Consolidated Financial Statements Arbonia Group

Consolidated Income Statement

	Note	2019		2018	
		in 1 000 CHF	in %	in 1 000 CHF	in %
Continuing operations					
Net revenues	31	**1 415 967**	**100.0**	**1 374 007**	**100.0**
Other operating income		17 460	1.2	42 379	3.1
Capitalised own services		7 596	0.5	5 857	0.4
Changes in inventories of semi-finished and finished goods		3 470	0.2	−1 833	−0.1
Cost of material and goods		−638 284	−45.1	−633 737	−46.1
Personnel expenses		−480 075	−33.9	−454 654	−33.1
Other operating expenses		−200 783	−14.2	−201 519	−14.7
EBITDA	31	**125 351**	**8.9**	**130 500**	**9.5**
Depreciation, amortisation and impairments	37-40	−67 005	−4.7	−50 695	−3.7
Amortisation of intangible assets from acquisitions	40	−18 642	−1.3	−18 827	−1.4
EBIT	31	**39 704**	**2.8**	**60 978**	**4.4**
Financial income	51	2 308	0.2	2 889	0.2
Financial expenses	51	−7 718	−0.5	−14 058	−1.0
Group result before income tax		**34 294**	**2.4**	**49 809**	**3.6**
Income tax expense	52	−8 087	−0.6	−11 122	−0.8
Group result from continuing operations		**26 207**	**1.9**	**38 687**	**2.8**
Group result from discontinued operations after taxes	36			**7 339**	**0.5**
Group result		**26 207**	**1.9**	**46 025**	**3.3**
Attributable to:					
Shareholders of Arbonia AG		26 207		46 025	
Earnings per share from continuing operations in CHF	48	0.38		0.56	
Earnings per share from discontinued operations in CHF	48			0.11	
Earnings per share in CHF	48	0.38		0.67	
Basic and diluted earnings are identical.					

The notes on pages 95 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	2019 in 1 000 CHF	2018 in 1 000 CHF
Group result	**26 207**	**46 025**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	−7 440	3 780
Deferred tax effect	2 494	−973
Total items that will not be reclassified to income statement	**−4 947**	**2 807**
Items that may be subsequently reclassified to income statement		
Currency translation differences	−24 966	−28 642
Cumulative currency translation differences transferred to the income statement	111	69
Total items that may be subsequently reclassified to income statement	**−24 855**	**−28 573**
Other comprehensive income after taxes	**−29 802**	**−25 766**
Total comprehensive income	**−3 595**	**20 259**
Attributable to:		
Shareholders of Arbonia AG	−3 595	20 259
Total comprehensive income from continuing operations	−3 595	19 158
Total comprehensive income from discontinued operations		1 101

The notes on pages 95 to 154 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	31/12/2019 in 1 000 CHF	31/12/2019 in %	31/12/2018 in 1 000 CHF	31/12/2018 in %
Assets					
Cash and cash equivalents	32	58 354		70 877	
Accounts receivable	33	124 964		135 490	
Other current assets		30 159		34 198	
Inventories	34	168 938		168 424	
Contract assets	33	25 603		27 968	
Deferred expenses		5 396		6 679	
Current income tax receivables		2 013		2 714	
Financial assets	35	1 629		10 047	
Assets held for sale	36	9 823		237	
Current assets		**426 879**	**27.8**	**456 634**	**30.2**
Property, plant and equipment	37	578 169		577 990	
Right-of-use assets [1]	38	81 113			
Investment property	39	4 134		6 815	
Intangible assets	40	187 305		209 559	
Goodwill	40	197 338		204 068	
Deferred income tax assets	46	8 537		5 664	
Capitalised pension surplus	47	44 683		44 631	
Financial assets	35	6 257		6 487	
Non-current assets		**1 107 536**	**72.2**	**1 055 214**	**69.8**
Total assets		**1 534 415**	**100.0**	**1 511 848**	**100.0**

		31/12/2019		31/12/2018	
	Note	in 1 000 CHF	in %	in 1 000 CHF	in %
Liabilities and shareholders' equity					
Accounts payable		125 844		127 913	
Contract liabilities	33	8 446		6 701	
Other liabilities		29 293		34 200	
Financial debts	42	31 352		23 066	
Lease liabilities[1]	38	13 581		2 617	
Accruals and deferred income		79 955		80 747	
Current income tax liabilities		13 952		12 888	
Provisions	45	17 749		24 864	
Liabilities associated with assets held for sale	36			371	
Current liabilities		**320 172**	**20.9**	**313 367**	**20.7**
Financial debts	42	145 151		151 725	
Lease liabilities[1]	38	48 863		10 540	
Other liabilities		15 577		15 245	
Provisions	45	12 041		12 543	
Deferred income tax liabilities	46	63 420		70 957	
Employee benefit obligations	47	55 941		49 744	
Non-current liabilities		**340 993**	**22.2**	**310 754**	**20.6**
Total liabilities		**661 165**	**43.1**	**624 121**	**41.3**
Share capital	48	291 787		291 787	
Share premium		512 583		526 319	
Treasury shares	49	−4 426		−7 101	
Other reserves	50	−83 187		−58 332	
Retained earnings		156 493		135 054	
Shareholders' equity		**873 250**	**56.9**	**887 727**	**58.7**
Total liabilities and shareholders' equity		**1 534 415**	**100.0**	**1 511 848**	**100.0**

[1] see note 2 "First time adoption of IFRS 16"

The notes on pages 95 to 154 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	2019 in 1 000 CHF	2018 restated [1] in 1 000 CHF
Group result		**26 207**	**46 025**
Depreciation, amortisation and impairments	37–40	85 647	69 522
Profit/loss on disposal of non-current assets and subsidaries	35–38	–1 272	–35 138
Changes in non-cash transactions	55	13 240	15 545
Net interest expense	51	4 664	4 340
Income tax expense	52	8 087	11 122
Changes in working capital	55	9 473	–23 398
Changes in current liabilities	55	–18 854	429
Interest paid		–3 549	–2 522
Interest received		452	78
Income tax paid		–12 296	–16 450
Cash flows from operating activities - net		**111 799**	**69 553**
To investment activities			
Purchases of property, plant and equipment	37	–109 551	–131 627
Purchases of investment properties	39	–61	–8
Purchases of intangible assets	40	–3 361	–3 070
Acquisition of subsidiaries/businesses (net of cash acquired)	41	–1 113	–66 147
Issuance of financial assets	35	–1 782	–14 105
From divestment activities			
Proceeds from sale of property, plant and equipment	37	1 177	22 982
Proceeds from sale of investment properties	39	923	23 205
Proceeds from sale of intangible assets		78	8
Disposal of subsidiaries (net of cash disposed)	36		38 985
Repayment of financial assets		10 263	6 446
Cash flows from investing activities - net		**–103 427**	**–123 331**

	Note	2019 in 1 000 CHF	2018 restated[1] in 1 000 CHF
From financing activities			
Proceeds from financial debts	42/55	78 082	233 672
To financing activities			
Repayments of financial debts	42/55	–70 763	–193 087
Lease liability payments (2018: Finance lease liability payments)	55	–14 436	–2 508
Distribution from capital contribution reserves		–13 736	
Cash flows from financing activities - net		**–20 853**	**38 077**
Effects of translation differences on cash and cash equivalents		–279	–2 348
Change in cash and cash equivalents		**–12 760**	**–18 049**
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	70 877	82 703
Cash and cash equivalents as of 01/01 discontinued operations		237	6 460
Cash and cash equivalents as of 31/12 continuing operations	32	58 354	70 877
Cash and cash equivalents as of 31/12 discontinued operations			237
Change in cash and cash equivalents		**–12 760**	**–18 049**

[1] see note 2 “Changes in presentation – Consolidated Statement of Cash Flows”

The notes on pages 95 to 154 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	Total share-holders' 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
Balance at 01/01/2018		**291 787**	**526 319**	**−8 265**	**−29 759**	**84 270**	**864 352**
Group result						46 025	46 025
Other comprehensive income after taxes	50				−28 573	2 807	−25 766
Total comprehensive income					**−28 573**	**48 832**	**20 259**
Changes in treasury shares	49					1 220	1 220
Share based payments	56			1 164		732	1 896
Total transactions with owners				**1 164**		**1 952**	**3 116**
Balance at 31/12/2018		**291 787**	**526 319**	**−7 101**	**−58 332**	**135 054**	**887 727**
Group result						26 207	26 207
Other comprehensive income after taxes	50				−24 855	−4 947	−29 802
Total comprehensive income					**−24 855**	**21 260**	**−3 595**
Distribution from capital contribution reserves			−13 736				−13 736
Share based payments	56			2 675		179	2 854
Total transactions with owners			**−13 736**	**2 675**		**179**	**−10 882**
Balance at 31/12/2019		**291 787**	**512 583**	**−4 426**	**−83 187**	**156 493**	**873 250**

The notes on pages 95 to 154 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 components 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, Russia, 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 2020 and require approval from the Annual General Meeting on 24 April 2020. The publication of the consolidated financial statements occurred on 25 February 2020 at the media and analyst conference.

2. General principles and basis of preparation

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

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

Amendments to significant published standards

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 2018, except for the adoption of the following new standard, which Arbonia has implemented in 2019:

– IFRS 16 "Leases"

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

First time adoption of IFRS 16

Arbonia has initially adopted IFRS 16 "Leases" for the 2019 financial year. IFRS 16 replaces IAS 17 and sets out the principles governing the recognition, measurement and disclosure of leases. The modified retrospective method was applied for the transition, with the previous year's figures not being restated. The disclosure requirements under IFRS 16 were also not applied to the previous year's figures.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). Payments under operating leases were recognised in the income statement in the other operating expenses as rental expenses on a straight-line basis over the lease term.

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 in the balance sheet. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Arbonia uses the optional exemption not to recognise short-term and low-value leases in the balance sheet, but to recognise the corresponding lease payments as an expense on a straight-line basis over the lease term.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. The carrying amount of the right-of-use asset and the lease liability as of 1 January 2019 for leases classified as finance leases in accordance with IAS 17 was determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

On adoption of IFRS 16, Arbonia recognises leases in the balance sheet which had previously been classified as operating leases under the principles of IAS 17. The new leases recognised as of 1 January 2019 amounted to CHF 55.0 million. The weighted average incremental borrowing rate applied to the lease liabilities initially recognised on 1 January 2019 was 2.0%. The operating lease commitments disclosed as of 31 December 2018, discounted at the incremental borrowing rates, are reconciled as follows to the lease liabilities initially recognised in the balance sheet as of 1 January 2019:

	in 1 000 CHF
Operating leases at 31/12/2018	58 986
Operating leases at 31/12/2018, discounted	54 875
– Short-term leases	–2 641
– Low-value leases	–377
– Different lease term (incl. renewal options)	11 263
– Different lease rate (incl. service rates)	–8 001
– Others	–139
Additional lease liabilities due to first-time adoption of IFRS 16 at 01/01/2019	**54 980**
Finance leases at 31/12/2018	13 157
Total lease liabilities at 01/01/2019	**68 137**

The right-of-use assets were recognised at the amount of the lease liability, which is why the transition to IFRS 16 had no effect on equity.

As a result of the transition to IFRS 16, the lease payments of previous operating leases are no longer charged to the income statement via rental expenses in the other operating expenses, but via depreciation and via interest expenses. In the reporting period, Arbonia recognised depreciation of CHF 11.9 million and interest expenses of CHF 1.0 million from these newly recognised leases.

Published standards that are not yet effective nor adopted early
The published but as of the balance sheet date not yet effective significant new or amended standards will not have a material impact on the Group's financial statements.

Changes in presentation – Consolidated Statement of Cash Flows
Arbonia has made changes to the presentation of the Statement of Cash Flows. Net interest expense, interest paid and received, income tax expense and income tax paid are now shown separately under cash flows from operating activities. As a consequence of this change, differences in assets and liabilities and non-cash items relating to interest activities and taxes have been removed from the items "changes in non-cash transactions", "changes in working capital" and "changes in current liabilities". The comparative figures for 2018 have been adjusted accordingly.

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:

There were no changes in the scope of consolidation in 2019.

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 41).
- As of 24 September 2018, Arbonia acquired 100% of Tecnologia de Aislamientos y climatizacion S.L., ES-Algete (see note 41).

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 unless the consideration is an equity instrument. 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. Investments in associated companies are measured at cost at the time of acquisition and subsequently at the proportionate share of equity.

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	2019		2018	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.0857	1.1127	1.1270	1.1547
GBP	1	1.2773	1.2694	1.2542	1.3055
USD	1	0.9687	0.9938	0.9849	0.9780
CZK	100	4.2728	4.3355	4.3810	4.5050
PLN	100	25.4951	25.8979	26.1858	27.1184
CNY	100	13.8918	14.3962	14.3616	14.8067
RUB	100	1.5658	1.5365	1.4183	1.5622

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. Accounts receivable and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

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 (2), Other financial assets (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.

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 (debt securities) 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), 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.

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, value adjustments are also made for expected losses on 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, an active search for a buyer is taking place 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.

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 not used for more than for minor operational purposes. 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, 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

For the transition to IFRS 16, the modified retrospective method was applied with the previous year's figures not being restated and still disclosed in accordance with IAS 17.

Policy applicable from 1 January 2019

An assessment is made at the beginning of the contract as to whether an agreement constitutes or contains a lease. A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Arbonia uses the optional exemption not to recognise short-term and low-value leases in the balance sheet, but to recognise the corresponding lease payments as an expense on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of future lease payments during the non-cancellable period of the lease. Arbonia uses incremental borrowing rates as discount rates. On initial measurement, the right-of-use asset corresponds to the lease liability plus any dismantling costs, initial direct costs and advance payments. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life and the lease term. If it is intended to exercise a purchase option at the end of the contract period, the asset is depreciated over its useful life. The right-of-use asset is subject to an impairment test if there are indications of impairment.

If the expected lease payments change, e.g. in the case of payments based on an index or due to new estimates regarding contractual options, the lease liability is remeasured. The remeasurement to the lease liability is generally recognised as an adjustment to the related right-of-use asset without affecting the income statement.

Policy applicable until 31 December 2018

Until 31 December 2018, leases of property, plant and equipment where Arbonia has substantially all the risk and rewards of ownership have been classified as finance leases. Finance leases were 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, have been included in finance lease liabilities. Property, plant and equipment acquired under finance leases was depreciated over the shorter of the assets’ useful lives and the lease term unless there was reasonable certainty that ownership will be obtained by the end of the lease term.

Payments made under operating leases were 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. The variable considerations can be reliably measured at the time the performance obligation is fulfilled and are taken into account as sales deductions. 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 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. The variable considerations can be reliably measured at the time the performance obligation is fulfilled and are taken into account as sales deductions. Payment periods customary in the industry are granted unless special payment periods have been agreed. There is therefore no financing component.

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. The allocation of the transaction price to separate performance obligations is not required because of the existence of only one performance obligation in the project business. 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.
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.

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.

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.

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, minority share from associated companies, 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, 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
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 provision
In order to determine the adequacy of the inventory provision, factors such as expected sales prices, inventory turnover and coverage days of inventory are considered. As of 31 December 2019, the carrying amount of inventory was at CHF 168.9 million. Therein a provision for inventories of CHF 21.6 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 2019, the carrying amount of property, plant and equipment totalled CHF 578.2 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 anticipa-

ted. 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 2019, the carrying amount of goodwill was at CHF 197.3 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 40.

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 2019, the carrying amount of intangible assets acquired in a business combination amounted to CHF 175.3 million. For further information on such acquired intangible assets, see note 40.

Provisions
Provisions are recognised based on the criteria as set out under note 22. As of 31 December 2019, the carrying amount of the provisions totalled CHF 29.8 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 45.

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 2019, the underfunding amounted to CHF 11.3 million, thereof CHF 44.6 million recorded in the balance sheet as capitalised pension surplus and CHF 55.9 million as employee benefit obligation. For further information on employee benefit obligation, see note 47.

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 2019, the carrying amount of deferred tax assets before offsetting totalled CHF 34.6 million. For further information on income taxes, see notes 46 and 52.

C Explanation to certain positions of the consolidated financial statements

31. Segment information

Arbonia is organised into the divisions or segments HVAC (Heating, Ventilation and Air Conditioning), Sanitary Equipment, Windows and Doors. 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.

	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group 2019
	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	554 685	143 779	235 840	299 086	1 233 390			1 233 390
Sales with third parties over time			122 295	60 282	182 577			182 577
Sales with other segments			58		58		–58	
Net revenues	**554 685**	**143 779**	**358 193**	**359 368**	**1 416 025**		**–58**	**1 415 967**
Segment results I (EBITDA)	**51 565**	**14 669**	**24 653**	**43 954**	**134 841**	**–9 472**	**–18**	**125 351**
in % of net revenues	*9.3*	*10.2*	*6.9*	*12.2*	*9.5*			*8.9*
Depreciation and amortisation	–23 078	–3 846	–20 772	–14 477	–62 173	–1 659		–63 832
Reversal of impairment on property, plant and equipment			74		74			74
Impairment property, plant and equipment/ right-of-use assets	–1 973		–1 174	–100	–3 247			–3 247
Segment results II (EBITA)	**26 514**	**10 823**	**2 781**	**29 377**	**69 495**	**–11 131**	**–18**	**58 346**
in % of net revenues	*4.8*	*7.5*	*0.8*	*8.2*	*4.9*			*4.1*
Amortisation of intangible assets from acquisitions	–3 794	–1 798	–3 148	–9 901	–18 642			–18 642
Segment results III (EBIT)	**22 720**	**9 025**	**–367**	**19 476**	**50 853**	**–11 131**	**–18**	**39 704**
in % of net revenues	*4.1*	*6.3*	*–0.1*	*5.4*	*3.6*			*2.8*
Interest income	225	46	327	36	634	9 084	–8 876	842
Interest expenses	–4 212	–283	–2 683	–2 412	–9 590	–4 766	8 851	–5 505
Minority share from associated companies			149		149			149
Other financial result	–2 352	–1 009	–1 447	–1 620	–6 428	9 828	–4 296	–896
Result before income tax	**16 381**	**7 779**	**–4 021**	**15 479**	**35 618**	**3 014**	**–4 338**	**34 294**
Income tax expense	–6 436	–1 637	3 474	–4 966	–9 565	1 478		–8 087
Result after income tax	**9 945**	**6 142**	**–547**	**10 513**	**26 053**	**4 492**	**–4 338**	**26 207**
Average number of employees	**2 947**	**811**	**2 823**	**1 961**	**8 543**	**63**		**8 606**
Total assets	**576 504**	**107 640**	**290 004**	**506 788**	**1 480 936**	**1 039 306**	**–985 827**	**1 534 415**
thereof associated companies			2 492		2 492			2 492
Total liabilities	**329 122**	**53 124**	**189 943**	**221 599**	**793 788**	**256 111**	**–388 734**	**661 165**
Purchases of property, plant and equipment, right-of-use assets, investment properties and intangible assets	**53 034**	**8 187**	**18 087**	**40 713**	**120 021**	**2 226**		**122 247**

In the HVAC Division, impairment property, plant and equipment mainly includes an impairment of machinery, as a specific production process was outsourced and therefore these machines can no longer be used. In the Windows Division, the impairment relates to machinery of the plant in Altstätten resulting from the closure and thus decommissioning of production machinery.

								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.

Information about geographical areas

				2019
	Switzerland	Germany	Other Countries	Total Group
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Net revenues	356 324	555 686	503 957	1 415 967
Property, plant and equipment, right-of-use assets, investment properties, intangible assets and goodwill	130 751	499 688	417 620	1 048 059

				2018
	Switzerland	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

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:

	31/12/2019	31/12/2018
	in 1 000 CHF	in 1 000 CHF
CHF	6 644	26 105
EUR	31 190	27 123
PLN	10 703	7 365
CZK	1 784	2 114
RUB	5 216	5 341
USD	295	196
GBP	105	62
Other currencies	2 417	2 571
Total	**58 354**	**70 877**

The effective interest on bank deposits is 0.0% (2018: 0.0%).

33. Accounts receivable/ contract balances

Accounts receivable

	31/12/2019	31/12/2018
	in 1 000 CHF	in 1 000 CHF
Accounts receivable	141 267	150 933
Allowance for accounts receivable	– 16 303	– 15 443
Total	**124 964**	**135 490**
thereof accounts receivable project business	29 551	30 338

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

The ageing analysis is as follows:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Not yet due	101 714	108 314
Overdue up to 30 days	14 421	16 119
Overdue more than 30, less than 60 days	4 078	4 795
Overdue more than 60, less than 90 days	1 580	1 994
Overdue more than 90, less than 180 days	1 397	2 034
Overdue more than 180, less than 360 days	1 278	1 840
Overdue more than 360 days	496	394
Total accounts receivable, net	**124 964**	**135 490**

Outstanding accounts receivable amounting to CHF 18.5 million (2018: CHF 15.6 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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**–10 230**	**–7 077**
Foreign exchange differences	269	322
Changes in scope of consolidation		–1 279
Additional allowances	–2 194	–3 211
Used during year	843	377
Unused amounts reversed	100	637
Balance at 31/12	**–11 212**	**–10 230**

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 2019 the book value of the transferred receivables amounted to CHF 13.6 million (2018: CHF 14.6 million). Thereof Arbonia already received from the factor CHF 11.9 million (2018: CHF 12.7 million) of cash and the difference of CHF 1.7 million (2018: CHF 1.9 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2018: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2018: CHF 0.2 million) are recorded for the consideration of the continuing involvement. The recognised gain for the continuing involvement amounted in 2019 to CHF 0.002 million, the cumulative loss since the inception of the factoring agreement amounted to CHF 0.02 million.

Contract balances

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Contract assets project business	25 603	27 968
Total contract assets	**25 603**	**27 968**
Contract liabilities project business	4 270	1 451
Other advance payments by customers	4 176	5 250
Total contract liabilities	**8 446**	**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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**27 968**	**15 894**
Reclassification of contract assets existing at the beginning of the period to accounts receivable	−24 517	−14 514
Revenue recognition on projects in progress as of the balance sheet date based on percentage of completion	50 715	48 786
Offset against contract liabilities due to partial payments received	−28 563	−22 197
Balance at 31/12	**25 603**	**27 968**

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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**1 451**	**1 827**
Revenue recognised from amounts included in the contract liabilities at the beginning of the period	−1 192	−1 568
Partial payments received for projects in progress at the balance sheet date	32 574	23 390
Offset against contract assets	−28 563	−22 197
Balance at 31/12	**4 270**	**1 451**

In 2019, 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 1 000 CHF	in 1-2 years in 1 000 CHF	after 2 years in 1 000 CHF
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2019	114 477	6 402	2 604
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

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Raw material and supplies	91 236	94 163
Semi-finished and finished goods	70 226	67 250
Goods purchased for resale	7 343	6 927
Prepayments	133	84
Total	**168 938**	**168 424**

A provision of CHF 21.6 million (2018: CHF 20.2 million) has been provided for obsolete and slow-moving items and is deducted from inventories. 2019 and 2018, there are no inventories written down to the net realisable value and no write-downs to net realisable value were recorded.

35. Financial assets

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Investments < 20%	3 685	3 721
Investments in associated companies > 20% < 50%	2 492	2 672
Other financial assets	80	91
Loans	1 629	10 050
Total	**7 886**	**16 534**
thereof disclosed as current assets	1 629	10 047

As of 12 September 2018, Arbonia had 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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**2 672**	**5 786**
Foreign exchange differences	– 97	– 351
Sale of associated companies		– 2 048
Minority share from associated companies	149	– 715
Dividends received	– 232	
Balance at 31/12	**2 492**	**2 672**

As of 14 August 2018, Arbonia had 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 had 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 in 2018 Gaulhofer is only included up to the date of its disposal.

Associated companies – Balance sheet

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Current assets	1 766	2 666
Non-current assets	1 164	1 162
Total assets	**2 930**	**3 828**
Current liabilities	1 876	1 857
Non-current liabilities	190	264
Shareholders' equity	864	1 707
Total liabilities and shareholders' equity	**2 930**	**3 828**

Associated companies - Income statement

	2019 in 1 000 CHF	2018 in 1 000 CHF
Net revenues	12 202	45 218
Group results after taxes	515	– 2 506

Business transactions with associated companies

Sale of goods and services	3 258	3 436
Purchase of goods and services	24	
Receivables at balance sheet date		88
Liabilities at balance sheet date	21	21

Loans
At the beginning of October 2019, KIWI-KI GmbH, DE-Berlin, was granted an interest-bearing convertible loan of EUR 1.5 million, repayable at the end of February 2020. Repayment or conversion is dependent on the conclusion of a new round of financing for the company. Under certain specified conditions and depending on a successful financing round, the loan can be converted at a specified share value.

In July 2018, Arbonia AG granted Arbonia Vorsorge an interest-bearing, repayable loan of CHF 10 million. The loan was fully repaid in the first half of 2019.

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.

The ageing analysis for loans is as follows:

	31/12/2019	
	Gross amount loans	thereof not impaired
	in 1 000 CHF	in 1 000 CHF
Not yet due	1 629	1 629
Overdue more than 360 days	3 000	
Total	**4 629**	**1 629**

	31/12/2018	
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**

As of the balance sheet date, Arbonia has no secured loans (2018: CHF 0.0 million).

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

	2019	2018
	in 1 000 CHF	in 1 000 CHF
Balance at 01/01	**– 3 000**	**– 4 754**
Foreign exchange differences		22
Used during year		231
Unused amounts reversed		1 982
Reclassification to other current assets		– 481
Balance at 31/12	**– 3 000**	**– 3 000**

In the impairment of loans, specific impairments of CHF 3.0 million (2018: CHF 3.0 million) are included. This loan, which has been fully impaired, stems from the sale of the kitchen division in 2014.

36. Non-current assets held for sale and discontinued operations

In 2019, one investment property in Germany and one production property in Belgium with a net book value of CHF 9.8 million were reclassified, as these two properties are expected to be sold in the first half of 2020.

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.

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.

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 in 2017 was paid on time. This cash inflow is contained in the cash flow statement under disposal of subsidiaries.

Result from discontinued operations

	2018
	in 1 000 CHF
Net revenues	
Other operating expenses	– 303
EBITDA	**– 303**
Depreciation, amortisation and impairments	
EBIT	**– 303**
Financial result	23
Result from discontinued operations before income tax	**– 280**
Income tax expense	411
Result from discontinued operations	**131**
Gain on disposal of discontinued operations	7 208
Net result from discontinued operations	**7 339**

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.

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
	in 1 000 CHF
Cash flows from operating activities	**–1 598**
Cash flows from investing activities	**28**
Cash flows from financing activities	

The cash inflows from the segments sold in 2017 and 2018 are not 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 01/01/2018	**237 300**	**160 395**	**17 812**	**55 546**	**471 053**
Cost					
Balance at 01/01/2018	**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**
Reclassification financial lease from property, plant and equipment to right-of-use assets[1]	– 27 460	– 7 005	– 3 849		– 38 314
Balance at 01/01/2019	**355 689**	**441 839**	**56 696**	**108 499**	**962 723**
Foreign exchange differences	– 10 676	– 12 899	– 1 300	133	– 24 742
Change in scope of consolidation		– 1	– 326		– 327
Additions	14 341	25 978	4 934	64 298	109 551
Disposals	– 448	– 26 297	– 1 907	– 3 530	– 32 182
Reclassification to assets held for sale	– 8 203				– 8 203
Reclassifications	25 429	61 646	– 1 300	– 89 909	– 4 134
Balance at 31/12/2019	**376 132**	**490 266**	**56 797**	**79 491**	**1 002 686**

	Land and buildings in 1 000 CHF	Plant and machinery in 1 000 CHF	Other equipment in 1 000 CHF	Prepayments and assets under construction in 1 000 CHF	Total in 1 000 CHF
Accumulated depreciation					
Balance at 01/01/2018	**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**
Reclassification financial lease from property, plant and equipment to right-of-use assets[1]	–3 989	–1 164	–1 388		–6 541
Balance at 01/01/2019	**103 522**	**258 936**	**39 532**	**14 516**	**416 506**
Foreign exchange differences	–3 357	–7 123	–903	367	–11 016
Change in scope of consolidation		–1	–326		–327
Depreciation	9 495	30 463	5 296	160	45 414
Impairment	156	2 991			3 147
Reversal of impairment		–54	–20		–74
Disposals	–425	–25 951	–1 745	–154	–28 275
Reclassification to assets held for sale	–641				–641
Reclassifications	383	16 714	–2 431	–14 883	–217
Balance at 31/12/2019	**109 133**	**275 975**	**39 403**	**6**	**424 517**
Net book value at 31/12/2018	**275 638**	**188 744**	**19 625**	**93 983**	**577 990**
Net book value at 01/01/2019	**252 167**	**182 903**	**17 164**	**93 983**	**546 217**
Net book value at 31/12/2019	**266 999**	**214 291**	**17 394**	**79 485**	**578 169**

[1] see note 2 “First time adoption of IFRS 16”

In addition to other smaller disposals, a property in Switzerland had been 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 had been acquired via finance lease. In 2018, assets under construction included CHF 0.8 million of capitalised borrowing costs. Borrowing costs of CHF 2.0 million capitalised in 2019 are included in land and buildings and plant and machinery.

Capital commitments
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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Property, plant and equipment	19 783	27 162
Intangible assets	489	238
Total	**20 272**	**27 400**

Land and buildings amounting to CHF 51.0 million (2018: CHF 53.0 million) are pledged to secure mortgages.

38. Leasing

Arbonia leases various assets, including buildings, machinery, vehicles, tools and IT equipment. The lease conditions are negotiated individually and contain a variety of different conditions. The rights-of-use assets in connection with these leases are as follows:

	Right-of-use buildings	Right-of-use plant and machinery	Right-of-use other equipment	Total
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Cost				
Balance at 31/12/2018				
Reclassification financial lease from property, plant and equipment to right-of-use assets [1]	27 460	7 005	3 849	38 314
Additional right-of-use assets due to first time adoption of IFRS 16 [1]	45 480	969	8 532	54 980
Balance at 01/01/2019	**72 940**	**7 973**	**12 381**	**93 294**
Foreign exchange differences	– 867	– 662	– 462	– 1 991
Additions	2 320	1 073	5 881	9 274
Disposals	– 446	– 37	– 456	– 939
Remeasurement	917	– 2	– 120	795
Balance at 31/12/2019	**74 864**	**8 345**	**17 224**	**100 433**
Accumulated depreciation				
Balance at 31/12/2018				
Reclassification financial lease from property, plant and equipment to right-of-use assets [1]	3 989	1 164	1 388	6 541
Balance at 01/01/2019	**3 989**	**1 164**	**1 388**	**6 541**
Foreign exchange differences	– 82	– 203	– 198	– 483
Depreciation	7 622	1 154	5 000	13 776
Impairment	100			100
Disposals	– 270	– 4	– 340	– 614
Balance at 31/12/2019	**11 359**	**2 111**	**5 850**	**19 320**
Net book value at 31/12/2018				
Net book value at 01/01/2019	**68 950**	**6 810**	**10 993**	**86 753**
Net book value at 31/12/2019	**63 505**	**6 234**	**11 374**	**81 113**

[1] see note 2 "First time adoption of IFRS 16"

Other operating expenses include the following expenses in connection with leases:

	2019 in 1 000 CHF
Expenses relating to short-term leases	3 652
Expenses relating to leases of low-value assets (excluding short-term leases)	612
Expenses for variable lease payments	682
Total	**4 946**

In 2018, the income statement contained expenses for operating leases of CHF 20.0 million.

Total cash outflows for leases amounted to CHF 21.0 million in 2019.

Some of Arbonia's rental leases include renewal options. The determination of the lease term of these leases requires judgement. The assessment of whether it is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. In its assessment, Arbonia considers the facts and circumstances that create an economic incentive to exercise such options. The assessment is reviewed if a significant event or a significant change in circumstances occurs. As of 31 December 2019, possible future cash outflows of CHF 1.8 million were not included in the lease liability as it is not reasonably certain that the lease agreements will be renewed.

In 2018, Arbonia had 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**	

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

In 2018, the maturities of the net present value from finance leases had been as follows:

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

39. Investment property

	Investment property – land in 1 000 CHF	Investment property – buildings in 1 000 CHF	Total in 1 000 CHF
Net book value at 01/01/2018	**10 784**	**2 723**	**13 507**
Cost			
Balance at 01/01/2018	**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**
Foreign exchange differences	– 6	– 27	– 33
Additions		61	61
Reclassification to assets held for sale	– 445	– 2 294	– 2 739
Balance at 31/12/2019	**4 389**	**25 705**	**30 094**
Accumulated depreciation			
Balance at 01/01/2018	**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**
Depreciation		203	203
Reclassification to assets held for sale		– 233	– 233
Balance at 31/12/2019	**499**	**25 461**	**25 960**
Net book value at 31/12/2018	**4 341**	**2 474**	**6 815**
Net book value at 31/12/2019	**3 890**	**244**	**4 134**
Fair values of investment properties at 31/12/2018			**14 006**
Fair values of investment properties at 31/12/2019			**11 302**

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 1.6 million (2018: CHF 2.8 million) and is included in other operating income. Related direct operating expenses were CHF 0.3 million (2018: CHF 0.7 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.

40. 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 01/01/2018	**201 515**	**7 463**	**208 978**	**212 118**
Cost				
Balance at 01/01/2018	**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**
Foreign exchange differences	– 8 511	– 623	– 9 134	– 6 730
Change in scope of consolidation		– 33	– 33	
Additions		3 361	3 361	
Disposals		– 2 159	– 2 159	
Reclassifications		3 917	3 917	
Balance at 31/12/2019	**291 583**	**46 344**	**337 927**	**278 054**
Accumulated amortisation				
Balance at 01/01/2018	**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**
Foreign exchange differences	– 2 265	– 413	– 2 678	
Change in scope of consolidation		– 33	– 33	
Amortisation	18 642	4 437	23 079	
Disposals		– 2 162	– 2 162	
Balance at 31/12/2019	**116 267**	**34 355**	**150 622**	**80 716**
Net book value at 31/12/2018	**200 204**	**9 355**	**209 559**	**204 068**
Net book value at 31/12/2019	**175 316**	**11 989**	**187 305**	**197 338**

Of the intangible assets from business combinations, CHF 88.8 million (2018: CHF 102.9 million) relates to customer relationships, CHF 68.5 million (2018: CHF 77.4 million) to brands and CHF 14.5 million (2018: CHF 15.8 million) to technologies.

Expenses for research and development in the amount of CHF 15.3 million (2018: CHF 15.2 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. In 2018, the assets under construction of property, plant and equipment included capitalised development costs of CHF 0.9 million. The additions under other intangible assets consist of CHF 0.3 million (2018: CHF 0.8 million) of own development costs and CHF 3.1 million (2018: CHF 2.3 million) of purchased or acquired items.

Goodwill

As of 31 December 2019 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 31/12/2018	**146 579**	**14 647**	**3 249**	**24 601**	**14 992**	**204 068**
Foreign exchange differences	– 5 162		– 119	– 901	– 548	– 6 730
Balance at 31/12/2019	**141 417**	**14 647**	**3 130**	**23 700**	**14 444**	**197 338**

Goodwill Impairmenttests 2019

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 2019 and were used for the impairment tests.

The value in use calculation for the annual 2019 impairment tests assumed the following key assumptions:

	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
	in %	in %	in %	in %	in %
Budgeted gross margin	56.2	66.7	47.6	41.7	40.7
Growth rate	1.7	1.8	1.5	1.8	1.5
Discount rate	8.6	8.1	9.1	10.1	8.3

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 2019 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 56.2% to 54.2% would result in an impairment of the CGU

Doors amounting to CHF 48.1 million. At a budgeted gross margin of 55.1%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.7% to 1.2% would lead to an impairment of CHF 31.2 million. At a reduction of 7.2% in EBITDA and a simultaneous reduction of eternal growth to 1.4%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2018
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 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 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 have resulted in an impairment of the CGU Doors amounting to CHF 59.1 million. At a budgeted gross margin of 54.3%, the recoverable amount would have been equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.6% to 1.1% would have led 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 would have been equal to their carrying amount.

41. Acquisitions
The following fair value of assets and liabilities had arisen from acquisitions in 2018 as mentioned under note 3:

Acquisitions 2018

Vasco Group

	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 was 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 for the reporting period 2018. This result included 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 were 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 was allocated to the HVAC Division. The purchase price amounted to CHF 11.0 million which included a deferred purchase price payment of CHF 2.3 million. A first tranche of CHF 1.1 million matured and was paid on 30 September 2019, a second tranche of CHF 0.5 million will mature 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 in the reporting period 2018. Had the acquisition taken place on 1 January 2018, net revenues for 2018 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 were included in operating expenses in 2018.

42. Financial debts

On 20 April 2018, Arbonia had 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.

The financial debts are comprised of the following:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Promissory note loan	135 713	140 875
Syndicated loan	30 000	20 000
Mortgages	10 115	11 553
Bank loans	675	2 362
Total	**176 503**	**174 790**

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 2019 and 2018.

The maturities of the financial debts are as follows:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
within 1 year	31 352	23 066
between 1 and 5 years	69 538	72 181
after 5 years	75 613	79 543
Total	**176 503**	**174 790**

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

	31/12/2019	
	CHF	EUR
Financial debts	1.3%	1.7%

	31/12/2018	
	CHF	EUR
Financial debts	1.0%	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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
CHF	30 000	20 000
EUR	146 503	154 791
Total	**176 503**	**174 790**

43. Financial instruments

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

							31/12/2019
	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	125 844	125 844	125 265	579			
Other liabilities (without derivatives)	17 002	22 965	1 826	9	1 103	27	20 000
Lease liabilities	62 444	68 274	7 582	7 131	11 970	23 774	17 817
Accruals and deferred income	46 868	46 868	46 102	766			
Financial debts	176 503	189 587	33 531	1 158	3 316	74 916	76 666
Derivative financial instruments							
Interest rate swaps	1 565						
Cash outflow		1 565	142	136	249	576	462
Forward foreign exchange contracts	189						
Cash outflow		– 23 612	– 23 612				
Cash inflow		23 423	23 423				
Total	**430 415**	**454 914**	**214 259**	**9 779**	**16 638**	**99 293**	**114 945**

							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**

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.

44. Additional disclosures on financial instruments

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 shown in the following table. The table does not contain information on fair value for financial assets and financial liabilities that are not measured at fair value if the carrying amount is a reasonable approximation of fair value. Similarly, no information is required on the fair value of lease liabilities.

							31/12/2019
	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value	Fair value	
						Level 2	Level 3
	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
Cash and cash equivalents		58 354			58 354		
Accounts receivable		124 964			124 964		
Other current assets		3 605			3 605		
Deferred expenses		3 785			3 785		
Investments < 20%	3 685				3 685		3 685
Other financial assets		80			80		
Loans	1 629				1 629		1 629
Assets	**5 314**	**190 788**			**196 102**		
Accounts payable				125 844	125 844		
Derivative financial instruments			1 754		1 754	1 754	
Other liabilities (without derivatives)				17 002	17 002		
Lease liabilities				62 444	62 444		
Accruals and deferred income				46 868	46 868		
Promissory note loan				135 713	135 713	139 086	
Syndicated loan				30 000	30 000		
Loans				675	675		
Mortgages				10 115	10 115	11 680	
Liabilities			**1 754**	**428 661**	**430 415**		

							31/12/2018
	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value	Fair value	
						Level 2	Level 3
	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
Cash and cash equivalents		70 877			70 877		
Accounts receivable		135 490			135 490		
Other current assets		6 563			6 563		
Deferred expenses		3 428			3 428		
Investments < 20%	3 721				3 721		3 721
Other financial assets		91			91		
Loans		10 050			10 050		
Assets	**3 721**	**226 499**			**230 220**		
Accounts payable				127 913	127 913		
Derivative financial instruments			1 787		1 787	1 787	
Other liabilities (without derivatives)				28 524	28 524		
Finance lease liabilities				13 157	13 157		
Accruals and deferred income				45 360	45 360		
Promissory note loan				140 875	140 875	143 121	
Syndicated loan				20 000	20 000		
Loans				2 362	2 362		
Mortgages				11 553	11 553	13 261	
Liabilities			**1 787**	**389 744**	**391 530**		

Abbreviations in the header of this table are explained in note 9 "Financial Instruments" on page 98.

The derivative financial instruments measured at fair value through profit or loss relate to interest rate and currency swap transactions. The fair value 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. KIWI-KI GmbH was granted a convertible loan at the beginning of October 2019, which is also measured at fair value through profit or loss. The fair value as at 31 December 2019 corresponds to the original purchase price of CHF 3.7 million or the original loan amount of EUR 1.5 million.

In 2019 and 2018, no gains/losses resulted from level 3 financial instruments. Furthermore, no reclassifications occurred between the levels 1 and 2.

45. 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 01/01/2018	**13 338**	**8 874**	**4 173**	**239**	**4 212**	**30 836**
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**
Foreign exchange differences	– 350	– 323	– 101		– 53	– 827
Additional provisions	10 126	1 803	4 753	794	1 028	18 504
Used during the year	– 8 852	– 2 189	– 9 399	– 514	– 1 878	– 22 832
Unused amounts reversed	– 523	– 826	– 683	– 33	– 397	– 2 462
Balance at 31/12/2019	**14 464**	**8 531**	**2 464**	**340**	**3 991**	**29 790**
thereof current at 31/12/2018	8 973	3 802	7 894	93	4 102	24 864
thereof current at 31/12/2019	9 523	2 537	2 464	340	2 885	17 749

The current provision is expected to be fully utilised during 2020. The non-current provision is expected to be utilised as follows:

	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
between 1 and 5 years	4 934	4 477			158	**9 569**
after 5 years	8	1 516			948	**2 472**

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 2018, the restructuring provision still comprised costs amounting to CHF 7.9 million in connection with the restructuring programme announced on 3 March 2015 for the windows business in Switzerland and the relocation of production and closure of a site in Belgium announced by the HVAC Division at the end of November 2018. On 20 March 2019, the HVAC Division announced a further reorganisation of areas of production at the Dilsen (BE) site. In the reporting period, costs of CHF 9.4 million incurred for these restructuring measures were booked against the provision and CHF 0.7 million were released to income as a result of voluntary staff departures and risk reduction measures. It is assumed that the restructuring of the HVAC businesses will be completed by summer 2020 and that of the window business by the end of 2020.

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

46. 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:

	31/12/2019		31/12/2018	
	Deferred tax assets in 1 000 CHF	Deferred tax liabilities in 1 000 CHF	Deferred tax assets in 1 000 CHF	Deferred tax liabilities in 1 000 CHF
Assets				
Cash and cash equivalents				1
Accounts receivable	1 170	196	905	188
Other current assets	1	226	348	824
Inventories	2 179		2 634	
Contract assets project business			181	
Non-current assets held for sale		2 456		
Property, plant and equipment and right-of-use assets	269	28 525	44	25 333
Investment property	498		64	201
Intangible assets	396	45 033	47	51 656
Capitalised pension surplus and financial assets		8 311	18	9 279
Liabilities				
Current liabilities	6 448	3 076	6 877	3 154
Non-current liabilities	5 684	1 239	10	854
Current and non-current provisions	1 284	395	1 154	470
Employee benefit obligations	8 864		7 064	5
Deferred taxes from timing differences	**26 793**	**89 457**	**19 346**	**91 965**
Deferred tax assets derived from tax loss carryforwards	15 640		18 789	
Valuation allowance	– 7 859		– 11 463	
Net deferred taxes from timing differences	**34 574**	**89 457**	**26 672**	**91 965**
Offset of deferred tax assets and liabilities	– 26 037	– 26 037	– 21 008	– 21 008
Total deferred taxes	**8 537**	**63 420**	**5 664**	**70 957**

From the capitalised pension surplus and employee benefit obligations, CHF 2.5 million (2018: CHF 1.0 million) of deferred taxes were recorded in comprehensive income. All other changes of assets and liabilities were recorded through the income statement.

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

There are temporary differences totalling CHF 63.5 million (2018: CHF 80.4 million) in conjunction with investments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12. There are also deductible temporary differences of CHF 0.2 million (2018: CHF 1.2 million) on which no deferred tax assets have been recognised.

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**65 293**	**59 838**
Change in scope of consolidation		10 538
Changes to other comprehensive income	– 2 495	982
Changes to the income statement	– 6 155	– 3 632
Foreign exchange differences	– 1 760	– 2 433
Balance at 31/12	**54 883**	**65 293**

Unrecognised tax loss carryforwards	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Tax loss carryforwards	125 146	173 905
thereof recognised as deferred taxes	–50 758	–48 925
Unrecognised tax loss carryforwards	**74 388**	**124 980**
Portion expiring:		
within 1 year	150	599
between 1 and 5 years	61 061	112 084
after 5 years	13 177	12 297
Total	**74 388**	**124 980**

Tax effect on unrecognised tax loss carryforwards	**7 860**	**11 462**
thereof pertaining to tax rates below 15%	4 911	8 788
thereof pertaining to tax rates between 15% and 20%		1 629
thereof pertaining to tax rates between 21% and 25%	97	65
thereof pertaining to tax rates between 26% and 30%	2 852	980

47. 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 participated in a multi-employer plan until the end of 2018 and bought into the semi-autonomous pension plan at the beginning of 2019. 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 could 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. The pension assets in the multi-employer plan were invested and managed by the insurance companies.

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 had to be carried out. The staff reductions in the Swiss windows business 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:

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Present value of funded obligations	308 231	294 327
Fair value of plan assets	351 394	338 579
Overfunding	**–43 163**	**–44 251**
Present value of unfunded obligations	54 421	49 364
Liability (net) recognised in the balance sheet	**11 258**	**5 113**
thereof recorded as employee benefit obligations	55 941	49 744
thereof recorded as capitalised pension surplus	–44 683	–44 631

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**343 692**	**352 041**
Changes in scope of consolidation		6 621
Interest cost	3 408	3 280
Current service cost	8 734	8 676
Past service cost	106	–8 109
Contributions by plan participants	4 759	4 498
Benefits paid	–12 124	–24 134
Actuarial losses arising from changes in demographic assumptions		396
Actuarial losses/gains arising from changes in financial assumptions	26 891	–373
Actuarial gains/losses arising from experience adjustements	–5 096	2 050
Settlements/partial liquidation	–5 773	–6 493
Administration cost	141	166
Reclassification from liabilities associated with assets held for sale		7 368
Foreign exchange differences	–2 086	–2 294
Balance at 31/12	**362 652**	**343 692**
thereof for active members	218 815	206 576
thereof for pensioners	137 582	134 136
thereof for deferred members	6 255	2 981

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Balance at 01/01	**338 579**	**329 885**
Changes in scope of consolidation		5 918
Interest income	2 739	2 561
Return on plan assets excl. interest income	14 354	−385
Contributions by the employer	7 761	10 531
Contributions by plan participants	4 759	4 498
Benefits paid	−12 101	−24 129
Settlements/partial liquidation	−4 485	−5 253
Reclassification from assets held for sale		15 301
Foreign exchange differences	−211	−349
Balance at 31/12	**351 394**	**338 579**

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Actuarial losses	21 795	2 073
Actuarial gains from discontinued operations		−6 239
Return on plan assets excl. interest income	−14 355	385
Remeasurements of employee benefit obligations	**7 440**	**−3 780**

The amounts recognised in the income statement are as follows:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Current service cost	8 734	8 676
Past service cost	106	–8 109
Net interest result	669	718
Administration cost	141	166
Settlements/partial liquidation	–1 288	–1 240
Net charges for defined benefit plans	**8 362**	**211**
thereof recorded under personnel expenses	7 693	–507
thereof recorded under financial expenses	669	718

The principal actuarial assumptions used were as follows:

Weighted average		2019	2018
Discount rate at 31/12		0.4%	1.0%
Future salary increases		1.1%	1.1%
Future pension increases		0.3%	0.2%
Mortality tables	Switzerland	BVG 2015 GT	BVG 2015 GT
	Germany	HB 2018 GT	HB 2018 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	2019	2018
Discount rate	–0.25%	14 354	12 985
	+0.25%	–13 385	–12 127
Salary increases	–0.25%	–1 418	–1 167
	+0.25%	1 431	1 180
Life expectancy	+1 year	10 469	9 013
	–1 year	–10 552	–9 146
Service cost 2020 with discount rate	+0.25%	–646	–547

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

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

Plan assets at fair value consist of:

	quoted	unquoted	31/12/2019 Total	quoted	unquoted	31/12/2018 Total
Cash and cash equivalents		25 883	25 883		13 689	13 689
Equity instruments	95 980		95 980	81 711		81 711
Debt instruments	58 505		58 505	63 398		63 398
Real estate	6 388	134 534	140 922	5 763	128 760	134 523
Others	24 629	5 475	30 104	30 070	15 188	45 258
Total plan assets	**185 502**	**165 892**	**351 394**	**180 942**	**157 637**	**338 579**

Plan assets invested in Swiss multi-employer plans were allocated to the category "Others" in 2018. 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 in 1 000 CHF	between 1 and 2 years in 1 000 CHF	between 2 and 5 years in 1 000 CHF	next 5 years in 1 000 CHF
Benefit payments	1 296	1 449	4 971	10 036

Expected contributions to pension plans for the year 2020 amount to CHF 11.9 million (2019: CHF 11.6 million), of which CHF 7.3 million (2019: CHF 7.1 million) are attributable to the employer.

48. Share capital

The capital structure is as follows:

			31/12/2019			31/12/2018
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 2019 financial year amounts to CHF 0.22 (2018: CHF 0.20).

On 20 April 2018, the Annual General Meeting of Arbonia AG had 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.

Earnings per share	2019 in 1 000 CHF	2018 in 1 000 CHF
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	26 207	38 686
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)		7 339
Group earnings for the year (in 1 000 CHF)	26 207	46 025

	2019	2018
Outstanding shares (average)	69 473 243	69 473 243
Less treasury shares (average)	−638 438	−881 053
Average number of shares outstanding for the calculation	**68 834 805**	**68 592 190**

There were no dilutive effects impacting the calculation.

49. Treasury shares

			2019			2018
	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**	**854 054**	**7 101**	**8.31**	**994 148**	**8 265**
Transfer for share based payments	8.31	−321 674	−2 674	8.31	−140 094	−1 164
Balance at 31/12	**8.31**	**532 380**	**4 426**	**8.31**	**854 054**	**7 101**

50. Other comprehensive income and other reserves

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

	Other reserves in 1 000 CHF	Retained earnings in 1 000 CHF	Total other comprehen-sive income 31/12/2019 in 1 000 CHF	Other reserves in 1 000 CHF	Retained earnings in 1 000 CHF	Total other comprehen-sive income 31/12/2018 in 1 000 CHF
Remeasurements of employee benefit obligations		−7 440	−7 440		3 780	3 780
Deferred tax effect		2 494	2 494		−973	−973
Total items that will not be reclassified to income statement		**−4 947**	**−4 947**		**2 807**	**2 807**
Currency translation differences	−24 966		−24 966	−28 642		−28 642
Cumulative currency translation differences transferred to the income statement	111		111	69		69
Total items that may be subsequently reclassified to income statement	**−24 855**		**−24 855**	**−28 573**		**−28 573**
Other comprehensive income after taxes	**−24 855**	**−4 947**	**−29 802**	**−28 573**	**2 807**	**−25 766**

Other reserves

	Currency translation in 1 000 CHF	Total in 1 000 CHF
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**
Currency translation differences	−24 855	−24 855
Balance at 31/12/2019	**−83 187**	**−83 187**

51. Financial results

	2019 in 1 000 CHF	2018 in 1 000 CHF
Financial income		
Bank and other interest	480	242
Interest on net pension surplus	362	317
Total interest income	**842**	**559**
Impact of exchange rate fluctuations	1 202	
Income from securities	2	1
Gains derivative financial instruments	1	150
Minority share from associated companies	149	
Foreign currency exchange gain from sale/liquidation of subsidiaries	112	
Foreign currency exchange gain from sale of associates		185
Other financial income		1 994
Total other financial income	**1 466**	**2 330**
Total financial income	**2 308**	**2 889**
Financial expenses		
Bank and other interest	688	428
Interest on leases (2018: Interest on finance leases)	1 657	600
Interest on non-current financial debts and syndicated loan	1 263	1 939
Interest on net employee benefit obligations	1 032	1 035
Compounding of liabilities	865	897
Total interest expenses	**5 505**	**4 899**
Impact of exchange rate fluctuations		4 955
Losses derivative financial instruments	31	224
Minority share from associated companies		715
Impairment on loans/ financial assets	31	290
Bank charges and other financial expenses	2 151	2 975
Total other financial expenses	**2 213**	**9 159**
Total financial expenses	**7 718**	**14 058**
Total net financial results	**–5 410**	**–11 169**

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

	2019 in 1 000 CHF	2018 in 1 000 CHF
Total interest income from financial assets measured at amortised cost (FA AC)	480	242
Total interest expenses from financial liabilities measured at amortised cost (FL AC)	4 473	3 864
Net gain from financial assets/ liabilities measured at fair value through profit or loss (FA/ FL FVTPL)	−28	−73
Impairment expenses recognised in financial expenses from financial assets measured at amortised cost (FA AC)	31	
Finance costs recognised in financial expenses from financial assets/ liabilities measured at amortised cost (FA/ FL AC)	2 112	2 837

52. Income taxes

	2019 in 1 000 CHF	2018 in 1 000 CHF
Current income taxes	14 242	14 754
Changes in deferred income taxes	−6 155	−3 632
Total	**8 087**	**11 122**

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:

	2019 in 1 000 CHF	2018 in 1 000 CHF
Earnings before income tax	**34 294**	**49 809**
Weighted average tax rate in %	23.7	22.4
Expected tax expense	**8 144**	**11 141**
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	−2 747	−691
Effect of not capitalised losses for the year	1 989	83
Effect of non-tax-deductible expenses and non-taxable income	2 328	258
Effect of income and expenses taxed at special rates	−39	1 293
Effect of tax charges related to prior years	−140	496
Effect of tax rate changes	−773	−207
Change in unrecognised deferred tax assets	−619	−1 156
Other items	−56	−95
Effective tax expense	**8 087**	**11 122**
Effective tax rate in %	23.6	22.3

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

The expected weighted average tax rate increased slightly compared to previous year. There were no significant changes in local tax rates compared to 2018.

Swiss Tax Reform
The Swiss public voted on 19 May 2019 to adopt the Federal Act on Tax Reform. The Federal Act enters into force on 1 January 2020. The cantons implement the reform autonomously according to their needs. In the canton of St. Gallen, the cantonal tax submission has already been passed during the reporting period and enters into force on 1 January 2020. The tax submission includes, among other things, a reduction in income tax rate from 17.4% to 14.5%. This reduction was already taken into account in the reporting period for the Arbonia companies domiciled in the canton of St. Gallen, but the effects were insignificant.

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, damage to reputation 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 the Divisions.

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 relates to financial assets (see note 44) as well as to contract assets (see note 33).

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 as of the balance sheet date accounted for a share of 31.3% (2018: 26.7%) of existing trade receivables. The 10 largest customers generated 18.4% (2018: 18.8%) 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 61%/9%/7% of total liquid funds as of the balance sheet date (2018: 36%/21%/15%).

The maximum credit risk corresponds to the book values or fair values reported in note 44 for the financial asset categories "at fair value through profit and loss" (FA FVTPL) and "at amortised cost" (FA AC). If applicable, these include derivative financial instruments having a positive fair value.

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

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

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

	31/12/2019 in 1 000 CHF	31/12/2018 in 1 000 CHF
Cash and cash equivalents	58 354	71 114
+ undrawn credit facilities	332 093	342 108
Total available liquidity	**390 447**	**413 222**

The syndicated loan includes covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2019 and 2018, 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 43.

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 that are not settled in the functional currency of the Group companies. The standard policy is that subsidiaries must hedge 80% 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 (2018: 5%), a 5% increase (decrease) of the CZK against the CHF (2018: 5%) or a 5% increase (decrease) of the PLN against the CHF (2018: 5%) would have the following effects on Arbonia's Group earnings as of the balance sheet date:

	31/12/2019		
	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	2 029	671	561
Impact of a decrease on group earnings	– 2 029	– 671	– 561

	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

(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 with the prior approval of the Group CFO. 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 by group treasury and only upon consultation with or according to the instruction of Group CFO.

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 (2018: 50 basis points) or by 50 basis points for EUR interest rates (2018: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

	31/12/2019	
	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	– 108	143
Impact of a decrease on group earnings	108	– 143
Interest rate swaps		
Impact of an increase on group earnings		204
Impact of a decrease on group earnings		– 204

	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

(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 corresponds to an equity ratio of 56.9% as of the balance sheet date (2018: 58.7%). The slight decrease in the equity ratio compared to the previous year is due to higher total assets as a result of the first-time adoption of IFRS 16 "Leases". Furthermore, currency translation differences due to the stronger CHF and the distribution to shareholders had a reducing effect on equity.

With regard to the maximum amount still available for the creation of new share capital through a conditional and/or authorised capital increase, see note 48.

The syndicated loan includes covenants. One of these covenants prescribes a minimum equity ratio (see also note 42). 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:

	31/12/2019	31/12/2018
	in 1 000 CHF	in 1 000 CHF
Liabilities		
Interest rate swaps without hedges	1 565	1 575
Forward foreign exchange contracts without hedges	189	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

	2019 in 1 000 CHF	2018 restated[1] in 1 000 CHF
Changes in non-cash transactions		
Additional/reversed provisions	15 655	16 120
Changes in capitalised pension surplus/employee benefit obligations	31	– 12 724
Share based payments	2 854	3 115
Impairment on financial assets	34	– 180
Minority share from associated companies	– 149	715
Other non-cash effects	– 5 185	8 500
Total changes in non-cash transactions	**13 240**	**15 545**
Changes in working capital		
Changes in accounts receivable	7 990	6 782
Changes in inventories	– 5 862	– 13 041
Changes in contract assets project business	2 366	– 12 306
Changes in other working capital items	4 979	– 4 833
Total changes in working capital	**9 473**	**– 23 398**
Changes in liabilities		
Changes in accounts payable	4 375	10 638
Changes in contract liabilities	1 818	– 2 361
Used provisions	– 22 832	– 11 928
Changes in other current liabilities	– 2 215	4 080
Total changes in liabilities	**– 18 854**	**429**

[1] see note 2 "Changes in presentation – Consolidated Statement of Cash Flows"

	Current and non-current financial debts in 1 000 CHF
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**
Foreign exchange differences	–445
Proceeds from financial debts	78 082
Repayments of financial debts	–70 763
Non-cash foreign exchange effects	–5 161
Balance at 31/12/2019	**176 503**

	Lease liabilities (2018: Finance lease liabilities) in 1 000 CHF
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**
Additional leases due to first time adoption of IFRS 16[1]	54 980
Foreign exchange differences	–1 035
Lease additions	9 274
Lease liability payments	–14 436
Lease disposals	–291
Lease remeasurement	795
Balance at 31/12/2019	**62 444**

[1] see note 2 “First time adoption of IFRS 16”

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% (2018: 50%) and the other employees between 20% and 35% (2018: between 20% and 35%) 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 2019, Group Management and certain other employees received for their work in the year 2018 a total of 101 296 (2018: 55 537 shares) allotted shares at a fair value of CHF 1.1 million (2018: CHF 1.0 million) and CHF 10.55 per share respectively (2018: CHF 17.22). The CEO received a larger portion of his base compensation for his employment 2019 in shares. He was allocated 60 000 shares (2018: 60 000) at a fair value of CHF 0.7 million (2018: CHF 1.0 million) and CHF 11.66 per share respectively (2018: CHF 16.66). The members of the Board of Directors received for their work from 21 April 2018 up to the Annual General Meeting on 12 April 2019 a total of 47 379 shares (2018: 24 557 shares) at a fair value of CHF 0.5 million (2018: CHF 0.4 million) and CHF 10.55 per share respectively (2018: CHF 17.22).

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 became due on 1 July 2019, as these persons were still in an employment relationship with Sabiana at that time.

Personnel expenses in 2019 for share based payments totalled CHF 2.9 million (2018: CHF 3.0 million).

57. Related party transactions

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

	2019 **in 1 000 CHF**	**2018** **in 1 000 CHF**
Salaries and other short-term employee benefits	3 501	3 204
Share based payments	1 966	1 980
Pension and social security contributions	930	793
Total	**6 397**	**5 977**

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 78 to 80.

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 2019	Balance on receivables	Balance on liabilities at 31/12/2019
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Key management personnel		7			
Other related parties	38	4 807	184	667	29
Total	**38**	**4 814**	**184**	**667**	**29**

	Purchase of services	Sale of goods	Purchase of goods 2018	Balance on receivables	Balance on liabilities at 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**

Goods sold in 2019 are almost exclusively Arbonia products acquired at market prices by companies owned by Michael Pieper (non-executive member of the Board of Directors) and companies in which a non-executive member of the Board of Directors is a director. 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 related 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 purchase of goods in 2018 related 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 35.

Major shareholders as of 31 December 2019 are disclosed in the notes to the 2019 financial statements of Arbonia AG on page 167.

58. Contingencies

There were no contingencies.

59. Events after the balance sheet date

The Swiss public voted on 19 May 2019 to adopt the Federal Act on Tax Reform. The Federal Act enters into force on 1 January 2020. The cantons implement the reform autonomously according to their needs. In the canton of Thurgau, the cantonal tax submission was accepted in the public voting of 9 February 2020. The amended cantonal tax law will come into force retroactively as of 1 January 2020 and includes a reduction in income tax rates of approximately 3 – 4%. Based on this change, there will be a revaluation of deferred tax positions in the reporting year 2020 for the Arbonia companies domiciled in the canton of Thurgau. The reduction of the affected net deferred tax liabilities will result in a deferred tax income of CHF 0.4 – 0.8 million in 2020.

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2019 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%	▲				
Kermi s.r.o.	Stribro, CZ	195.000 CZK	100%	▲	▲			
PZP Heating a.s.	Dobre, CZ	7.200 EUR	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%	■				
Vasco Group Sarl	Nogent-sur-Marne, FR	2.000 EUR	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 BV	Tubbergen, NL	4.000 EUR	100%	▲				
Vasco Group BV	Tubbergen, NL	9.518 EUR	100%	■				
Vasco Group ApS	Kolding, DK	0.500 DKK	100%	■				
Brugman Fabryka Grzejnikow Sp.z o.o.	Legnica, PL	20.000 PLN	100%	▲				
Kermi Sp.z o.o.	Wroclaw, PL	0.900 PLN	100%	■	■			
Vasco Group Sp.z o.o.	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	Vlotho, 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.	Ciasna, PL	20.000 PLN	100%				▲	
Coatings								
FLH Holding AG	Arbon, CH	0.650 CHF	100%					●
Schekolin US LLC	Charlotte, US	0.020 USD	100%					
Corporte Services								
Arbonia AG	Arbon, CH	291.787 CHF						●
AFG International AG	Arbon, CH	1.000 CHF	100%					●
Arbonia 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%					●
Arbonia Digital GmbH	Berlin, DE	0.025 EUR	100%					●
Arbonia Deutschland GmbH	Plattling, DE	0.511 EUR	100%					●

▲ Production / Sales ■ Trade ● Services / Finances

KPMG

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 2019 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 88 to 154) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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

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.

KPMG

Valuation of goodwill

Key Audit Matter

As at 31 December 2019, the carrying amount of the balance sheet line item “Goodwill” amounts to CHF 197.3 million.

Management assesses the valuation of goodwill based on projected results for the relevant cash generating units.

The impairment tests for this item requires 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 101

— Note 20 „Impairment of assets“, page 101

— Note 30 „Significant accounting judgments, estimates and assumptions“, paragraphs „Estimated impairment of goodwill“ and „Intangible assets acquired in a business combination“, page 106

— Note 40 „Intangible assets“, 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 2020