories according to IFRS 9 is as follows:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Total interest income from financial assets measured at amortised cost (FA AC)	242	749
Total interest expenses from financial liabilities measured at amortised cost (FL AC)	3 864	7 269
Net gain from financial assets/ liabilities measured at fair value through profit or loss (FA/ FL FVTPL)	-73	462
Impairment expenses recognised in financial expenses from financial assets measured at amortised cost (FA AC)		1 200
Finance costs recognised in financial expenses from financial assets/ liabilities measured at amortised cost (FA/ FL AC)	2 837	1 997

52 Income taxes

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Current income taxes	14 754	14 286
Changes in deferred income taxes	-3 632	-1 467
Total	**11 122**	**12 819**

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:

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Earnings before income tax	**49 809**	**50 367**
Weighted average tax rate in %	22.4	24.5
Expected tax expense	**11 141**	**12 328**
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	-691	-2 579
Effect of not capitalised losses for the year	83	1 931
Effect of non-tax-deductible expenses and non-taxable income	258	551
Effect of income and expenses taxed at special rates	1 293	513
Effect of tax charges related to prior years	496	72
Effect of tax rate changes	-207	637
Change in unrecognised deferred tax assets	-1 156	-842
Other items	-95	209
Effective tax expense	**11 122**	**12 819**
Effective tax rate in %	22.3	25.5

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

The expected weighted average tax rate decreased slightly compared to previous year. There were no significant changes in local tax rates compared to 2017.

53 Financial risk management

Risk management principles

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

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

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

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

Credit default risk

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

The credit risk, on the one hand, relates to trade accounts receivable and contract assets 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 and contract assets is controlled by the individual subsidiaries on a decentralised basis and limited through the assignment of credit limits on the basis of systematic and regular credit ratings. Corresponding guidelines are in place within the Group aiming at an ongoing control and value adjustment of open positions. Due to the broad diversification of the customer portfolio into various business segments and geographic regions but also the possibility to create construction tradesman’s liens or the use of credit insurance, the credit risk is limited. The 10 largest debtors of Arbonia’s continuing operations as of the balance sheet date accounted for a share of 26.7% (2017: 20.4%) of existing trade receivables. The 10 largest customers of the continuing operations generated 18.8% (2017: 20.4%) 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 36%/21%/15% of total liquid funds as of the balance sheet date (2017: 52%/18%/9%).

The maximum credit risk corresponds to the book values or fair values reported in note 43 for the financial asset categories “at fair value through profit and loss” (FA FVTPL) (2017: “Financial instruments held for trading purposes”) and “at amortised cost” (FA AC) (2017: “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 moni-

tors 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:

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Cash and cash equivalents and securities	71 114	82 703
+ undrawn credit facilities	342 108	306 772
Total available liquidity	**413 222**	**389 475**

The syndicated loan includes covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2018 and 2017, Arbonia complied with all covenants. Due to restrictions on the leverage ratio, undrawn credit facilities are not fully utilisable.

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

Market risk

(a) Currency risk

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

A currency risk arises from transactions settled in foreign currencies (transaction risks) and paid in the Group company's functional currency. The standard policy is that subsidiaries must hedge 100% of the relevant net risk position for the risk horizon period through hedging transactions via group treasury. Arbonia's risk position equals the sum of the subsidiaries' net risk positions and is hedged by the group treasury with external counterparties using currency forward contracts of the relevant foreign currency. The hedging ratio depends on the maturity and currency risk exposure and is determined on a case by case basis.

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

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

A 5% increase (decrease) of the EUR against the CHF (2017: 5%), a 5% increase (decrease) of the CZK against the CHF (2017: 5%) or a 5% increase (decrease) of the PLN against the CHF (2017: 5%) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

			31/12/2018
	EUR/CHF	CZK/CHF	PLN/CHF
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Reasonably possible change	5.0 %	5.0 %	5.0 %
Impact of an increase on group earnings	7 818	709	309
Impact of a decrease on group earnings	–7 818	–709	–309

			31/12/2017
	EUR/CHF	CZK/CHF	PLN/CHF
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Reasonably possible change	5.0 %	5.0 %	5.0 %
Impact of an increase on group earnings	5 444	701	531
Impact of a decrease on group earnings	–5 444	–701	–531

(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 (2017: 50 basis points) or by 50 basis points for EUR interest rates (2017: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

	31/12/2018	
	CHF interest rate	EUR interest rate
	in 1 000 CHF	in 1 000 CHF
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	28	116
Impact of a decrease on group earnings	–28	–116
Interest rate swaps		
Impact of an increase on group earnings		250
Impact of a decrease on group earnings		–250

	31/12/2017	
	CHF interest rate	EUR interest rate
	in 1 000 CHF	in 1 000 CHF
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	170	–363
Impact of a decrease on group earnings	–170	363
Interest rate swaps		
Impact of an increase on group earnings		314
Impact of a decrease on group earnings		–328

(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 sees no significant risks from equity instruments measured at fair value.

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 58.7% as of the balance sheet date (2017: 60.9%). The slight decrease in the equity ratio compared to the previous year is due to higher total assets as a result of the acquisition of Vasco Group. Furthermore, currency translation differences had a reducing effect on equity due to the stronger CHF.

With regard to the authorised capital increases carried out in 2017, as well as the possible creation of new share capital, see note 47.

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

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

54 Derivative financial instruments

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

	31/12/2018	31/12/2017
	in 1 000 CHF	in 1 000 CHF
Liabilities		
Interest rate swaps without hedges	1 575	1 797
Forward foreign exchange contracts without hedges	211	

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.

Currency transactions are carried out on the basis of exchange rate fluctuation risk considerations and serve to hedge future cash flows. As a rule, only part of the planned cash flow is hedged. As of the balance sheet date, EUR was hedged against CHF and CZK against EUR.

55 Additional information on the cash flow statements

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Changes in non-cash transactions		
Changes in deferred taxes	–4 716	–1 169
Additional/reversed provisions	16 240	11 887
Changes in capitalised pension surplus/employee benefit obligations	–12 006	–7 797
Share based payments	3 115	3 301
Impairment on loans and compounding of liabilities	597	1 977
Minority share from associated companies	715	1 232
Other non-cash effects	7 363	5 066
Total changes in non-cash transactions	**11 308**	**14 497**
Changes in working capital		
Changes in accounts receivable	6 782	–20 583
Changes in inventories	–13 041	–8 868
Changes in contract assets project business	–12 306	
Investments/divestments rental park		–8 259
Changes in other working capital items	–3 419	–5 343
Total changes in working capital	**–21 984**	**–43 053**
Changes in liabilities		
Changes in accounts payable	10 638	15 548
Changes in contract liabilities	–2 361	–6 109
Used provisions	–11 928	–16 857
Changes in other current liabilities	3 471	16 181
Total changes in liabilities	**–180**	**8 763**

	Current and non-current financial debts
	in 1 000 CHF
Balance at 31/12/2016	**342 430**
Foreign exchange differences	1 503
Change in scope of consolidation	−9 625
Proceeds from financial debts	35 636
Repayments of financial debts	−267 305
Non-cash foreign exchange effects	16 902
Balance at 31/12/2017	**119 541**
Foreign exchange differences	−1 310
Change in scope of consolidation	21 599
Proceeds from financial debts	233 672
Repayments of financial debts	−193 087
Non-cash foreign exchange effects	−5 625
Balance at 31/12/2018	**174 790**

	Finance lease liabilities
	in 1 000 CHF
Balance at 31/12/2016	**14 336**
Foreign exchange differences	315
Finance lease additions	657
Finance lease liability payments	−2 394
Balance at 31/12/2017	**12 914**
Foreign exchange differences	−208
Change in scope of consolidation	1 498
Finance lease additions	1 461
Finance lease liability payments	−2 508
Balance at 31/12/2018	**13 157**

56 Share based payments

For Group Management and certain other employees a share based payment plan exists. As part of this plan, Group Management members receive 50% (2017: between 40% and 50%) and the other employees between 20% and 35% (2017: 30%) of their bonus in shares. This equity-settled variable remuneration is measured at fair value and recognised as an increase in equity. The determination of the number of shares is based on the volume weighted average share price of 20 trading days, less a 20% discount for the restriction period. These shares granted have a restriction period of four years. A share based payment plan also exists for members of the Board of Directors. Under this plan, members receive a minimum of 50% of their compensation in shares. This plan has the same features as the one for Group Management.

In 2018, Group Management and certain other employees received for their work in the year 2017 a total of 55‘537 (2017: 41’954 shares) allotted shares at a fair value of CHF 1.0 million (2017: CHF 0.7 million) and CHF 17.22 per share respectively (2017: CHF 17.08). The CEO received a larger portion of his base compensation for his employment 2018 in shares. He was allocated 60'000 shares (2017: 60’000) at a fair value of CHF 1.0 million (2017: CHF 1.0 million) and CHF 16.66 per share respectively (2017: CHF 16.66). A Group Management member received in 2017 for his work 11’292 allotted shares at a fair value of CHF 0.2 million and CHF 16.61 per share respectively. The members of the Board of Directors received for their work from 29 April 2017 up to the Annual General Meeting on 20 April 2018 a total of 24‘557 shares (2017: 30’707 shares) at a fair value of CHF 0.4 million (2017: CHF 0.5 million) and CHF 17.22 per share respectively (2017: CHF 17.08).

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 2018 for share based payments totalled CHF 3.0 million (2017: CHF 2.9 million).

57 Related party transactions

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

	2018	2017
	in 1 000 CHF	in 1 000 CHF
Salaries and other short-term employee benefits	3 204	2 882
Share based payments	1 980	2 149
Pension and social security contributions	793	729
Total	**5 977**	**5 760**

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 82 to 84.

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
			2018		31/12/2018
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel	115	22			
Other related parties	35	4 115	1 323	413	23
Total	**150**	**4 137**	**1 323**	**413**	**23**

	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2017		31/12/2017
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel		41		30	
Other related parties	41	1 482	44	108	
Total	**41**	**1 523**	**44**	**138**	

In 2018, Peter E. Bodmer (non-executive member of the Board of Directors) received a broker's commission of TCHF 115 for his services as broker in the sale of a property in Switzerland. The sale of goods in 2018 relates to Arbonia products acquired at market prices by companies in which two non-executive members of the Board of Directors are members of the Board of Directors and companies owned by Michael Pieper (non-executive member of the Board of Directors). The sale of goods in 2017 related almost exclusively to Arbonia products purchased at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors). The purchase of goods in 2018 relates to purchases of goods at market prices from companies in which a non-executive member of the Board of Directors is a member of the Executive Board. There were no guarantees granted as of the balance sheet date. Furthermore no provisions were required for receivables. Transactions and outstanding balances with associated companies are disclosed in note 36.

Major shareholders as of 31 December 2018 are disclosed in the notes to the 2018 financial statements of Arbonia AG on page 185.

58 Contingencies

There were no contingencies.

59 Events after the balance sheet date

No events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2018 consolidated financial statements.

60 Subsidiaries

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Doors	Services
HVAC Division								
Arbonia Solutions AG	Arbon, CH	4.000 CHF	100%	■	■			
Prolux Solutions AG	Arbon, CH	1.000 CHF	100%	■				
Arbonia HVAC AG	Arbon, CH	0.250 CHF	100%					●
Superia Radiatoren BVBA	Zedelgem, BE	4.498 EUR	100%	▲				
Vasco Group NV	Dilsen-Stokkem, BE	32.500 EUR	100%	■				
Vasco BVBA	Dilsen-Stokkem, BE	20.029 EUR	100%	▲				
LTV Transport NV	Dilsen-Stokkem, BE	0.062 EUR	100%	■				
Kermi s.r.o.	Stribro, CZ	195.000 CZK	100%	▲	▲			
PZP Heating a.s.	Dobre, CZ	7.200 CZK	100%	▲				
Arbonia Riesa GmbH	Riesa, DE	0.614 EUR	100%	■				
Kermi GmbH	Plattling, DE	15.339 EUR	100%	▲	▲			
Vasco Group GmbH	Dortmund, DE	0.077 EUR	100%	■				
Tecnologia de Aislamientos y climatizacion, S.L.	Algete, ES	0.481 EUR	100%	■				
Arbonia France Sàrl	Hagenbach, FR	0.600 EUR	100%	■				
Sabiatherm SAS	Tassin-la-Demi-Lune, FR	0.200 EUR	100%	■				
Vasco Group Sarl	Nogent-sur-Marne, FR	2.000 EUR	100%	■				
Kermi (UK) Ltd.	Corby, GB	0.150 GBP	100%					
Vasco Group Ltd	Horsham, GB	0.025 GBP	100%	■				
Sabiana S.p.A.	Corbetta, IT	4.060 EUR	100%	▲				
Vasco Group Srl	Oderzo, IT	0.485 EUR	100%	■				
Brugman Radiatorenfabriek	Tubbergen, NL	4.000 EUR	100%	▲				
Vasco Group BV	Tubbergen, NL	35.618 EUR	100%	■				
Vasco Group ApS	Kolding, DK	0.500 DKK	100%	■				
Brugman Fabryka	Legnica, PL	20.000 PLN	100%	▲				
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100%	■	■			
Vasco Group SpZoo	Legnica, PL	0.500 PLN	100%	■				
AFG RUS	Moskau, RU	454.500 RUB	100%	▲				
Sanitary Equipment Division								
Bekon-Koralle AG	Dagmersellen, CH	1.000 CHF	100%		▲			
Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H	Margarethen am Moos, AT	0.036 EUR	100%		▲			
Koralle Sanitärprodukte GmbH	Vlotho, DE	2.070 EUR	100%		▲			
Servico-Gesellschaft für Sanitärtechnik mbH	Weissenburg, DE	0.052 EUR	100%		■			

Company	Head Office	Share Capital in million	Interest in Capital	Room Climate	Shower Stalls	Windows	Doors	Services
Windows Division								
EgoKiefer AG	Altstätten, CH	8.000 CHF	100%			▲		
Arbonia Windows AG	Diepoldsau, CH	0.250 CHF	100%					●
Wertbau GmbH	Langenwetzendorf, DE	0.025 EUR	100%			▲		
Wertbau-Elemente GmbH	Langenwetzendorf, DE	0.100 EUR	100%			▲		
Dobroplast Fabryka Okien sp. z o.o.	Zambrow, PL	53.355 PLN	100%			▲		
Slovaktual s.r.o.	Pravenec, SK	0.500 EUR	100%			▲		
Doors Division								
Arbonia Doors AG	Arbon, CH	0.250 CHF	100%					●
RWD Schlatter AG	Roggwil, CH	2.000 CHF	100%				▲	
Prüm-Türenwerk GmbH	Weinsheim, DE	3.500 EUR	100%				▲	
Garant Türen- und Zargen GmbH	Amt Wachsenburg, DE	0.100 EUR	100%				▲	
TPO Holz-Systeme GmbH	Leutershausen, DE	0.025 EUR	100%				▲	
Invado Sp. z o.o.	Dzielna, PL	20.000 PLN	100%				▲	
Coatings								
FLH Holding AG	Arbon, CH	0.650 CHF	100%					●
Schekolin US LLC	Charlotte, US	0.020 USD	100%					
Corporate Services								
Arbonia AG	Arbon, CH	291.800 CHF						●
AFG International AG	Arbon, CH	1.000 CHF	100%					●
AFG Schweiz AG	Arbon, CH	1.000 CHF	100%					●
AFG Immobilien AG	Arbon, CH	12.000 CHF	100%					●
Arbonia Management AG	Arbon, CH	0.250 CHF	100%					●
Arbonia Services AG	Arbon, CH	0.250 CHF	100%					●
AFG (Shanghai) Building Materials Co. Ltd.	Shanghai, CN	2.000 USD	100%					●
AFG Arbonia-Forster-Deutschland GmbH	Plattling, DE	0.511 EUR	100%					●
AFG Middle East Fze.	Dubai, AE	1.000 AED	100%					●

▲ Production / Sales ■ Trade ● Services / Finances

Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arbonia AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 93 to 170) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Valuation of goodwill and intangible assets

Purchase price allocation (PPA) Vasco Group

Implementation of revenue recognition according to IFRS 15

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

Valuation of goodwill and intangible assets

Key Audit Matter

As at 31 December 2018, the carrying amounts of the balance sheet line items “Goodwill” and “Intangible assets” amount to:

- Goodwill CHF 204.1 million
- Intangible assets CHF 209.6 million

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

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

Our response

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

Amongst others, we performed the following audit procedures:

— assessing the forecasting accuracy by back-testing historical forecasts to actual results;

— comparing projected cash flows with the latest forecasts by management and with business plans approved by the board of directors;

— challenging the robustness of the key assumptions used to determine the recoverable amount, including forecast cash flows, margins, growth rates and discount rates by comparing them with publicly available data and our understanding of the commercial prospects of the relevant assets;

— conducting sensitivity analyses, taking into account the historical forecasting accuracy.

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

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

— Note 19 „Intangible assets“, page 110

— Note 20 „Impairment of assets“, page 111

— Note 21 „Estimated useful lives“, page 111

— Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, pages 115 and 116

— Note 39 „Intangible assets“, page 134

Purchase price allocation (PPA) Vasco Group

Key Audit Matter

On 16 May 2018, Arbonia Group acquired control of the Belgian Vasco Group NV ("Vasco Group"). The purchase price amounted to CHF 62 million, and no goodwill has been recognized.

Significant management judgment is involved in the identification and valuation of intangible assets and real estate. Therefore, the accounting for the acquisition of Vasco Group was determined to be a key audit matter.

Our response

We assessed whether the material opening balance sheet items were accounted for in accordance with IFRS 3 "Business Combinations". We used our own valuation specialists to support our procedures.

Amongst others, we performed the following procedures:

- critical reviewing of the purchase agreement;
- assessing the competence and independence of external experts engaged by the Arbonia Group for the purchase price allocation and the valuation of real estate;
- comparing the values of acquired properties with reports of external valuation experts and challenging the key assumptions;
- assessing the appropriateness of the model used in the valuation of the intangible assets, and challenging the robustness of the key valuation parameters, including discount rates, residual useful lives, churn rates and royalty rates by comparing these with publicly available data;
- evaluating the existence, respectively the valuation of other acquired net assets with the support of local audit teams;

Furthermore, we considered the appropriateness of the disclosures in the notes in relation to the acquisition of the Vasco Group.

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

- Note 19 „Intangible assets“, page 110
- Note 21 „Estimated useful lives“, page 111
- Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, pages 115 and 116
- Note 40 „Acquisitions“,section „Acquisitions 2018“, page 137

Implementation of revenue recognition according to IFRS 15

Key Audit Matter

In the financial year 2018, total revenue amounted to CHF 1‘374 million, whereof CHF 1’187 million recognized at a point in time and CHF187 million recognized over time.

Arbonia AG applied the International Financial Reporting Standard (IFRS) 15 as from 1 January 2018 using the modified retrospective method. The core principle of IFRS 15 is that revenue is recognized when a performance obligation is satisfied by transferring control over a promised good or service, in an amount that reflects the expected consideration for those goods or services.

Arbonia Group analyzed the impact of the new standard for all Group entities. Revenue recognition only changed for entities operating in the project business. Previously, revenue had only been recognized once a legally signed acceptance protocol existed. As from the financial year 2018, revenue is recognized in the amount of the expected consideration over the period of the provided services (planning, production, assembly, acceptance). For a large part of Arbonia Group’s revenues, namely those in the resale/commercial business, there was no change in the timing of their recognition.

As the requirements of IFRS 15 have significant impact, also on future periods, and in consideration of the extensive disclosure requirements, we determined the implementation of revenue recognition according to IFRS 15 to be a key audit matter.

Our response

Our procedures included, amongst others, evaluating the amended accounting policies as well as their correct application related to the different revenue streams (resale/commercial business and project business).

Amongst others, we performed the following procedures:

— challenging the applied revenue recognition policy, in particular with regard to the client’s conclusion that for a large part of revenues no change was required;

— analyzing conditions in contracts on a sample basis with respect to the correct determination of the revenue recognition policy based on the applicable five-step model;

— assessing for entities recognizing revenues over time whether the prerequisites are met (i.e. whether the transfer of control takes place over time);

— reconciling contract assets and contract liabilities with detailed statements and evaluating their mathematical accuracy based on the expected sales, expected contract costs and costs incurred;

— for material items of the detailed statements, respectively significant projects: reconciling on a sample basis expected sales with underlying evidence (such as contracts or order confirmations), assessment of budgeted respectively forecasted contract costs and of the amount and appropriate period allocation of costs incurred.

We also assessed the appropriateness of the disclosures in relation to the implementation of revenue recognition according to IFRS 15.

For further information on the implementation of revenue recognition according to IFRS 15 refer to the following:

— Note 2 „General principles and basis of preparation“, paragraph “First time adoption of IFRS 15”, page 102

— Note 29 „Income Statement”, paragraph “Net revenue”; page 113

— Note 30 „Significant accounting judgments, estimates and assumptions“, paragraph “Revenue recognition”, page 115

— Note 31 “Segment information”, page 117

— Note 33 „Accounts receivable/contract balances“, paragraph „Contract balances“ page 122

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2019

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