ARBONIA
ANNUAL REPORT

2020

ARBONIA

HVAC Division

Areas of activity
- Fan Coils
- Heat pumps
- Indoor air filtration
- Radiant panels
- Radiators
- Surface temperature control
- Unit heaters
- Ventilation

Brands
- Arbonia
- Brugman
- Kermi
- Prolux
- Sabiana
- Superia
- Tecna
- Vasco

Production sites
- Corbetta (I)
- Dilsen (BE)
- Dobré (CZ)
- Legnica (PL)
- Plattling (D)
- Stříbro (CZ)
- Stupino (RUS)
- Tubbergen (NL)

Average headcount in FTE 2020
2 914

Sanitary Equipment Division

Areas of activity
- Acrylic / mineral cast bathtubs and shower trays
- Shower areas
- Shower enclosure
- Shower unit

Brands
- Baduscho
- Kermi
- Koralle

Production sites
- Dagmersellen (CH)
- Plattling (D)

Average headcount in FTE 2020
811

Windows Division

Areas of activity
- Aluminium windows
- Exterior doors
- Lift-and-slide doors
- Vinyl windows
- Vinyl/aluminium windows
- Wood windows
- Wood/Aluminium windows

Brands
- Dobroplast
- EgoKiefer
- Slovaktual
- Wertbau

Production sites
- Langenwetzendorf (D)
- Lublin (PL)
- Pravenec (SK)
- Zambrów (PL)

Average headcount in FTE 2020
2 632

Doors Division

Areas of activity
- Functional doors
- Frames
- Interior doors

Brands
- Garant
- Invado
- Prüm
- RWD Schlatter

Production sites
- Amt Wachsenburg (D)
- Ciasna (PL)
- Roggwil (CH)
- Weinsheim (D)

Average headcount in FTE 2020
2 025

Key Figures 2015 – 2020

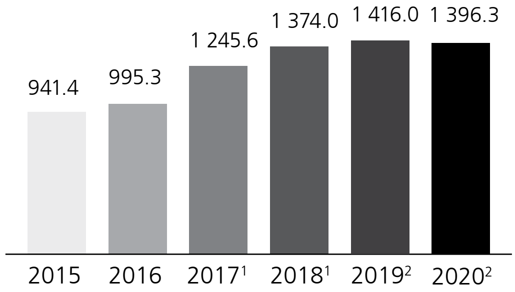
in CHF million	2020 [1]	2019 [1]	2018 [2]	2017 [2]	2016	2015
Net revenue	1 396.3	1 416.0	1 374.0	1 245.6	995.3	941.4
EBITDA [3]	157.8	125.4	130.5	120.3	68.7	26.6
EBIT [3]	73.3	39.7	61.0	61.3	29.1	–158.4
Group result [3]	44.9	26.2	38.7	37.5	7.6	–177.1
Total assets	1 515.2	1 534.4	1 511.9	1 416.6	1 526.9	900.5
Shareholders' equity	893.2	873.3	887.7	863.1	728.8	351.8
in % of total assets	59.0	56.9	58.7	60.9	47.7	39.1
Net debt	140.6 [4]	180.6 [4]	116.8	43.3	225.1	21.7
Cash flow from operating activities	141.3	111.8	69.6	68.8	32.0	54.5
Free cash flow	52.5	8.4	–53.8	190.4	–67.3	16.0
Capex	95.5	113.0	134.7	105.1	62.1	21.9
Average headcount in FTE	8 445	8 606	8 198	7 754	6 325	6 186
Market capitalisation	987	875	750	1 129	1 123	450

[1] Including discontinued operations
[2] Continuing operations
[3] With one-time effects
[4] Incl. IFRS 16

Information for Investors

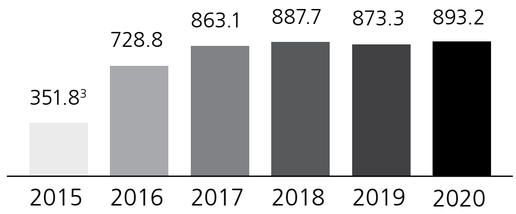
	2020	2019	2018	2017	2016	2015
Share price on 31.12 in CHF	14.2	12.6	10.8	16.3	16.4	10.1
Market capitalisation in CHF million [5]	986.5	875.4	750.3	1 128.9	1 123.2	450.0
Earnings per share in CHF	0.7	0.4	0.7	0.7	0.2	–6.1
Price/earnings ratio per share [5]	22.0	33.4	16.3	24.2	102.3	–1.7
Gross dividend per share in CHF	0.47 [6]	0.00 [7]	0.20	0.00	0.00	0.00

[5] Calculated on the basis of the share price on 31 December
[6] Combined dividend for the 2019 financial year of CHF 0.22 and the 2020 financial year of CHF 0.25
[7] Dividend of CHF 0.22 for the 2019 financial year deferred due to the COVID-19 pandemic



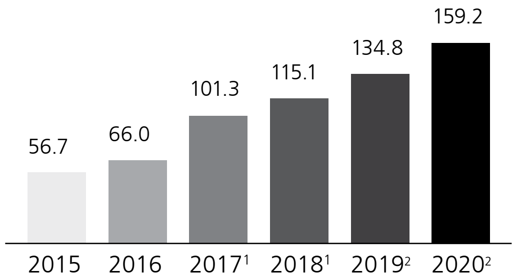
Net revenue

[1] Continuing operations
[2] Incl. discontinued operations



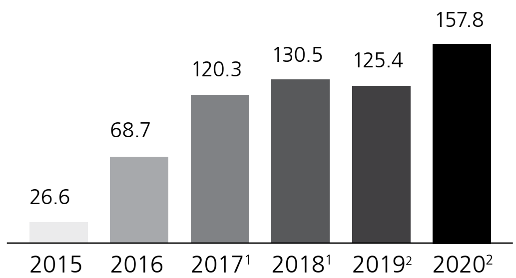
Shareholders' equity

[3] H1 2015: CHF 187 M



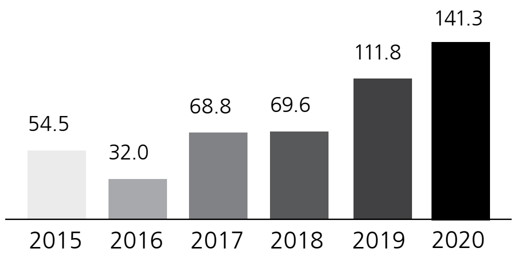
EBITDA without one-time effects

[1] Continuing operations
[2] Incl. discontinued operations

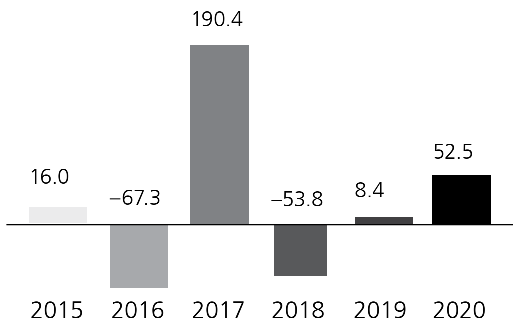


EBITDA with one-time effects

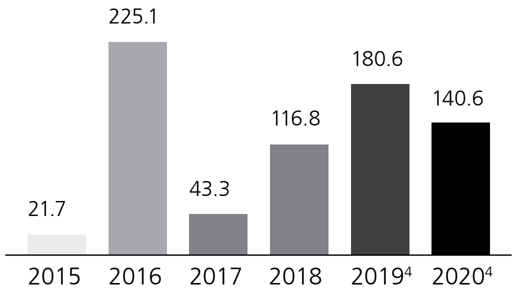
[1] Continuing operations
[2] Incl. discontinued operations



Cashflow from operating activities

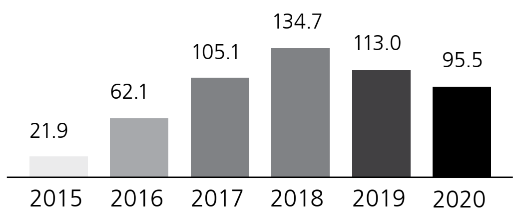


Free cash flow



Net debt

[4] Incl. IFRS 16



Capex

All figures in CHF M

Report section

Financial section

Notes

Letter to the Shareholders

The Board of Directors and the Group Management look back on an extraordinary and, throughout the entire financial year, ultimately successful year 2020. With its consistent focus on the supply of construction materials for modern buildings and its good competitive position at all locations through pioneering investments, such as in the automation of production plants and the associated ability to digitise production, as well as in increasing the vertical integration, Arbonia has paved the way for sustainably profitable growth.

Dear Shareholders
Dear ladies and gentlemen

The financial year 2020 went very well for Arbonia, despite certain challenges due to the COVID-19 pandemic. In addition to the investments made in recent years to increase efficiency and productivity, the focus on the Central and Eastern European sales and production markets has also made a significant contribution to this. Other effects, such as the favourable product mix and the variable cost structure, have had a positive influence on operating profitability.

For the 2020 financial year, currency-adjusted revenue growth of 2.1% and in Swiss francs a decline of –1.4% from CHF 1416.0 million to CHF 1396.3 million resulted for continuing and discontinued operations. The measures for a targeted increase in profitability ensured that EBITDA increased by 25.9%, compared to the previous year, to CHF 157.8 million (previous year: CHF 125.4 million, with one-time effects mainly coming from closures and ramping up of production plants). This corresponds to an EBITDA margin of 11.3% compared to 8.9% in the previous year. EBIT benefited disproportionally from this positive development and increased by 84.6% to CHF 73.3 million (previous year: CHF 39.7 million). Despite a lower financial result due to the appreciation of the Swiss franc and a higher tax burden due to the better pre-tax result, Arbonia was able to increase its group result by 71.4% to CHF 44.9 million (previous year: CHF 26.2 million).

Derived from these earnings figures, cash flow from operating activities increased by 26.4% from CHF 111.8 million to CHF 141.3 million and the free cash flow by 527.3% from CHF 8.4 million to CHF 52.5 million.

At the beginning of January 2021, Arbonia announced that it would sell the Windows Division, subject to the required approval by the responsible competition authorities, to the Danish DOVISTA Group. Excluding this non-continuing operation, the Arbonia Group's key figures for the 2020 reporting year are as follows:

Currency-adjusted revenue grew by 2.0% and revenue in Swiss Franc decreased by –1.8% from CHF 1057.8 million to CHF 1038.4 million. EBITDA without one-time effects increased by 6.3% over the previous year from CHF 107.7 million to CHF 114.5 million. EBITDA with one-time effects came to CHF 116.3 million, 15.5% above the previous year (CHF 100.7 million). EBIT without one-time effects reached CHF 52.1 million (previous year CHF 49.1 million, +5.9%), while EBIT with one-time effects came to CHF 53.9 million (previous year CHF 40.1 million, +34.4%). The group result without one-time effects fell slightly by –6.6% from CHF 30.1 million to CHF 28.1 million; with one-time effects, it reached CHF 29.7 million (previous year CHF 22.5 million, +31.9%).

Continuous dividend policy
Based on the positive result for the reporting year, the Board of Directors of Arbonia proposes to the shareholders to distribute a dividend of CHF 0.25 per dividend-bearing share for the 2020 financial year. The Board of Directors will also propose to them to distribute the deferred dividend of CHF 0.22 per dividend-bearing share for the 2019 financial year as well. In total, a combined dividend payment of CHF 0.47 per dividend-bearing share will therefore be distributed to the shareholders after the General Meeting on 23 April 2021. Half of this amount, i.e. CHF 0.235, will be paid as a dividend from retained earnings and CHF 0.235 from capital contributions. **As announced, Arbonia thus continues to increase dividend payments by around 10% starting in the 2018 financial year (CHF 0.20).**

Market environment 2020
The year 2020 was significantly affected by COVID-19 for Arbonia as well. As an immediate response to the pandemic, Arbonia on the one hand introduced comprehensive concepts for the protection of employees, such as home office, extensive hygiene measures, and significant restrictions on travel, among others. On the other hand, in order to minimise negative cost, production, and delivery effects, it also took immediate measures such as the reduction of temporary employees, the depletion of holiday and overtime credits, the reduction from 3 to 2-shift operation, as well as the insourcing of supplier components and the maintenance of distribution chains through decentralised warehouses. Government-ordered measures to contain the pandemic, such as border closures, had largely no impact on Arbonia's course of business, as the movement of goods was almost unrestricted. The only real effect was the partial closure of construction sites and hardware stores that occurred in France, Italy, and individual Swiss cantons, among other places.

In **Germany**, Arbonia's largest market, which accounts for over 40% of group revenues, the pandemic only had an insignificant impact on residential construction. At –0.8% in 2020, this declined only slightly. Although there were closures of specialist dealers in the course of the first and second waves and the renovation of occupied living space also became more difficult, construction sites remained open at all times. Construction activity was impaired especially by the already existing shortage of skilled workers and by the restricted entry of Eastern European skilled workers. Due to the increasing economic uncertainties in the course of the pandemic, there was a strong decline, especially in the area of commercial real estate, offices, shopping centres, and hotels. Residential construction, on the other hand, continued to benefit from full order books, low interest rates, the scarce supply of housing in conurbations, and the renovation backlog.

In the second domestic market, **Switzerland**, the COVID-19 pandemic hit residential construction that was already stagnating without its impact. The reason for this is the relatively high housing vacancy rate outside the cities and conurbations throughout the country. Consequently, residential construction fell by –3.4 % in the reporting year. With its defensive key industries of pharmaceuticals, chemicals, and trade as well as its robust government support measures, Switzerland weathered the first wave of the pandemic better than many other national economies. Non-residential construction performed better thanks to several large projects.

The Eastern European markets, which in recent years have always developed more dynamically than the more mature Western and Central European markets, were unequally affected by the crisis. In **Poland**, more residential construction projects were completed in the first nine months of the year than ever before. However, building permits and starts point to a negative development in 2021. In addition, more restrictive lending and labour shortages hampered the economy. The **Czech Republic** and **Slovakia** are strongly dependent on export markets, which is why the recovery here is likely to take longer.

Spain and **Italy** were among the hardest hit countries in Europe not only in the COVID-19 pandemic but also in terms of construction activity. The temporary closure of construction sites and hardware stores had a strong negative impact, while the renovation market, which is very important in Italy, was able to recover surprisingly quickly after the initial easing.

The construction industry in **France** was also very strongly affected by the pandemic. Construction sites were closed for 55 days net, and productivity dropped drastically after the sites opened again, due to the strict hygiene measures. The French economy is heavily dependent on private consumption, which decreased significantly during the pandemic.

The markets of **Belgium** and **the Netherlands** developed differently in the reporting year. While the development of the construction industry in Belgium was affected by the closure of construction sites due to the pandemic, the development in the Netherlands was primarily inhibited by a court ruling. According to this ruling, all new buildings to be constructed as well as those already approved in the vicinity of nature conservation areas must fully compensate for their nitrogen emissions. This has stopped a large part of the construction activity in new buildings, while the renovation market was even able to grow slightly.

Developments of the Arbonia Group in 2020
In the reporting year, Arbonia continued to focus on the relevant drivers of **energy efficiency, urbanisation, digitisation, as well as automation.** It continued to push the expansion and modernisation/digitisation of its production capacities at all locations.

The strategically most far-reaching decision in 2020 was the sale of the Windows Division to the Danish DOVISTA Group, which was announced at the beginning of January 2021. The transaction was signed on 4 January 2021. The completion, subject to approval by the relevant competition authorities, is expected in the second quarter of 2021. The inflowing funds to Arbonia from the transaction will amount to approximately CHF 350 million, resulting in a strong net cash position. A significant portion of the sales proceeds will be used to further increase the company value by accelerating the further development and strengthening the remaining divisions of Arbonia, both organically as well as through targeted acquisitions. Various strategic initiatives are being considered and some are already being implemented.

The early refinancing of the syndicated loan, which was concluded in November, provided further financial and strategic leeway in the financial year. This new credit line of CHF 250 million replaces an existing agreement on CHF 350 million. The new agreement, with significantly more favourable conditions, has a term of five years and includes the option to extend the credit facility twice by one year each time.

The following overview of the activities of the individual divisions is supplemented by detailed information in the separate division chapters starting on page 14.

The main markets of the **HVAC Division** were affected to varying degrees by the COVID-19 pandemic. While construction activity in Germany and Switzerland was only marginally affected, the markets in Italy, Spain, France, Belgium, and Russia in particular were hit hard during the first wave of the pandemic due to temporary construction site closures. In addition, in some countries such as Italy and Russia, temporary plant closures were ordered by the authorities during this period, interrupting supply chains to a certain extent. However, thanks to special permits from the authorities due to recognised system relevance, the affected production plants were allowed to resume the corresponding production within a short period of time. This circumstance, together with the implementation of consistent measures, flexibility, and the commitment of the employees, meant that the division was already able to resolve or stabilise the supply situation within a few weeks. The already constant shortage of skilled workers worsened in the reporting year, as the mobility of cross-border workers was considerably restricted in some cases.

The climate packages of the European countries provide for tax depreciation and subsidies for the modernisation of houses and especially heating systems in order to reduce CO_2 emissions. **For several years now as well as in the reporting year, the HVAC Division has consistently pursued its strategy of being an innovative provider of holistic heating systems and their components: from modern heat generation and optimum heat exchange to energy storage for all types of buildings and application areas, both for the new construction and renovation markets.** Corresponding expansions of the product portfolio were realised in all areas.

Despite the COVID-19 pandemic, the **Sanitary Equipment Division** managed the exceptional year 2020 very well. Using its sophisticated ERP systems, it was able to keep the supply chain and internal processes stable. As a result, the division was able to improve its earnings situation compared to the previous year. While countries especially such as France, as well as Belgium and Austria, experienced considerable adverse effects from the COVID-19 pandemic due to partial closures of construction sites, the division's domestic markets in particular – Germany and Switzerland – proved surprisingly robust. Only the temporary closure of several plumbing exhibitions of the wholesale trade and the cancelled industry trade fairs hindered the normal course of business. The capacity utilisation in the plumbing trade, which is still very high, also had a limiting effect.

In this environment, the division held its own very well thanks to its broad-based strategic initiatives, such as intensive support for key account customers and the project business, as well as the expansion of international business with a focus on Southern and Eastern Europe.

Despite the challenging environment, the **Windows Division** can look back on a very pleasing 2020 reporting year, in which a significant improvement in profitability was achieved with constant revenue. In addition to the relocation of all production sites to Eastern Europe, which has now been completed, the significant growth and improved earnings quality in the Swiss market, among others, had a positive impact. Furthermore, the increase in output volume at the production site in Langenwetzendorf (D) as well as the improved operative performance at the Polish production plant in Zambrów also contributed to the positive result.

Arbonia has decided to withdraw from its windows business with the five companies Dobroplast, EgoKiefer, Slovaktual, Webcom, and Wertbau in order to accept a correspondingly attractive offer from a strategic buyer. The buyer is the Danish DOVISTA Group, which belongs to the Danish VKR Holding. Together, the DOVISTA Group and the Windows Division will become an important player in the European window business. With this acquisition, the DOVISTA Group will gain access to the Central European markets of Switzerland, Germany, Poland, and Slovakia, where the Windows Division holds strong market positions. In addition, vinyl and vinyl/aluminium windows will be added to its product portfolio. Under the new umbrella of this strategic owner, the Windows Division will in turn have the opportunity to continue to grow and to strengthen and expand its sales throughout Europe.

In 2020, the **Doors Division** continued to focus on its **multi-year investment programme to increase productivity and expand capacity to improve delivery performance.** The investment volume of CHF 48 million went largely into the capacity expansion of the German door plants Prüm and Garant.

At Prüm in Weinsheim (D), the new "production plant of the future" is currently being built. The work for the new frame production plant was started in February 2020, and the foundation stone for building the hall was laid in mid-May. In order to optimise the logistical process handling in the finished parts warehouse and to increase storage capacities in the future, an investment was also made in a second high-bay warehouse at Prüm. The construction measures for this started at the beginning of 2020 and will be completed in the second quarter of 2021.

One focus of the door manufacturer Garant in the reporting year was on increasing capacities. In the middle of 2020, the new special frame production line was installed, which offers a capacity of 945 frames per day in the special area in 3-shift operation. At the same time, installation of a new spraying robot began. This will automate the process when passing through the painting line.

The hall expansion started at RWD Schlatter in summer 2019 was successfully completed in October 2020 with the commissioning of the new spraying robot. The doors produced in Roggwil (CH) are now painted in-house, which significantly shortens delivery times for customers and reduces logistics. Thanks to this measure, the company has one of the shortest delivery times on the Swiss market.

Following these investments, the Doors Division will be able to produce around 900 000 more doors with corresponding frames in 2023/2024 across all locations than before.

Strategic pillars after the sale of the Windows Division
The cash inflow following the completion of the sale of the Windows Division, expected in the second quarter of 2021, will amount to approximately CHF 350 million, resulting in a net cash position of more than CHF 200 million in the group. Arbonia announced at the beginning of 2021 that it would use a large part of these funds to strengthen accelerated growth, but also for acquisitions in the remaining divisions.

Doors Division
The **Sanitary Equipment Division** with its shower doors and shower enclosures will be integrated into the **Doors Division**. The strategic logic of the integration lies in the better use of synergies in joint market development in contract sales on the one hand and in procurement on the other. In addition, the product range of the Doors Division with functional and interior doors will be expanded to include shower doors, and in the medium term the glass doors and glass partitions area can be expanded for interiors. The Doors Division is strengthening its position as a solution provider for accessibility from a single source, incl. the keyless KIWI access system.

The integration of the Sanitary Equipment Division will take place on 1 July 2021. The Doors Division will be divided into the Wood Solutions and Glass Solutions Business Units from that date.

The Doors Division will be able to increase its capacities in the wood solutions (wooden doors) area by 40% at the Prüm (D) and Invado (PL) production plants and by 30% at the Garant production plant in Eastern Germany by 2023/2024. The investments in capacity expansion at Invado were completed in 2020.

Based on this expected and sustainable organic growth, the robust profitability of the Doors Division with the integrated Sanitary Equipment Division as the Glass Solutions Business Unit, and the liquidity of the group, additional inorganic growth is also being sought by means of targeted acquisitions in existing and/or neighbouring markets. This brings Arbonia closer and closer to its goal of becoming the leading door supplier in Central Europe.

HVAC Division
On the one hand, the division continues to focus on organic growth in the product groups of underfloor heating, heat pumps, and residential ventilation, including their patented filter technology, which can also be offered as a system, and on the other hand on consolidation, process optimisation to increase productivity, and cost leadership in flat panel radiators, column radiators, and design radiators.

While the volume in the Western European radiator market will move sideways over the next few years, the division still expects profitable growth in these products through investments in the growth market of Eastern Europe and Russia as well as through the listed measures. In the past, the division has invested heavily in production processes in order to generate sustainably stable margins above the competition. In addition, it actively participates in the consolidation to gain market shares.

For the fast-growing system products such as heat pumps, underfloor heating, and ventilation, air-conditioning, and filter technology, accelerated growth is pursued in order to significantly change the revenue mix of the components and system business into 2025.

The division is focusing its development on the "house of the future": A system solution for heat generation, heat control, and heat storage is to be developed on the basis of photovoltaic systems in a private house.

The heat pump market, which has been growing strongly for years, is also benefiting from the European climate targets and their subsidising of CO_2-reducing and energysaving products. For this reason, the HVAC Division is investing in expanding the capacity for energy-efficient systems at its site in the Czech Republic and will build a new production plant there starting in 2021, which will increase the existing production capacity many times over from 2022.

It is planned to support the accelerated organic growth in system products with targeted acquisitions.

From summer 2021, the new Arbonia will thus consist of two similarly large, focused divisions and a lean group management.

Expanded focus on sustainability
Arbonia, with its divisions and as a group, is dedicated to a consistent and comprehensive commitment to sustainability, which is both part of the group's strategic guidelines and part of the operating activities of the companies. The group is aware of its economic, environmental, and social responsibility. It is currently developing its sustainability strategy for the coming years. In addition to the previous objectives of continuously optimising the product portfolio and the production processes, further objectives will follow based on the materiality analysis conducted in 2020. With the new sustainability reporting, which takes up a separate chapter in this annual report (from page 47), Arbonia would like to present a coherent picture of its activities.

Independently of the sustainability chapter, however, the 2020 financial year showed that the strategy adopted with the forced growth in sustainable heat generation and with insulating doors is also paying off financially, as already explained. Arbonia has laid the foundation for these successes by investing in efficient and resource-saving machines for the production of sustainable building components. **It is thus clear that Arbonia has laid an exceptionally healthy foundation for sustainable and profitable growth with the restructuring of the group in the years 2015 – 2019.**

Outlook

We currently assume that the situation with the COVID-19 pandemic will improve in the course of the first half-year of 2021 and that normality will slowly return from the second half-year of 2021 at the latest. After the development of the construction industry survived the first lockdowns well and many markets were able to recover quickly afterwards, the second wave of the pandemic should not have an overly negative impact on Arbonia. This is partly due to the fact that the well-known, long-term economic and growth drivers for the construction (materials) industry remain in place: low interest rates, which make real estate a sought-after investment, the trend towards urbanisation, and the high number of flats in need of renovation, and last but not least government subsidy programmes. The development of the construction industry and our group should also benefit from the fact that the COVID-19 pandemic has significantly increased people's appreciation of their own living space, both in terms of living area as well as finishing standards. Financial resources that were intended for consumption or holiday trips will continue to flow increasingly into people's own living space as an investment. In addition, many economic stimulus programmes contain incentives for renovating and upgrading the energy efficiency of living space, which will further accelerate the shift towards energy-efficient residential and commercial properties and thus the demand for the corresponding Arbonia products.

As a counterpart to the positive trends discussed above, raw material prices are rising, especially for steel, aluminium, and glass, which can only be passed on to customers with a time delay and in part.

Due to the economic uncertainty, however, a restraint is noticeable in the area of commercial construction. This particularly applies to shopping centres and other usable space for the retail trade as well as hotels. The orientation of the product portfolio, with a higher revenue share in residential construction and only around 30% in the remaining sectors, ensures that Arbonia is confident about the next financial year despite all the uncertainties. Together with the "EU Green Deal" and further measures of individual countries, there are opportunities for which Arbonia is well positioned with its energy-efficient heating and ventilation solutions as well as insulating doors.

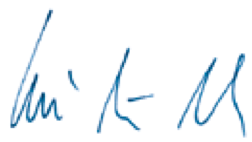
Guidance

After the sale of the Windows Division and assuming that no further significant restrictions due to the COVID-19 pandemic will be imposed in Arbonia's production and sales markets, Arbonia expects an organic revenue growth of 4 – 5% and an EBITDA margin of >11% in 2021.

Acknowledgements

The strategic positioning in the relevant markets and the competitive environment in combination with its stable business models (new construction and renovation, commercial, infrastructure, and residential construction) have contributed significantly to the fact that Arbonia has mastered the past reporting year with its challenges in such a pleasing manner.

On behalf of the entire Board of Directors and the Group Management, we would like to thank all those who have contributed to this positive business performance – our employees, our customers, as well as our suppliers. And especially you too, our esteemed shareholders, for your continuous trust and your fidelity to Arbonia.



Alexander von Witzleben
Chairman of the Board of Directors and CEO

Daniel Wüest
CFO

Digitisation in practice

The path to digital day-to-day work in the door industry

In mid-2020, PRÜM and GARANT began to advance their digital strategy in close cooperation with ARBONIA DIGITAL. With the development of the GARANTDIGITAL and PRÜMDIGITAL platforms, important information hubs were created which have been continuously expanded since then.

PRÜM and GARANT are among the pioneers in the industry with a variety of digital services and tools – their mission: to attract attention and make digitisation available to everyone in the market. The target group-specific filtering options of the platforms ensure maximum relevance.

Behind each of the 14 doors is information on the respective topics: short intro trailers, digital information brochures, project examples, or detailed explanatory videos on more complex topics and, of course, a direct link to the corresponding tool/service.

FOCUS ON THREE TOPICS

Webinars – digital yet personal

Current events are not the only thing that make the offer of webinars indispensable. Demographic circumstances also require digital measures to train the next generation of door professionals, regardless of the time or location.

Our experts take the time to answer every further enquiry and respond to customers' needs – an investment in customer loyalty that is met with a lot of positive feedback.

"Many specialist dealers are facing the challenge of losing many experienced employees due to age. It is now important to train the next generation together. Our webinars make a very valuable contribution to this."

Claudius Moor
Head of the Doors Division

GARANT DIGITAL PRÜM DIGITAL ARBONIA DIGITAL

DoorIT – the calculation software

Analogue processes are still widespread in the craft trades. With DoorIT, even highly complex and special orders can be calculated quickly and without errors.

The intuitive operation and high performance of this web-based application make calculation easier than ever, and the customer-specific expandability of the system makes it a serious contender in the competition for the best calculation tool.

DieTÜR – the door configurator

An unbelievable 50,000+ door combinations can be mapped in this configurator and individualised with wall colour and floor covering using the "Display door in room" function.

In addition, the point of experience (POE) is made available to specialist dealers. This consists of a user interface through which DieTÜR is operated and a 98-inch monitor on which the digital experience is displayed life-sized. This offers possibilities far beyond the capacities of any exhibition space.

"With PRÜMDIGITAL and GARANTDIGITAL, our customers finally have ONE platform for ALL digital topics – that is always UP-TO-DATE.

Udo Roggendorf
Head of Marketing Doors Division

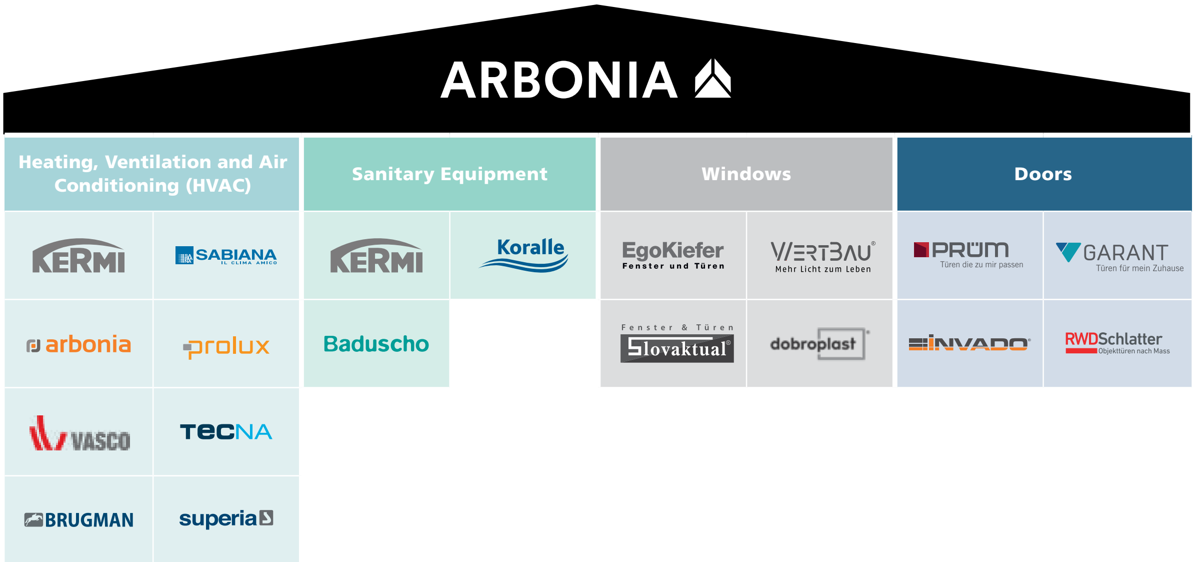
In 2021, the platforms and the digital service offer will be developed further. The resulting digital added value, supplemented by personal expertise and advice will help create sustainable customer relationships.

All 14 topics can already be experienced online:

garant-digital.de

pruem-digital.de

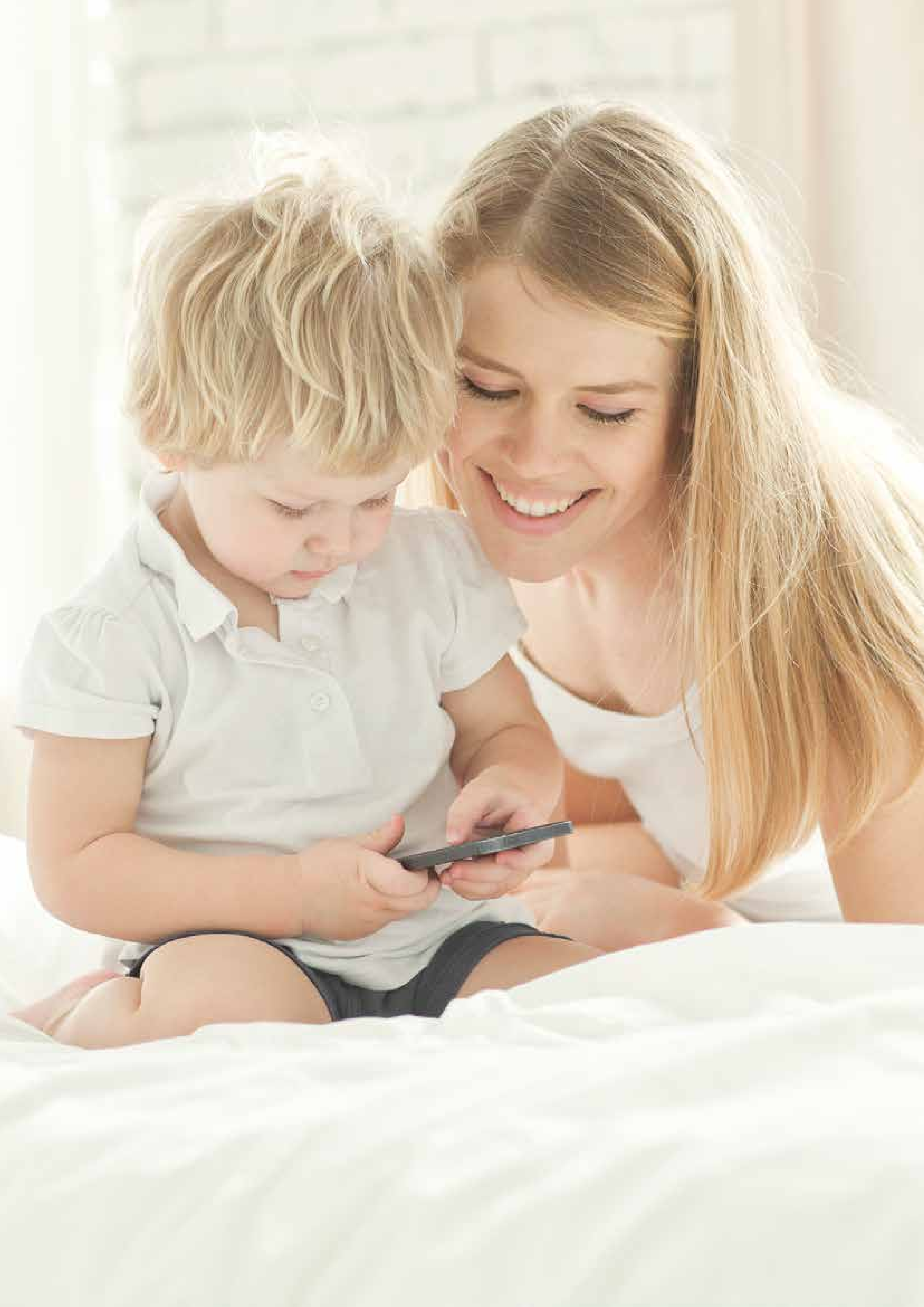
Divisional structure (existing)

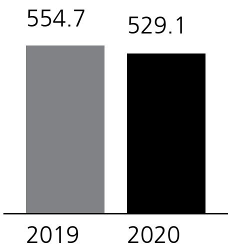


Divisional structure as of 1 July 2021

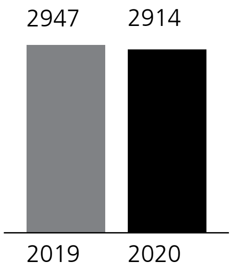
HVAC Division

The Heating, Ventilation and Air Conditioning (HVAC) Division is one of the leading providers of heat transfer products in Europe and offers system solutions for all application areas and building types. With its highly integrated, effective production sites in Germany, the Czech Republic, Italy, Russia, Belgium, Poland, and the Netherlands, its distribution companies in Europe and a worldwide network of distribution partners, the division is close to its customers at all times and in all places with its main brands Arbonia, Kermi, Sabiana, Tecna, Prolux, Vasco, Brugman, and Superia.





Net revenue
in CHF million



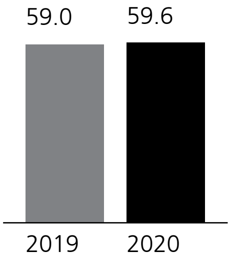
Average headcount
full-time equivalent

Market trends

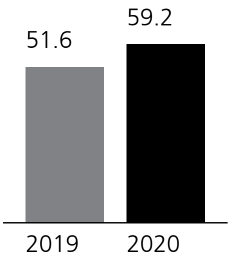
In the reporting year, the HVAC Division achieved revenue amounting to CHF 529.1 million. This represents a decrease of –4.6% in comparison to the previous year (CHF 554.7 million). Adjusted for currency effects, however, the revenue closed at –0.4%, just slightly below the previous year as well. However, as a result of immediately implemented cost-cutting measures and a variable cost structure, the division succeeded in improving the EBITDA margin to >11%. Without one-time effects, EBITDA amounted to CHF 59.6 million and was thus 1.0% above the figure for the previous year (CHF 59.0 million). EBITDA incl. one-time effects amounted to CHF 59.2 million, which corresponds to an increase of 14.8% (previous year: CHF 51.6 million). EBIT without one-time effects was CHF 30.0 million, –6.5% bellow the previous year's figure of CHF 32.1 million, but EBIT with one-time effects closed with CHF 29.6 million, 30.3% above the previous year (CHF 22.7 million).

The main markets of the HVAC Division were affected to varying degrees by the COVID-19 pandemic. While construction activity in Germany and Switzerland was only marginally affected, the markets in Italy, Spain, France, Belgium and Russia in particular were hit hard during the first wave of the pandemic due to temporary construction site closures. In addition, in some countries such as Italy and Russia, temporary plant closures were ordered by the authorities during this period, interrupting supply chains to a certain extent. However, thanks to special permits from the authorities due to recognised system relevance, the affected production plants were allowed to resume the corresponding production within a short period of time. This circumstance, together with the implementation of consistent measures, flexibility, and the commitment of the employees, meant that the division was already able to resolve or stabilise the supply situation within a few weeks. The already constant shortage of skilled workers worsened in the reporting year, as the mobility of cross-border workers was considerably restricted in some cases.

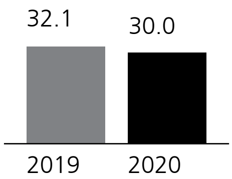
Despite a temporary plant closure, the HVAC Division was able to celebrate the production of its 100 000th steel panel radiator in July 2020 and its 200 000th in



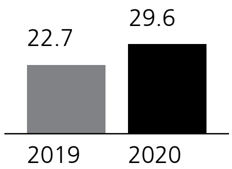
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

November 2020 at its new production plant in Stupino (RUS). Even though the planned commissioning of the installed second welding line could not be realised in the reporting year due to the closure of the national border caused by COVID-19, the location nevertheless already ensures a more intensive market cultivation in the entire CIS region. In addition, the production plant in Dilsen (BE) was able to increase its production capacity for underfloor heating pipes significantly, and the production plant in Corbetta (I) was able to put a new painting line into operation. Overall, the division improved its competitiveness through continuous optimisations and investments in its efficient, highly integrated production network.

Products, technology, and innovation
The HVAC Division is consistently pursing its strategy of being an innovative provider of systems and components that use water, air, and electricity to exchange heat for all types of buildings and application areas, both for the new construction and renovation markets.

In the radiator segment, for example, a new bathroom radiator with an age-appropriate operating solution for the thermostatic head and the introduction of an aesthetic yet functional mirror front for infrared radiators in the premium segment have expanded the product range since the beginning of 2020. More than 75 million Kermi steel panel radiators installed worldwide underscore the sustainable success of the existing portfolio.

In the area of surface heating, the division specifically addressed the requirements of the housing industry in the reporting year with expanded performance classes for the home station, thereby ensuring efficient heat distribution combined with hygienic domestic hot water heating.

In addition, a new layered buffer storage tank with significant efficiency advantages was added to the product range for heat storage. Its unique modular principle covers a wide range of variants and makes it easier to install the entire heating system around the heat pump.

In the ventilation segment, the range was already expanded at the beginning of 2020 to include a particularly space-saving, very quiet central ventilation unit with a high heat recovery that meets the performance requirements of larger residential units as well as the renovation market. Due to the COVID-19 pandemic, the already existing trend towards controlled ventilation systems for improved indoor air quality has rapidly gained in importance, which has led to a significant increase in demand for indoor air filtration products for health protection from the production plant in Magenta (I). Especially for the patented "Crystall®" electrostatic filter, which can be used in fan coils, in ceiling cassettes, in the new air purification units "Sky Safe" and "Crystall Round", as well as in ventilation systems for commercial, industrial, and public buildings regardless of the brand, Sabiana had to expand its production capacity with a second production line at short notice in order to meet the increased customer demand. It was also possible to transfer the successful model of these certified product solutions to the portfolio of other brands in the division.

Due to the COVID-19 pandemic, almost no national or international trade fairs took place, which meant that an important element for the market launch of new products and for customer relations was missing in the reporting year. As face-to-face customer visits were not an option at times, digital communication media became fundamentally more important. However, the division is already optimally positioned in the field of digital marketing. Its offer includes a variety of digital tools specially tailored to the respective customer group, from webinars on various topics (e.g. indoor air quality) to individualised homepages of the individual brands to special apps in augmented reality format as product configurators for selecting the right product with an integrated ordering function.

However, the HVAC digitisation strategy is not limited to only the sales interface to the customer but also extends across the entire value-added chain from product development and production to the after-sales area. An important project in this context is the implementation of an integrated product information management (PIM) for quick access to comprehensive product data material in the BIM standard to improve customer satisfaction further.

The continuous optimisation of the different brand-specific product portfolios is one of the strategic goals of the HVAC Division and was largely advanced according to plan in the reporting year. However, not only did new developments, for example, in the area of residential ventilation, expand the local product ranges in this context, but the integrated production network was also used to expand the respective product ranges through cross-selling. For example, Vasco in Benelux closed the gap to become a full-range supplier by launching a heat pump produced in the Czech production plant on the market.

Other important projects were also successfully completed or advanced, such as a new painting line at the Sabiana production plant in Corbetta (I) to optimise the production efficiency and painting quality, the modernisation of the tubular radiator production at the production plant in Stříbro (CZ), the automation of the steel panel radiator production at the production plant in Plattling (D), as well as the integration of logistics for the Vasco and Kermi brands in Poland.

Overall, the division was able to deliver almost fully throughout the entire period of the COVID-19 pandemic, despite its Europe-wide market presence, due to production close to customers and local warehouses.

Outlook

The current COVID-19 pandemic makes forecasts for 2021 difficult. On the one hand, there are very positive basic trends, such as government subsidy programmes for climate protection investments in building technology, low interest rates on loans, and a continued high demand for housing in the context of urbanisation. On the other hand, the pandemic-related uncertainty in the economy will lead to an at least temporary reluctance to make investments in commercial and industrial construction projects.

Due to its wide sales market presence, its high process efficiency in production and administration, continuous innovations, as well as its strategic positioning as a full-range HVAC supplier for residential and non-residential construction for all applications in both new construction and renovation, the division is optimally positioned to continue to grow profitably.

Indoor air quality

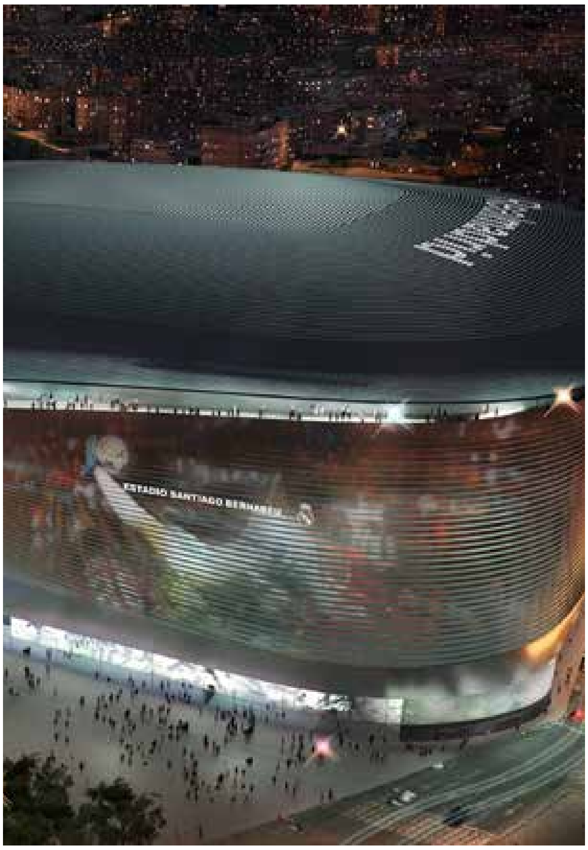
The "Crystall®" electrostatic filter from Sabiana for improving indoor air quality fundamentally gained importance with the onset of the COVID-19 pandemic. Numerous reference projects in Italy were won, including the BNP Paribas towers in Rome and Milan, the headquarters and many branches of Poste Italiana, as well as Fiumicino Airport in Rome. Arbonia and Prolux were also able to win their first projects immediately after the filter began to be marketed in Switzerland and Germany.

New Prolux website

As a basis for future digitisation projects, the new Prolux website offers quick access to all documents due to its simple navigation as well as automated access authorisation to the Kawin design programme and product configurator.

Bring Vasco into your home

As part of its digitisation strategy, Vasco launched a new landing page in 2020 that combines all digital tools: an inspiration app with augmented reality, a product configurator, a specialist partner search, and an online shop for spare parts.

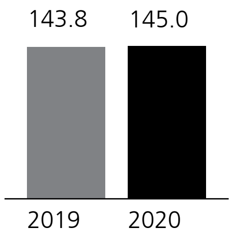


Ventilation units for the new Real Madrid football stadium

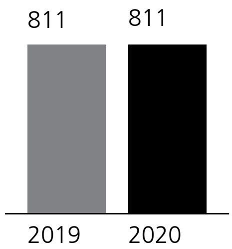
The "SABIANA ENY SP PRO" and "RCE" ventilation units from Tecna have been installed in the offices, VIP areas, and commentary booths of Real Madrid's new football stadium (ES) to improve indoor air quality.

Sanitary Equipment Division

As a specialist for shower enclosures and shower area products, the Sanitary Equipment Division offers impressive solutions for all generations, lifestyles, and types of residences. Thanks to its strong brands Kermi, Koralle, and Baduscho, the division is the European market leader. In addition to the integrated production site in Germany and a locally oriented manufacturing in Switzerland, the division also has distribution companies in Austria, Poland, the Czech Republic, Russia, and China.



Net revenue
in CHF million



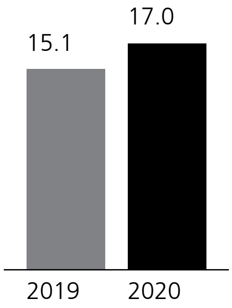
Average headcount
full-time equivalent

Market trends
The business development of the Sanitary Equipment Division was gratifyingly positive in the reporting year. Revenue increased from CHF 143.8 million in the previous year to CHF 145.0 million, which corresponds to a growth of 0.8%. When adjusted for currency, this resulted in a revenue growth of 4.0%. At CHF 17.0 million, EBITDA without one-time effects was 12.2% above that of the previous year (CHF 15.1 million). There were no one-time effects in the reporting year. In the previous year, EBITDA with one-time effects amounted to CHF 14.7 million and EBIT with one-time effects amounted to CHF 9.0 million. The EBIT without one-time effects was CHF 11.0 million in the reporting year and was thus 16.1% above the previous year (CHF 9.5 million).

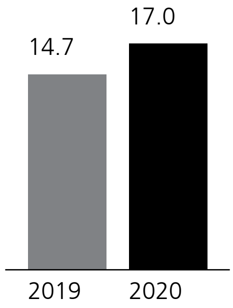
Despite the COVID-19 pandemic, the division managed the exceptional year 2020 very well. Using its sophisticated ERP systems, it was able to keep the supply chain and internal processes stable. As a result, the division was even able to improve its earnings situation compared to the previous year.

While countries especially such as France, as well as Belgium and Austria, experienced considerable adverse effects from the COVID-19 pandemic due to partial closures of construction sites, the division's domestic markets in particular – Germany and Switzerland – proved surprisingly robust. Only the temporary closure of several plumbing exhibitions of the wholesale trade and the cancelled industry trade fairs hindered the normal course of business. The capacity utilisation in the plumbing trade, which is still very high, also had a limiting effect.

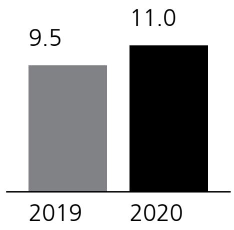
In this environment, the division held its own very well thanks to its broad-based strategic initiatives, such as intensive support for key accounts and project business, as well as the expansion of international business with a focus on Southern and Eastern Europe. Kermi Duschdesign launched an export offensive for this purpose, taking into account a country-specific adaptation and expansion of the product range. The division also placed special focus on the continuous expansion of its service offering. The reorganisation of service in Germany bore



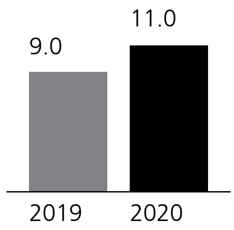
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

its first fruits and led to increased efficiency and even greater customer proximity. In Switzerland as well, the service offering is being continuously expanded, with a special focus on assistance and support for architects.

Digitisation was also a high priority in the reporting year. The division launched a project to introduce modern PIM software in order to more efficiently meet customers' significantly increased requirements for data quality and data volume. This naturally includes the comprehensive provision of BIM data. In addition, the division prepared the changeover to a cloud-based CRM software solution of the latest technology for target-oriented sales and property management. In addition, it successfully converted the central ERP system from "SAP R/3" to the more powerful "SAP S/4HANA" platform. Against the backdrop of the in-person trade fairs which were cancelled due to COVID-19, there was increased investment in digital marketing formats. Koralle, for example, provides a digital exhibition on its homepage in which the world of showers and bathtubs can be experienced virtually.

Cost effects that were achieved contributed to the positive division result: starting with internationally coordinated purchasing, through the positive effects of past investments in production and processes, to a high level of cost discipline and consistent implementation of a plan of measures. In the reporting year, groundbreaking investments were also initiated which further advanced the automation and process optimisation of production.

Products, technology, and innovation
Kermi Duschdesign presented the "White Line" birthday edition to mark its 44th shower stall anniversary. These are four walk-in models in a new, fresh white, soft look with modern sandblasted decors, among other things. In addition, innovative "LIGA" series models were introduced: The customer has a new choice regarding the arrangement of the fixed panel in the "LIGA" swing doors. In addition, Kermi introduced a floor-level, walk-in sliding version to the market which allows absolutely free access to the shower stall without any threshold.

Koralle also presented a number of new products, including the addition of the Koralle "S800", the free-standing side panel of the "X88 Free" series, and the extension of the Koralle "T400" cast mineral bathtub. September 2020 saw the sales launch of the new double series "SL510/SL515". With these new products, Koralle created innovative shower solutions and doors with numerous variations in a partially framed or frameless design, perfectly combining aesthetics with functionality.

This year, Kermi Duschdesign and Koralle were also delighted to receive several design awards.

Future-oriented innovations were established in the Bekon-Koralle product range. These were the newly introduced "S500Plus" and "S505Plus" series for frameless and partially framed sliding door solutions. These impress technically, functionally, and aesthetically with their high quality and score points with aboveaverage comfort.

At Bekon-Koralle, gluing competence plays an important role: "Koralle gluetech" is a new, seamless fastening technique that enables customised designs for many building situations – with or without a profile. The glass or the profile of the shower partition is glued securely and precisely to the wall and floor without drilling.

The "Modde 1" series from Baduscho offers convincing shower solutions for today's bathroom architecture. The purist design and architectural lines with emphasis on the horizontal ensure that the sliding doors with innovative magnetic guidance fit perfectly into any room concept.

The challenges of the COVID-19 pandemic also prompted the Sanitary Equipment Division to develop variable real glass protective partitions under the name "KermiPROTECT" or "Koralle SW100" and to launch them on the market to great acclaim. In addition to use in offices or public authorities, for example, these can also be used in retail stores or restaurants and are distinguished from conventional Plexiglas variants by their high stability and permanent resistance to cleaning agents.

In the reporting year, Kermi Duschdesign implemented a new configurator for its domestic markets (DACH), which allows users to put together their own shower stall. In just a few steps, users can find their optimal shower enclosure by individually selecting the installation situation, door functionality, series, and design. After the final configuration, a data sheet with all important information can be sent to the customer. In addition, an order tracking system went live at both Bekon-Koralle and Kermi Duschdesign as a result of successful project work in the reporting year. Baduscho established a news flash in order to reach customers even faster with information and news.

To support the installation of shower stalls and provide information, the division is increasingly making installation films and product videos available on YouTube. In addition, the Kermi homepage was completely revised and refreshed at the end of 2020 in order to meet customer requirements even better.

The information centre at the Plattling (D) site was significantly modernised in the reporting year and features an inviting customer reception in a pleasant atmosphere. The new world of experience houses over 60 exhibits for viewing. Over 850 square metres, Kermi has laid the foundation for further successful events with comprehensive equipment, state-of-the-art technology, and new training rooms. As part of a recently completed sanitary hall, the "DuschCenter", a showroom for showers, was also equipped for conducting target group-specific customer training.

At the Dagmersellen (CH) site, Koralle created modern working environments and sufficient space with the construction of the "Shower Centre". The opening took place in September 2020. The spacious and customer-friendly showroom and the associated training rooms are an important part of the premises. The associated inauguration of the competence centre for architects, wholesalers, installers, and end customers was another milestone in the successful development of Bekon-Koralle. By investing in state-of-the-art machinery, Bekon-Koralle also furthered the modernisation of its entire manufacturing facilities.

Personnel were added to the Baduscho field service in Austria. The organisation was revised and processes were optimised in order to be able to respond even faster and better to customer requirements. This especially concerns individual consulting and the further service offering.

Outlook

At most, it is possible that individual effects of the COVID-19 pandemic will still be felt due to the post-cyclical nature of the sanitary industry. This is countered by the high renovation share of the business as well as the increasing willingness of broad sections of the population to invest in improving their housing situation. The long-term trend towards increasing service turnover will also continue.

The focus for the Sanitary Equipment Division in 2021 will be on the introduction of new products, the expansion of digital activities, stable supply chains, and the continuous improvement of production efficiency, such as the introduction of a new manufacturing execution system. The intention to develop new markets will also be pursued in 2021.

With its wealth of experience, sophisticated product and process expertise and long-standing customer relationships, the Sanitary Equipment Division is very well positioned to continue its success in this environment.

The Sanitary Equipment Division will be integrated into the Doors Division as of 1 July 2021. The strategic logic of the integration lies in the better use of synergies in joint market development in contract sales on the one hand and in procurement on the other. In addition, the product range of the Doors Division with functional and interior doors will be expanded to include shower doors, and in the medium term the glass doors and glass partitions area can be expanded for interiors.

New information centre at Kermi in Plattling (D)

The information centre in Plattling (D) presents itself in a new light and houses over 60 exhibits. Over 850 square metres, the foundation for further events was laid with comprehensive equipment, creating the ideal platform for receiving customers. New training rooms and state-of-the-art technology complete the entry into the Kermi world of experience.

"DIGA" and "WALK-IN XB" are used in the Sana clinics in Duisburg (D) and Düsseldorf (D)

The private patient rooms were equipped with shower stalls from the "DIGA" and "WALK-IN XB" series. The Sana clinics have thus established a newly created standard in the hospitals in Duisburg (D) and Düsseldorf (D). (Photo: Sana Kliniken AG)

Bekon-Koralle: opening of the new Koralle "Shower Centre" in Dagmersellen (CH)

After the ground-breaking in autumn 2019, the new building was opened in September 2020. This new building is an important milestone for the future, featuring the office spaces of tomorrow as well as a modern and customer-friendly exhibition.

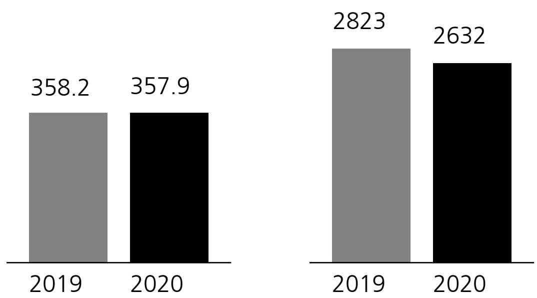
Koralle equips the Bremen-Mitte clinic (D)

A total of 66 shower stalls of the "myDay" series from Koralle were installed at the Bremen-Mitte clinic (D). (Photo: Klinikum Bremen-Mitte)

Windows Division

Consisting of EgoKiefer, Dobroplast, Slovaktual, Webcom, and Wertbau, the Windows Division is one of Europe's leading window manufacturers. The five companies offer customised window and exterior door systems made of wood, wood/aluminium, vinyl, vinyl/aluminium, and aluminium, designed to accommodate every building situation. The extensive range of windows is further complemented by balcony and lift-and-slide doors as well as shade solutions. Manufacturing takes place in the three production competence centres in Germany, Slovakia, and Poland. In its target markets, the division operates its own decentralised sales organisations in combination with extensive dealer networks.

At the beginning of January 2021, Arbonia announced that it would sell the Windows Division, subject to the required approval by the responsible competition authorities, to the Danish DOVISTA Group.



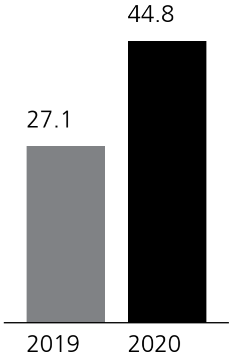
Net revenue
in CHF million

Average headcount
full-time equivalent

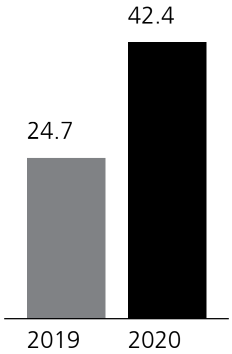
Market trends
In the reporting year, the Windows Division achieved a net revenue of CHF 357.9 million, which represents a decrease of –0.1% in comparison to the previous year (CHF 358.2 million). When adjusted for currency effects, this resulted in growth of 2.2%. Without one-time effects, EBITDA grew by 65.0% from CHF 27.1 million in the previous year to CHF 44.8 million. EBITDA with one-time effects improved by 71.9% from CHF 24.7 million in the previous year to CHF 42.4 million. EBIT without one-time effects changed from CHF 3.2 million in the previous year to CHF 23.6 million (+636.5%). With one-time effects, EBIT increased from CHF –0.4 million in the previous year to CHF 20.3 million in the reporting year.

Despite the challenging environment, the Windows Division can look back on a pleasing 2020 reporting year, in which a significant improvement in profitability was achieved with currency-adjusted revenue growth. In addition to the relocation of all production sites to Eastern Europe, which has now been completed, the significant growth and improved earnings quality in the Swiss market, among others, had a positive impact on the profitability of the division. Furthermore, the increase in output volume at the production site in Langenwetzendorf (D) as well as the improved operative performance at the Polish production plant in Zambrów contributed to the positive result.

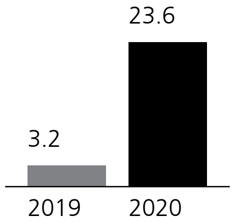
The consolidation of the windows business in the Swiss market, especially in the vinyl window segment, continued during the reporting year. EgoKiefer succeeded in holding its own in this competitive environment, increasing its order intake and gaining market shares. The direct customer business developed positively, which is not least due to the differentiated project processing according to order size. The second distribution channel of EgoKiefer, the specialist partner business, was stable in the reporting year. The situation regarding the COVID-19 pandemic occasionally had a dampening effect. Nevertheless, it was possible to further optimise and expand the dealer network in a targeted manner.



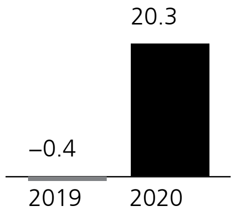
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

At the beginning of the reporting year, a new, additional CNC profiling system was put into operation at the production plant in Langenwetzendorf (D). This capacity expansion enables the division to meet the increasing demand for wood and wood/aluminium windows in the German and Swiss markets. Furthermore, additional and ongoing optimisations of the production processes took place in Langenwetzendorf (D). On the market side, Wertbau's business in Germany was stable and improved slightly over the previous year. With the Wertbau and Dobroplast brands as well as the newly acquired digital subsidiary Webcom, further market shares are to be continuously gained in the fragmented German window market in the following years.

The planned expansion of the division's own insulating glass production at the Pravenec (SK) site was successfully implemented in the reporting year. The division commissioned an additional plant for laminated safety glass (LSG) and thus increased the output volume. With this expansion of vertical integration, the division is now in a position to cover the majority of its own demand for insulating and laminated safety glass at the Pravenec (SK) and Langenwetzendorf (D) sites with its own insulating glass production. In the last quarter of 2020, Slovaktual also started manufacturing the new vinyl and aluminium front door product lines.

The Polish company Dobroplast developed very positively in the reporting year. For the coming years, the focus will be on opening up further export markets in Central and Southern Europe. The launch of a new generation of vinyl windows is planned for the first quarter of 2021, which will provide a new impetus for growth in the domestic market as well as in the export markets. The online window configurator for Polish customers, which was launched in 2019 together with the sister company Webcom, also developed well. The number of certified dealers connected to the platform more than doubled in the reporting year.

In early December 2020, the Windows Division acquired the remaining 65% share of the German company Webcom with the online platforms bew24-fenster.de, fensterdepot24.de, and fenster-webshop.de for the sale of windows, doors, and construction elements. In spring 2017, the division had already entered into a partnership and a minority share of 35% with the company. With this acquisition, it now secures further expertise in the areas of digitisation, software development, and e-commerce, as well as an established, profitable business model with an experienced team that has seen strong growth in recent years.

Products, technology, and innovation
In this reporting year, the division continued to develop its product portfolio in order to meet the needs and demands of the customers in the various sales markets and to further increase its competitiveness. For example, new vinyl and aluminium exterior doors were launched in Switzerland with EgoKiefer and new vinyl exterior doors were launched in Poland with Dobroplast. These products are based on the divisional product platform strategy and will also be integrated into the product ranges of the other two companies, Wertbau and Slovaktual, in the future. The expansion of Dobroplast's product portfolio in Poland and in the export markets with the new vinyl window "InvestLine" is planned for 2021.

On the production side, the reporting year was characterised by ongoing and targeted modernisations and replacement investments to increase the degree of automation and the vertical integration.

EgoKiefer implemented various digital initiatives in the reporting year, including an online lead generator for window renovation enquiries from end customers, to which EgoKiefer's trading partners are directly linked, and a new exterior door configurator for the newly launched vinyl and aluminium exterior doors.

Outlook

In 2015, Arbonia initiated a comprehensive restructuring and relocation process in the Windows Division. It invested in new production capacities as well as in the modernisation and automation of its machinery. As a result, the four autonomously operating companies became an integrated, competitive group with three highly automated production competence centres for wood, wood/aluminium, vinyl, and vinyl/aluminium windows with a high degree of vertical integration that sustainably supplies its core markets and customers with high-quality windows. Now that this restructuring has been completed, the strategic focus of the Windows Division is on the issues of growth as well as new end markets, productivity, and digitisation.

For 2021, the division anticipates a continued positive business development. In the course of the COVID-19 pandemic, the appreciation of one's own living space has been increasing, which should have a positive impact on the demand for windows and exterior doors in the core markets of the division.

At the beginning of January 2021, Arbonia announced that it would sell the Windows Division, subject to the required approval by the responsible competition authorities, to the Danish DOVISTA Group. Together, the DOVISTA Group and the Windows Division will become an important player in the European windows market. The two groups complement each other in terms of both their market presence and product range, and the merger opens up numerous opportunities for the new group to further strengthen the competitiveness of all companies.

Investment in the digitisation of the windows market

The Windows Division is acquiring the remaining 65% share of the company Webcom with several online platforms for windows, doors, and construction elements, among others bew24-fenster.de, fensterdepot24.de, and fenster-webshop.de. Arbonia already took a 35% share in the company in 2017. With this acquisition, the Windows Division now secures further expertise in the areas of digitisation, software development, and e-commerce, as well as an established, profitable business model that has seen strong growth in recent years. The Windows Division is also expanding its sales model, becoming a multi-channel provider.

Expansion of insulating glass capacities at the Pravenec (SK) site

In the reporting year, the division expanded the capacities of its in-house insulating glass production in Slovakia. The division is now in a position to cover the majority of its own demand for insulating and laminated safety glass at the Pravenec (SK) site as well as the demand for insulating glass at the Langenwetzendorf (D) site with its own manufacturing.

Installation of the CNC profiling system in Langenwetzendorf (D)

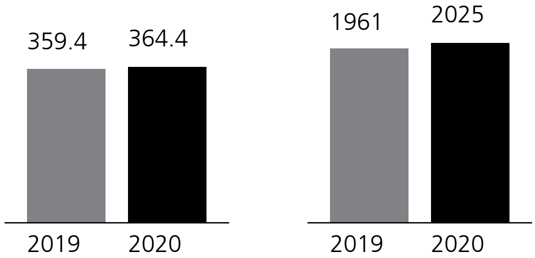
At the beginning of the reporting year, a new CNC profiling system was put into operation at the production plant in Langenwetzendorf (D). This capacity expansion enables the division to meet the increasing demand for wood and wood/aluminium windows in the German and Swiss markets.

Launch of new exterior doors and an exterior door configurator at EgoKiefer

In the second half of the reporting year, the new generations of exterior doors made of vinyl and aluminium were launched. The new exterior door products can now also be easily configured online from home.

Doors Division

The Doors Division, consisting of the companies Prüm, Garant, Invado, and RWD Schlatter, is one of Europe's leading providers of interior wooden doors and timber frames. The Division has four production sites: two in Germany, one in Switzerland, and one in Poland. A total of more than 1900 employees work at these four sites. In all three domestic markets (Switzerland, Germany, and Poland), the Doors Division offers its customers a comprehensive range of products from standard doors to complex functional doors.



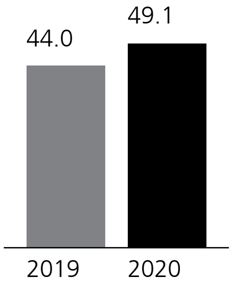
Net revenue
in CHF million

Average headcount
full-time equivalent

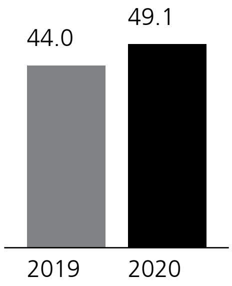
Market trends
The Doors Division achieved a revenue growth of 1.4% in the reporting year 2020, from CHF 359.4 million in the previous year to CHF 364.4 million. Adjusted for currency effects, the revenue increased by 5.0%. EBITDA without one-time effects grew from CHF 44.0 million in the previous year to CHF 49.1 million (+11.8%). In the reporting year as well as in the previous year, there were no one-time effects at the EBITDA level. EBIT without one-time effects amounted to CHF 24.1 million, compared to CHF 19.6 million in the previous year (+23.2%). While there were no one-time effects at the EBIT level in the reporting year, EBIT with one-time effects amounted to CHF 19.5 million in the previous year. To counteract the negative effects of the COVID-19 pandemic, the division implemented various cost-saving programmes and postponed some investments.

With the Prüm and Garant brands in Germany and RWD Schlatter in Switzerland, the Doors Division is one of the market leaders in the two domestic markets. In both markets, the division was able to gain further shares in the reporting year. With Invado, the market shares in Poland, the Czech Republic, and Slovakia are also to be expanded in the coming years.

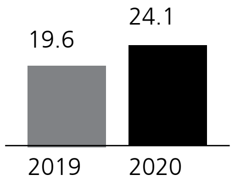
The gratifying revenue growth of the division is due in particular to the German market, which has been performing very well. The two German companies Prüm and Garant succeeded in further expanding their share in this market during the reporting year. Together, the sister companies produced around 1.8 million interior doors in the reporting year. Construction sites in Germany were hardly affected by closures caused by mitigation efforts for the COVID-19 pandemic, and the country continues to have a strong construction industry. Between 2016 and 2019, around 280 000 new flats were completed annually, but the actual demand has been significantly higher, at around 375 000 flats annually. The resulting construction backlog currently amounts to about 700 000 flats, which corresponds to a new construction volume of two years. There is thus a high pent-up demand in this area, especially due to the shortage of skilled workers in recent years, which continued to drive the construction industry in the reporting year.



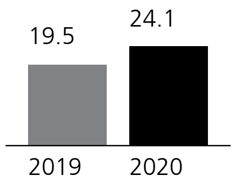
EBITDA
without one-time effects
in CHF million



EBITDA
with one-time effects
in CHF million



EBIT
without one-time effects
in CHF million



EBIT
with one-time effects
in CHF million

Renovations in Germany also continue to be stable and show little sign of being affected by the economic downturn. The reporting year showed that in challenging times, customers tend to focus on long-standing, reliable partners, and the Doors Division benefited significantly from this.

Both the Prüm and Garant production plants in Germany experienced production bottlenecks throughout the year, which was exacerbated by a partially increased sickness rate of up to 10% of the workforce due to quarantine orders. Despite 3-shift operation, capacities are currently insufficient to meet the market demand, which in turn leads to longer delivery times and higher order volumes. With the comprehensive investment programmes, new capacities are continuously being created to counteract this and to continue sustainable participation in the growing German construction market.

In the area of institutional customers, such as housing companies, the division was able to grow strongly in Germany in the reporting year. This is not least due to the cooperation with the Berlin (D) PropTech company KIWI. More than 15 000 residential properties across Germany are now equipped with the digital access system from KIWI. Due to the widespread use of KIWI, the "SmartDOORS" of the Doors Division, which have the digital access system already installed at the factory, are also becoming more important. Among other things, the renowned project "Lindenauer Hafen", which was realised for Deutsche Wohnen, one of Europe's leading real estate companies, was fully equipped with "SmartDOORS" from Prüm.

In Switzerland, the first wave of the pandemic in March/April 2020 led to construction site closures in individual cantons. Despite these negative influences, the division was able to slightly increase its revenue and market shares in this stagnating market. RWD Schlatter has so far focused strongly on the extensive and complex contractor services business. The gradual expansion of the trade business, whose market share was still low in the reporting year, and the newly developed resellers, enabled the division to realise some revenue growth.

The Polish door manufacturer Invado suffered a revenue decline. The lockdowns to contain the COVID-19 pandemic in the export markets of France, Italy, and the Czech Republic led to a decrease in demand. In the coming years, the aim is to further increase the market shares with Invado, especially in Poland, the Czech Republic, and Slovakia.

Products, technology, and innovation

One of the most important differentiating features of doors is the edge technology, since this is the most demanding part of the production process. In addition, the edge is also the most exposed part of a door and is subject to the most stress and damage, for example, from impacts. The Doors Division launched a new premium edge in the second half-year of 2019, which has the advantage of a thick edge of 2 millimetres compared to conventional doors, resulting in increased impact resistance and improved protection against damage. By the end of 2020, over 50 000 doors with this new, innovative edge technology had already been sold in Germany under the Prüm brand. In 2021, the sister company Garant will now also include the new premium edge in its product range.

In the context of the new door production hall at Invado in Poland, a test of the new edge system showed positive results. As a result, the company's product range will be expanded to include doors with an applied soft-forming edge. These represent the standard in the Polish market and are therefore a prerequisite for future growth in this domestic market.

In 2020, the division continued to focus on its multi-year investment programme to increase productivity and improve delivery performance. In total, it recorded an investment volume of around CHF 48 million, the majority of which went into the expansion of the two German production plants and the Polish one.

At Prüm in Weinsheim (D), the new "production plant of the future" is currently being built. The earthworks for the new highly specialised frame plant started in February 2020, and the foundation stone was laid in mid-May. The production hall, including peripheral buildings, will cover an area of 25 000 square metres. The completion and commissioning are targeted for the second or third quarter of 2022. In order to optimise the logistical process handling in the finished parts warehouse and to increase storage capacities in the future, an investment was also made in a second high-bay warehouse at Prüm. The construction measures for this started at the beginning of 2020 and will be completed in the second quarter of 2021. After these investments, around 350 000 more doors with corresponding frames can be produced at this location than before.

One focus of the door manufacturer Garant in the reporting year was on increasing capacities. In the middle of 2020, the new special frame production line was installed, which offers a capacity of 945 frames per day in the special area in 3-shift operation. At the same time, installation of a new spraying robot began. This will automate the process when passing through the painting line.

Part of the investment was also used to increase the vertical integration of RWD Schlatter in Switzerland. For example, the hall expansion started in summer 2019 was successfully completed in October 2020 with the commissioning of the new spraying robot. The doors produced in Roggwil (CH) are now painted by RWD Schlatter itself, which significantly shortens delivery times for customers and reduces logistics. Thanks to this measure, the company has one of the shortest delivery times on the Swiss market. In addition to this insourcing of the painting work, RWD Schlatter has been producing the block and blind frames at its sister company TPO in the Bavarian town of Leutershausen (D) since 2020, following further investments in a modern production line. Previously, this was sourced from a third-party supplier in Switzerland.

In addition to the expansion and modernisation of production capacities, a not insignificant sizeable part of the investments also went to IT and the digitisation of processes. The Doors Division is currently in the process of harmonising its ERP systems and implementing "SAP S/4HANA" throughout the division. This will make future cooperation between the four companies much more efficient. Furthermore, the two companies Prüm and Garant, together with ARBONIA DIGITAL, have advanced the development of a new dealer software. This will be made available to the specialist trade partners from the third quarter of 2021 and will allow them to cooperate much more efficiently with Prüm and Garant in the areas of quotation preparation and order processing. With this new software, the two companies are pursuing the goal of clearly differentiating themselves from the competition by providing their partners with the fastest, most efficient, most intuitive, and most informative quotation programme. The next step will be to extend this software to the two other companies in the division.

Outlook

The Doors Division is optimistic about the future. It expects to continue its revenue growth in 2021 and to expand its market positions in Central and Eastern Europe sustainably, both organically and inorganically.

Germany, the most important market for the division, is expected to continue to grow in the area of new construction due to the housing shortage in urban centres, and the renovation market is also proving to be very stable. The incoming orders for 2021 at Prüm and Garant are already very encouraging at the beginning of the year. For Switzerland, the division expects a slightly decreasing market volume. The Eastern European markets, on the other hand, offer opportunities to gain further market shares with Invado.

One thing can be observed in general: due to the COVID-19 pandemic, people appreciate their own living space more, both in terms of living space and finishing standards. In addition, the construction industry is likely to benefit from stimulus programmes from public authorities.

The Sanitary Equipment Division will be integrated into the Doors Division as of 1 July 2021. The strategic logic of the integration lies in the better use of synergies in joint market development in contract sales on the one hand and in procurement on the other. In addition, the product range of the Doors Division will be expanded to include shower doors, and in the medium term the glass doors and glass partitions area can be expanded for interiors.

"Römer Areal" in Andernach (D): A unique building project

On the former site of the Weissheimer malt factory in Andernach (D), three imposing buildings have been built that add a special flair to the city's skyline. The non-profit Anne Ehl Foundation has realised something very special: the "Römer-Areal". Since 2020, it has offered affordable living space to the residents of Andernach, as well as a hotel that fits perfectly into the Rhine-side skyline of the "baker's boy town". For this unique building project, Prüm supplied the interior doors with a purist CPL Karo look and a new premium edge.

New painting line at RWD Schlatter

The hall expansion started at RWD Schlatter in July 2019 was successfully completed in October 2020 with the commissioning of the new spraying robot. The doors produced in Roggwil (CH) are now painted by RWD Schlatter itself, which significantly shortens delivery times for customers and reduces logistics. Thanks to this measure, the company has one of the shortest delivery times on the Swiss market.

Construction start of the "production plant of the future"

The earthworks for the new, highly specialised frame plant of Prüm in Weinsheim (D) started on 20 February 2020, and the foundation stone was laid in mid-May. Following a custom, a time capsule filled with construction documents, the current daily newspaper, and euro coins was walled up in a concrete pillar. The production hall, including peripheral buildings, will cover an area of 25 000 square metres. The completion and commissioning are targeted for the second or third quarter of 2022.

Capacity expansion thanks to a new special frame production line

One focus of the door manufacturer Garant in the reporting year was on increasing capacities. In the production area, the division made a number of investments, including a new special frame production line. This was installed at the beginning of 2020 and has a total length of 162 metres. In 3-shift operation, a capacity of 945 frames per day is possible.

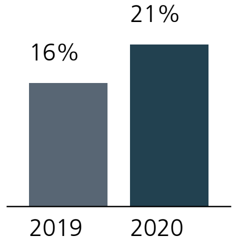
Sustainability report

The Arbonia Group (Arbonia) presents its sustainability concept along the three pillars "Climate", "Community", and "Cash" and informs its stakeholders about current developments and plans for a sustainable and successful future. The report focuses on the four focus topics "Innovative products and solutions", "CO_2 and energy", "Occupational health and safety", and "Sustainable business strategy & market orientation".

Facts & figures

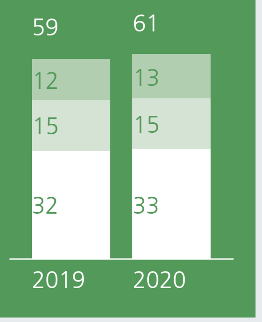
Innovative products and solutions

Proportion of net revenu by third parties with new products



Innovation projects of the divisions
With numerous innovation projects, the divisions are constantly advancing the optimisation of their products.

- Project volume greater than CHF 300 000
- Project volume between CHF 100 000 and CHF 300 000
- Project volume smaller than CHF 100 000

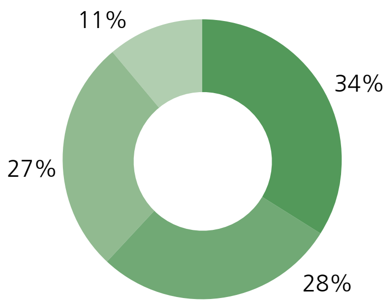


100 % Foil-free packaging being implemented at the HVAC and Sanitary Equipment Divisions.

CO_2 and energy

Energy consumption by energy source

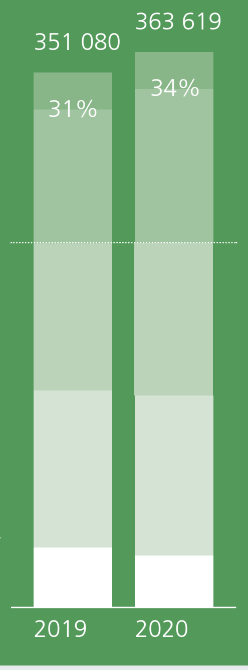
- Electricity
- Natural gas
- Own heat production (wood chips/shavings)
- Other



Almost **90%** of the energy consumption of Arbonia is covered by electricity, natural gas, and the company's own heat and power generation plants.

Composition energy consumption (MWh)
Thanks to in-house photovoltaic and combined heat and power plants, a wind turbine and the purchase of green electricity, the share of renewable energy in Arbonia's energy mix in 2020 was around 34%.

- Renewable electricity incl. own production
- Own heat production from renewable energy sources
- Conventional electricity
- Conventional heat
- Fuel



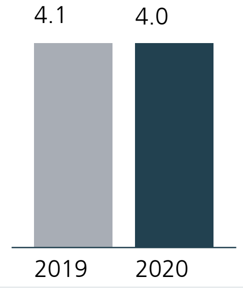
Occupational health and safety

"For employees, it is motivating and strengthens their bond with the company when their employer is committed to their **health** and **well-being** and involves them in the improvement of occupational health and safety."

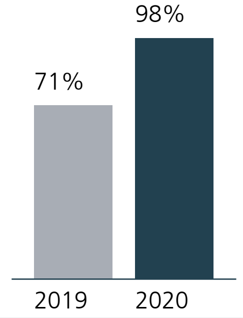
Alexander von Witzleben, Chairman of the Board of Directors and CEO

Accident frequency rate
Number of accidents per 200 000 working hours

–3%



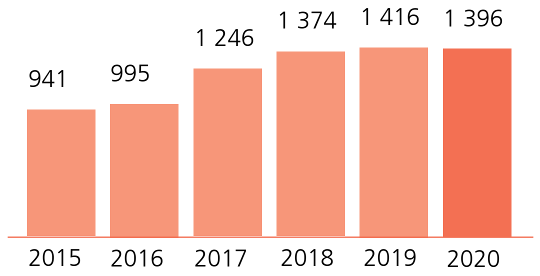
Occupational health and safety
Proportion of employees who are covered by a management system for occupational health and safety



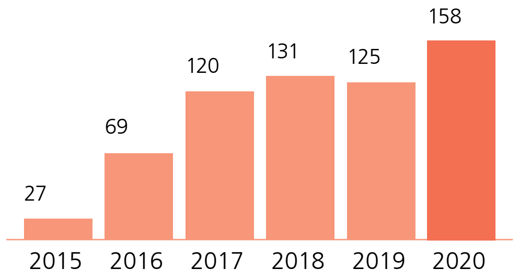
Sustainable business strategy & market orientation

21 values are included in the Arbonia code of conduct, which applies to all employees

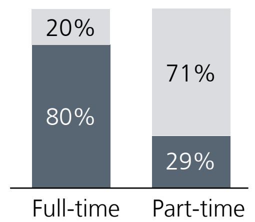
Revenue (in CHF million)



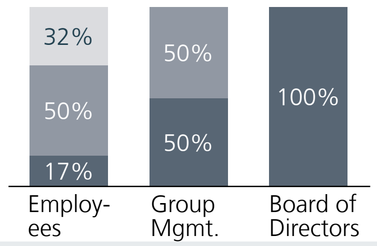
EBITDA with one-time effects (in CHF million)



Employees by employment level



Diversity by age group



Sustainability approach

Sustainability strategy

Arbonia pursues a sustainable business strategy geared towards long-term success. The comprehensive commitment of the divisions to sustainability is both strategically anchored as well as part of their operational activities.

The ongoing discussion about climate neutrality and the energy efficiency required to achieve it, as well as increasing urbanisation and demographic change are influencing the strategic development of Arbonia. The change in housing types is leading to an increasing demand for living space in conurbations. This coincides with a real estate market in which the majority of buildings have to be renovated for energy efficiency in order to reduce energy consumption in general and fossil fuels in particular, and thus greenhouse gas emissions.

There is therefore a high demand for products that reduce the energy consumption in buildings and ensure a pleasant indoor climate at the same time. Arbonia recognised this trend early on and has oriented its product portfolio accordingly. The company focuses on innovative system solutions for ventilating and heating interiors, as well as on doors and windows that help to reduce energy consumption thanks to their insulation performance.

The consistent focus on a sustainable and long-term business model has brought changes in recent years. Arbonia has made acquisitions and investments with the aim of being able to provide more sustainable products and production processes. It supports agreements to reduce greenhouse gas emissions such as the "Paris Agreement" of the Paris Climate Conference and the "European Green Deal", and actively contributes to minimising global warming (see "CO_2 and energy", pages 60 – 64). The sustainable group strategy is implemented throughout the entire group, with the divisions having a high degree of responsibility due to the decentralised organisation. They develop specific plans to support the group-wide sustainability strategy and expand the product portfolio. An example of this is the acquisition of the Vasco Group in the HVAC Division in 2018, which, among other things, enabled Arbonia to increase the share of in-house produced underfloor heating products.

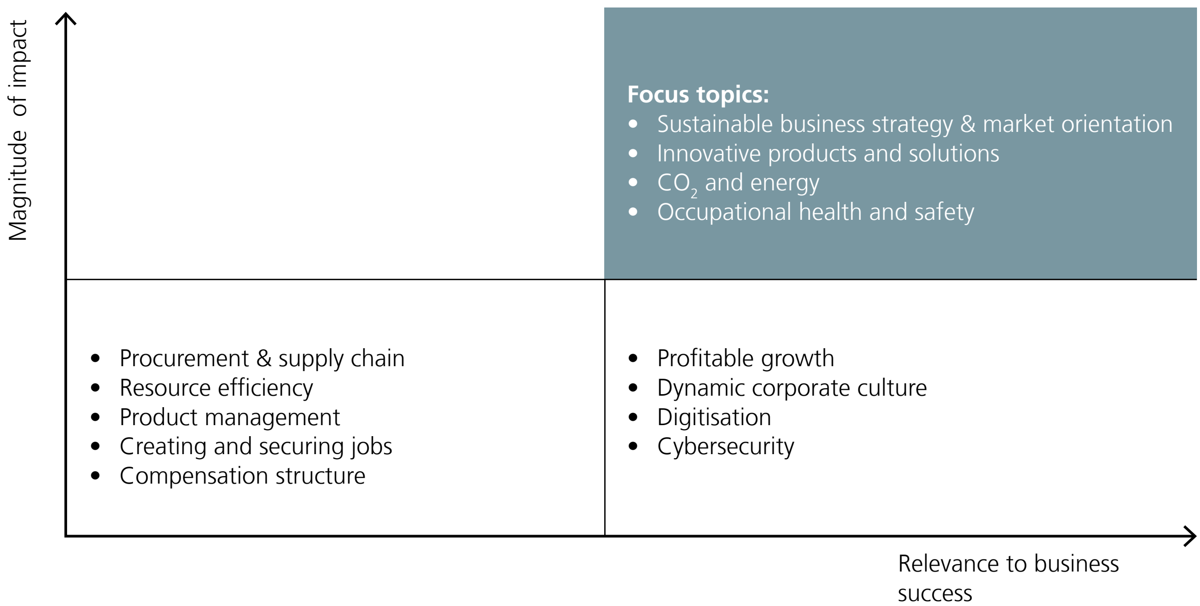
Arbonia is currently refining its sustainability strategy for the coming years. In addition to the current objectives of continuously optimising the product portfolio and the production processes, further objectives will follow based on the materiality analysis conducted in 2020. In the future, Arbonia will supplement the key figures for measuring its sustainability performance accordingly.

The 2020 financial year clearly showed that Arbonia has taken the right path with the sustainable restructuring and repositioning of the last five years, which entailed both the relocation of some production plants to best-cost locations in Eastern Europe and investments in highly efficient as well as resource-saving plants. The focus on sustainable heat generation in the HVAC Division and insulation in the Windows Division as well as Doors Division is also paying off financially.

Materiality analysis

This sustainability report is based on a materiality analysis conducted in 2020. In this analysis, Arbonia determined which topics are relevant for long-term business success and with which topics the group has a significant impact on the environment and society. The starting point was a wide-ranging list that included topics from the Global Reporting Initiative (GRI) standards, the Sustainability Accounting Standards Board (SASB), the criteria of ESG rating agencies, and the orientation of comparable companies. Related issues were consolidated in a core team, and in a subsequent workshop, representatives from all divisions as well as the corporate functions Human Resources, Legal & Compliance, IT, Corporate Procurement, Group Controlling, Corporate Communications & Investor Relations assessed the relevance of the issues. This process was supported by an external specialist, and the result of the materiality analysis was mapped in a matrix. In this first sustainability report, Arbonia addresses four focus issues in detail. The reporting on the other material issues will be gradually expanded in the future.

Materiality matrix



This page addresses the following GRI standards: 102-46, 102-47.

Sustainability governance

Arbonia has a decentralised structure. Group Management – consisting of the CEO, CFO, and the division heads – defines the measures to implement the strategy set by the Board of Directors. The responsibility for the operational business lies with the divisions. Corporate sustainability is managed at the group level by the CFO of Arbonia, and the group-wide coordination is managed by the Corporate Communications & Investor Relations department. The implementation of the defined sustainability criteria is the responsibility of the divisions or their subsidiaries in consultation and coordination with the group. Group Management discusses and evaluates the most important initiatives and projects on a monthly basis.

Code of conduct

Arbonia is aware of its economic, ecological, and social responsibility and is therefore committed to environmental protection and the careful use of resources in its code of conduct. The core social and ethical values of Arbonia are also set out in the code: engagement, responsibility, trust, and cooperation. The code was last revised in 2018 and is binding for all employees. Its application and implementation in daily interaction with internal and external partners is an integral part of the corporate culture.

Stakeholder engagement

Arbonia maintains an intensive exchange with its stakeholders, who have a significant influence on its economic, ecological, and social objectives. The internal and external stakeholders include employees, shareholders, customers, employee representatives, analysts, public authorities, as well as neighbouring companies, neighbours, and communities at the company locations. They also include partners such as suppliers, transport companies, research institutes, chambers and associations, as well as the general public. The most important associations and interest groups to which Arbonia belongs include Swissmem, the Thurgau Chamber of Commerce and Industry, SwissHoldings, the employer's association, the German Federal Association of Building Systems, and the German-Swiss Chamber of Commerce. The exchange with stakeholders takes place regularly in the context of personal discussions, meetings, conferences, and trade fairs, as well as surveys. An overview of the interaction with stakeholders can be found in the following table.

This page addresses the following GRI standards: 102-42, 102-43.

Inclusion of stakeholders and their concerns

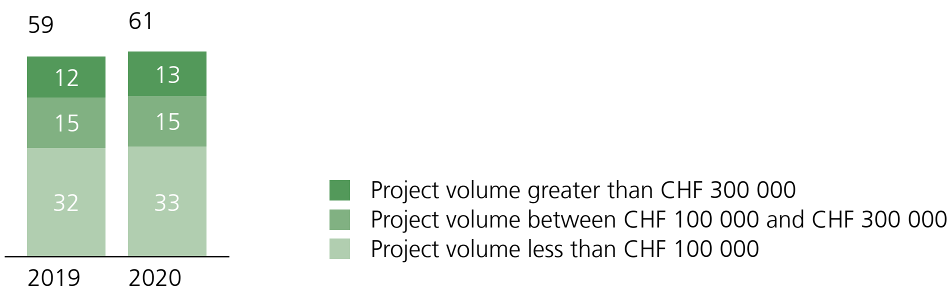
Stakeholder	Form of inclusion	Concerns raised
Customers	Internal and external customer surveys, Personal discussions	Product quality, product life cycle, customer satisfaction
Employees	Employees meetings, Employee representatives, Labour unions, CEO messages	Occupational health and safety, strategy, sustainability performance
Shareholders and investors	General Meeting, representation through Board of Directors Roadshows	Economic performance, future prospects, strategy, sustainability performance
Analysts	Roadshows, conferences, press releases	Economic performance, future prospects, strategy, sustainability performance
Public authorities	Regular exchange, approval processes for specific plants and processes	Compliance with legal and regulatory requirements
Neighbours and communities	Regular exchange, sponsoring	Securing jobs, promoting cultural life, noise and emission protection
Partners such as transport companies, suppliers, research institutes, and associations	Supplier surveys, regular exchange	Transport damage minimisation, Exchange of information, partnership & fair cooperation
General public	Press releases	Current information on the company

This page addresses the following GRI standards: 102-40, 102-44.

Climate

Innovative products and solutions

Even good things can be improved. The ongoing development and optimisation of products and solutions have a high priority at Arbonia. Our focus is on market-oriented and energy-saving offers as well as green technologies. The companies also conserve valuable resources in production and sales, while focusing on uncompromising quality at the same time.



Innovation projects of the divisions
With numerous innovation projects, the divisions are constantly driving the optimisation of their products.

Heating, Ventilation and Air Conditioning Division

Meeting high customer demands

Securing and expanding the market position through innovation is the declared objective of the HVAC Division. The task is challenging, as customers are making greater and greater demands on products and their performance. To meet these demands, the HVAC Division optimises the use of resources and enhances customer benefits. Solid project management as well as a systematic, goal-oriented product development promise success. When possible, the division protects its developments by applying for industrial property rights.

Award-winning products eligible for subsidies

The division works hard to create a positive public perception. Due to the COVID-19 pandemic, almost no national or international trade fairs took place during the reporting year, which meant that an important element for the market launch of new products and for customer care was missing. As face-to-face customer visits were not an option either at times, digital communication media became fundamentally more important. These include a variety of digital tools tailored to the respective customer group, from webinars on various topics (e.g. indoor air quality) to individualised homepages of the respective brands to special apps in an augmented reality format as product configurators.

In 2020, the products of the HVAC Division were also able to score in design competitions and were awarded prizes such as the Best of SHK Award (sanitary, heating, and air conditioning). The division is also developing more and more products that are suitable for both new buildings as well as renovations and that benefit from subsidy programmes enacted by European governments to reduce CO_2 emissions.

Continuous product optimisation

The division gains new impetus for innovations through trade fairs, technical literature, and further training of employees. Regular reports to the management as well as deadline and cost monitoring guarantee controlled and continuous product optimisation.

Key figures of innovative products and solutions: HVAC Division

	2020	2019	Delta
Employees in Research & Development (FTE)	58	57	2%
Expenditure for research & development (TCHF)	8 986	9 145	–2%
Expenditure on research & development as a share of revenues	1.7%	1.6%	
Share of net revenues from third parties with new products[1]	13.3%	13.4%	
Share of investments in new revenue sources	43.9%	33.2%	

[1] New products are defined as products introduced during the last three years.

Sanitary Equipment Division

Picking up trends

Particularly due to the COVID-19 pandemic, there is a strong homing trend in society and thus an identifiable increasing willingness to invest in bathrooms as a feel-good space. The central task of the division is to meet these customer demands by expanding and optimising its products and, at the same time, to further expand and strengthen its market position due to the high demand.

The division is countering the increased cost pressure with a more efficient use of resources, such as optimised film-free packaging. The steady expansion of the services offered is also important for the continuous strengthening of customer relationships.

Using digital channels

In the reporting year, the Sanitary Equipment Division launched new products and product extensions. Since a physical presentation was not possible due to cancelled industry trade fairs such as the SHK Essen (D) and the IFH Nuremberg (D), it relied on other channels, especially digital ones. These included new product and assembly videos, a completely revised homepage, and digital training for sales representatives. The products of the Sanitary Equipment Division were once again successful at design competitions in the reporting year: Kermi and Koralle were pleased to receive prizes at the Universal Design Awards (Expert and Consumer Jury), the German Design Awards 2020, as well as the Iconic Award 2020, among others.

Optimisation with a system

The Sanitary Equipment Division gains new impetuses for product developments through in-depth market observation. Systematic project management and the associated deadline and cost control as well as regular reporting to the management guarantee the control of new developments.

Key figures of innovative products and solutions: Sanitary Equipment Division

	2020	2019	Delta
Employees in Research & Development (FTE)	19	17	13%
Expenditure for research & development (TCHF)	1 685	1 930	–13%
Expenditure on research & development as a share of revenues	1.2%	1.3%	
Share of net revenues from third parties with new products[1]	15.3%	20.3%	
Share of investments in new revenue sources	40.2%	7.9%	

[1] New products are defined as products introduced during the last three years.

Windows Division

Innovations as competitive advantages

Product innovations are essential for the Windows Division because it operates in a very competitive environment. In addition to compliance with all relevant standards, the factors of "energy efficiency", "quality", and "price" define market success.

Promising new developments

EgoKiefer and Slovaktual impressed in 2020 with the newly launched flush-fitted secondary sashes in the "EgoAllround" and "Optim" systems. This product allows an increased proportion of glass and thereby improves the thermal insulation. The new vinyl and aluminium front doors developed by the division also have a 10% better heat transfer coefficient. This is achieved through an above-average construction depth and new, stronger infill variants. Furthermore, additional and ongoing optimisations of the production processes took place at the Wertbau site in Langenwetzendorf (D). Forklift transports could be almost completely replaced by a fully automatic buffer storage. Thanks to digital control, components reach employees directly.

Key figures of innovative products and solutions: Windows Division

	2020	2019	Delta
Employees in Research & Development (FTE)	29	25	14%
Expenditure for research & development (TCHF)	3 315	3 480	–5%
Expenditure on research & development as a share of revenues	0.5%	1.0%	
Share of net revenues from third parties with new products[1]	37.8%	20.4%	
Share of investments in new revenue sources	54.4%	45.0%	

[1] New products are defined as products introduced during the last three years.

Launching innovations even faster
The division wants to expand its market position in some markets, including the Czech Republic and Austria, and launch new products even faster in the future. While doing this, it ensures that innovations are nevertheless mature and fault-free in order to retain customer confidence. Thanks to a large dealer network, Slovaktual, for example, can quickly bring new developments to the customer. Windows that insulate even better remain a focus of development. For such windows, the frame plays a subordinate role. The decisive factor for a high thermal insulation is that the glass covers as large an area as possible. Therefore, the frame will become even narrower in future window generations. With the newly established in-house insulating glass production in Pravenec (SK), the division has the necessary flexibility to bring innovations to the market quickly. At the same time, efficiency and profitability have to be right. In order to combine this, the market is constantly monitored and customer wishes are ascertained through surveys and personal discussions. The close cooperation with suppliers also leads to new product developments and solutions, such as the sealing system and the plastic joints of the new wood/aluminium window generation.

Doors Division

Inspiring customers and partners with innovations
With its innovative products and solutions, the Doors Division repeatedly achieves a unique selling point and gains market shares. The focus is on technical advances as well as on innovative design that not only satisfies residents but also the installers of the products. Examples of this include the new residential line, the new fire protection approval of RWD Schlatter, or the premium edge with zero joint technology from Prüm and Garant launched in 2019. A particular technical innovation resulted from the minority share in the Berlin (D) property technology company KIWI.KI GmbH. Their "SmartDOOR" is a door from Prüm and Garant that is equipped with digital access technology from KIWI not visible from the outside. Thanks to the digital access system, housing companies can digitise their key property managers and increase convenience for their tenants. Managers and owners can adapt access rights online in real time and therefore no longer have to meet in person to hand over keys.

Using materials efficiently and avoiding errors
It is well known that product innovations should be resource-efficient and economical. RWD Schlatter achieved this goal in 2020, for example, by standardising certain components that can now be used in all doors. Prüm and Garant were also able to reduce the use of materials and ensure more efficient processes through uniform blank structures. Lower material stocks and the minimisation of waste make production more efficient in terms of lean management. In 2020, RWD Schlatter also improved the data management in their production system to further reduce mix-ups or incorrect orders. The challenge of developing high-quality products with low material input will occupy the division in the coming years as well. Regular customer surveys ensure that buyers' demands are taken into account in the innovation process. The companies of the division are also involved in shaping future standards and regulations through active participation in committees and bodies. This allows new requirements to be taken into account at an early stage in the development process.

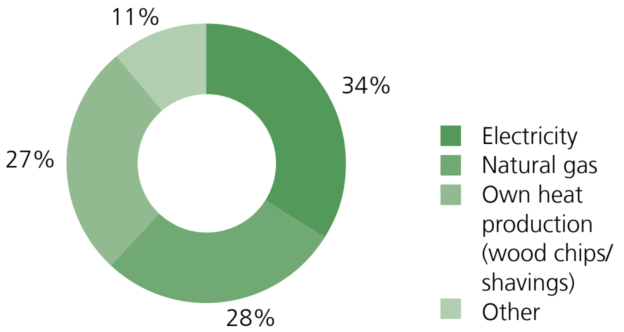
Key figures of innovative products and solutions: Doors Division

	2020	2019	Delta
Employees in Research & Development (FTE)	25	22	14%
Expenditure for research & development (TCHF)	2 925	2 769	6%
Expenditure on research & development as a share of revenues	0.8%	0.8%	
Share of net revenues from third parties with new products[1]	19.6%	15.0%	
Share of investments in new revenue sources	56.3%	53.1%	

[1] New products are defined as products introduced during the last three years.

CO_2 and energy

The responsible use of energy and the reduction of CO_2 emissions are tasks that affect all areas of the company's work – from product development and manufacturing to transport and logistics. Arbonia correspondingly attaches great importance to these issues and is determined to make a significant contribution to climate protection and resource conservation. Increasing customer expectations regarding sustainability and growing legal requirements are also causing Arbonia to strengthen its commitment in these areas.



Energy consumption by energy source 2020
Almost 90 % of the energy consumption of Arbonia is covered by electricity, natural gas, and the company's own heat generation plants.

Data basis and calculation methodology
The key environmental figures include the resource consumption of all manufacturing companies of the Arbonia Group as well as the headquarters in Arbon (CH). Pure distribution companies were not included due to their comparatively low environmental impact. The calculation of the greenhouse gas inventory follows the guidelines of the WRI/WBCSD Greenhouse Gas Protocol.

Scope 1: Emissions from own heating systems.
Scope 2: Emissions that result from the production of purchased electricity and purchased district heating. Emission factors used: IEA 2020 and DEFRA 2020.

Key environmental figures

	2020	2019	Delta
Energy consumption in MWh	**363 619**	**351 080**	**4%**
Thereof renewable	33.5%	31.1%	
Electricity	**125 623**	**121 894**	**3%**
Own electricity production [1]	8.8%	9.1%	
Total renewable electricity	19.4%	20.0%	
Heat	**203 357**	**189 253**	**7%**
Own heat production (wood chips/shavings)	97 529	84 976	15%
Natural gas	100 403	99 572	1%
Heating oil	3 066	3 513	–13%
District heating	2 360	1 193	98%
Fuels	**34 639**	**39 932**	**–13%**
Diesel	32 987	38 576	–14%
Petrol and Liquified Petroleum Gas (LPG)	1 652	1 356	22%
Energy consumption in kWh/CHF Net turnover	**0.26**	**0.25**	**5%**
GREENHOUSE GAS EMISSIONS in tCO_2e	**80 352**	**79 759**	**1%**
Scope 1	**32 129**	**33 309**	**–4%**
Own heat production (wood chips/shavings) [2]	1 507	1 313	15%
Natural gas	20 579	20 409	1%
Heating oil	820	939	–13%
Diesel	8 820	10 314	–14%
Petrol and Liquified Petroleum Gas (LPG)	403	334	21%
Scope 2	**48 223**	**46 450**	**4%**
Electricity	47 699	46 185	3%
District heating	524	265	98%
Greenhouse gas emissions in $kgCO_2e$/CHF Net sales	**0.058**	**0.056**	**2%**

[1] The company's own electricity is produced by means of photovoltaic systems and a wind turbine. These plants do not cause any CO_2-emissions during operation.
[2] Direct emissions due to the production of the greenhouse gases methane and nitrous oxide, which are not absorbed during growth. Biogenic CO_2 emissions are reported outside of scopes according to the GHG Protocol and amounted to 34 483 t CO_2e in 2020 and 30 045 t CO_2e in 2019.

Heating, Ventilation and Air Conditioning Division

Saving energy systematically

Reducing energy consumption and CO_2 emissions are important issues for the HVAC Division because they not only contribute to environmental protection and resource conservation but also improve its profitability and market position. By increasing energy efficiency, the division not only reduces its own expenses, but end customers also benefit from energy-efficient products. The climate packages of the European countries provide for tax depreciation and subsidies for the modernisation of house and especially heating systems in order to reduce CO_2 emissions. The division is intensively pursuing the strategy of offering a holistic, CO_2-free heating system with solutions ranging from efficient heat generation and energy-conscious heat transfer up to energy storage.

Traditional heat exchange also offers considerable potential for reducing energy consumption. Radiators equipped with the "x2 inside" principle (serial flow through flat panel radiators) reduce the energy demand of conventional flat panel radiators by 11%. Overall, the energy-efficient products of the HVAC Division sold since 2010 – heat pumps, "Therm-x2" flat panel radiators, fan coils and filters, ventilation units, as well as heat exchangers – will save up to one million tonnes of CO_2 annually from 2025.

Portfolio expansions for more energy efficiency

Environmentally friendly products are continuously being added to the existing product portfolio of the division. These include a new generation of heat pumps that use the refrigerant "R32", which has a lower global warming potential than conventional alternatives. The new "Hydrotower" heat and cold storage system also has a higher energy efficiency than older systems. For improved indoor climate, the division impresses with its newly developed residential ventilation in a compact design, which enables a highly efficient heat recovery.

The patented electrostatic filter system "Crystall®", which is able to remove around 95% of impurities from the air, was also very well received in 2020. Its energy consumption is up to 75% lower than that of conventional, mechanical filters, and it is compatible with fan coils, air-handling units, ventilation units, and residential ventilation and can be easily retrofitted for existing products. In addition, the system eliminates the need for energy-intensive heating of the air after conventional ventilation procedures such as opening windows. Unlike the widely used HEPA filter inserts, the filter can be easily cleaned and reused.

In order to complete its heating system, the division is working intensively on the development of an environmentally friendly, resource-saving, and cost-efficient storage system for electricity generated from solar energy. The storage is currently in the prototype phase.

In building technology, the technology used offers decisive advantages: It is currently the longest-lasting storage solution on the market because it can be charged and discharged as often as desired without losing capacity (no degeneration of the storage medium). In addition, it is non-flammable and thus guarantees a high degree of operational health and safety for use in buildings. The storage is also convincing in terms of environmental friendliness, as it does not require rare earths or raw materials from conflict areas, thus enabling significantly more ecological and resource-saving electricity storage.

Certified sites

As a result of its ISO 14001 and 50001 certification, the HVAC Division has been addressing the issue of energy efficiency for years. The ISO 50001 standard requires the monitoring of key energy figures, which is why monitoring and evaluation of energy efficiency are standard. At the largest production plant of the division in Plattling (D), for example, a modern energy data acquisition system is in use that analyses weak points in production so that inefficient energy consumers can be immediately replaced. In addition, clear responsibilities and specially appointed energy officers within the division guarantee a systematic approach. With the help of energy management, the division aims to reduce energy consumption by 1000 MWH compared to the 2020 financial year.

Taking charge of our own energy production

The HVAC Division primarily focuses its energy management on the largest energy consumers. Through investments in modern, efficient production machinery and energy-saving LED lighting, electricity consumption is being reduced in a targeted manner. Various locations produce a large part of their own electricity consumption using their own photovoltaic systems, including Plattling (D), Corbetta (I), and Dilsen (BE). Extensions to the existing photovoltaic systems and the construction of new ones are planned. The Dilsen (BE) site also has its own wind turbine with a capacity of 2 MW. The plant produces around 3.7 GWh of green electricity annually.

New buildings and refurbishments of warehouses and production halls are also based on the most modern energy aspects, such as the modernisation of the welding line cooling system in Plattling (D). In addition, the division has specifically optimised its vehicle fleet so that it complies with the "Euro 6" emissions standard. Thanks to these measures, the division will reduce its CO_2 emissions by at least 400 tonnes per year.

Active against avoidable waste

At the Stříbro (CZ) site, the HVAC Division is optimising packaging and switching from film and Styrofoam to recyclable cardboard packaging. At the Plattling (D) production plant, it is working on film-free packaging for steel panel radiators.

Sanitary Equipment Division

Established standards ensure efficiency
The reduction of energy consumption and CO_2 emissions has been central to the Sanitary Equipment Division for many years, both in product development and in the entire manufacturing process. This makes it possible to reduce costs in the long term, improve the division's own profitability, and strengthen its market position. This is also underscored by the quality, environmental, and energy management certified according to ISO 9001, 14001, and 50001. A modern energy data acquisition system is used at the Plattling (D) site to analyse weak points in production so that inefficient energy consumers can be immediately replaced. Energy officers on site also ensure efficient processes.

Investments in energy-saving technology
The investment of the Sanitary Equipment Division in state-of-the-art production facilities and the use of energy-saving LED lighting will reduce electricity consumption in the long term. Attention is also paid to energy-saving technology in new buildings and renovations at the locations of the division. For example, the new office building with the Shower Centre of Bekon-Koralle in Dagmersellen (CH) was designed with state-of-the-art environmental considerations in mind and equipped with the latest, most energy-efficient products from Arbonia. In addition, photovoltaic systems on the roofs of the buildings in Plattling (D) and Dagmersellen (CH) ensure environmentally friendly energy generation.

Reduction of packaging material
The Sanitary Equipment Division is very active in the areas of film-free packaging and transport in order to offer environmentally friendly solutions. To reduce transport weight and thus improve the environmental balance, it replaced wooden packaging with lighter but equally functional cardboard honeycomb panels.

Windows Division

Keeping heat in the house
Windows also play a decisive role in the energy demand in buildings. Modern, insulating building envelopes and windows reduce the energy consumption and thus the ancillary costs as well. Against this background, the Windows Division is aware of its special responsibility with regard to saving energy and protecting the climate. In the course of an energy-related building renovation, the insulation performance can be decisively improved by replacing windows, because old windows have heat transfer coefficients of around 3 W/m²K, while modern windows have coefficients of around 0.7 W/m²K. A modern window is therefore better insulated by a factor of 4 and further reduces heat loss by gaining solar heat. If the windows face south, it is even possible that a modern window will compensate for its heat losses through solar energy and gain more energy than it loses over an entire heating period.

Products with an exemplary ecological balance
Technical product features are continuously optimised through new developments. In particular, the new vinyl and vinyl/aluminium frames improve energy efficiency because they can accommodate wider glass packages that are thus more energy-efficient. Part of the window range is Minergie-certified and has an excellent ecological balance thanks to its high quality and durability. In this way, the products positively affect the energy certification of buildings and ensure the value of real estate. At the same time, the technically high-quality windows also contribute to a pleasant living climate.

With a view to the value-added chain
A holistic process ensures that the windows meet high sustainability and quality standards. This holds for the entire value-added chain, from procurement of the raw materials and goods through development, production, marketing, sales, and logistics to disposal. The persons responsible for these areas meet regularly to optimise the value-added chain and reduce material consumption. For this purpose, the key performance figures "reject rate", "productivity", "logistics costs", and "error costs" are continuously monitored.

Recycling is becoming more important
In the production competence centres of the Windows Division, the automation of processes and the conservation of energy and material are continually improved. The division's own test laboratory ensures high product quality through quality testing. The division is guided by the international ISO 9001 quality standard. An important aspect of this is the minimisation of rejects and waste. The Windows Division processes more and more recycled plastic. It pays attention to this not only with suppliers but also in its own plants. In the Pravenec (SK) and Zambrów (PL) production plants, plastic waste is processed and returned to production. The production plant in Langenwetzendorf (D) uses wood chips that are generated during production for heating or sells them to pellet manufacturers.

Optimisation of logistics and operation
The Windows Division also minimises environmental impacts by reducing transport distances. To save on travel, the division has installed its own insulating glass production facility at the Pravenec (SK) site. This "in-house" solution makes manufacturing both more flexible and higher-quality. With the Transport Logistic Optimizer (TLO), the division has also introduced a system for optimising logistics. Measures are decided in monthly meetings; among other things, it has been possible to reduce the number of vehicles because more windows are transported per truck. The division also avoids business trips as much as possible; this was the case even before the COVID-19 pandemic. In the interest of environmental and climate protection, meetings are held via video conference whenever possible. In addition, a photovoltaic system on the roof of the production plant in Langenwetzendorf (D) ensures the production of clean electricity.

Doors Division

Energy management for continuous improvement
Energy management according to ISO 50001 is a high priority in the Doors Division. The goal is to continuously reduce energy consumption and greenhouse gas emissions. An annual budget is available for corresponding measures. In 2020, for example, it was possible to eliminate a filter house at Garant by restructuring machines and systems, which made it possible to dismantle exhaust air lines and the associated motors. Furthermore, one third of the production area was converted to LED lighting. Prüm has set itself the goal for 2021 of reducing energy consumption by 100,000 kWh per year by completely replacing its lighting with LEDs.

Internal and external audits provide clarity
The energy management system raises awareness for savings, and internal and external controls make the development of consumption values transparent. Garant, for example, evaluates key energy figures defined on a monthly basis. The measuring points for monitoring and evaluating energy consumption have been expanded for this purpose. Prüm also determines the key energy figures every month. For 2020, the company set itself the goal of using a maximum of 11.09 kWh per produced part. This goal was already exceeded at the end of October. On the one hand, this

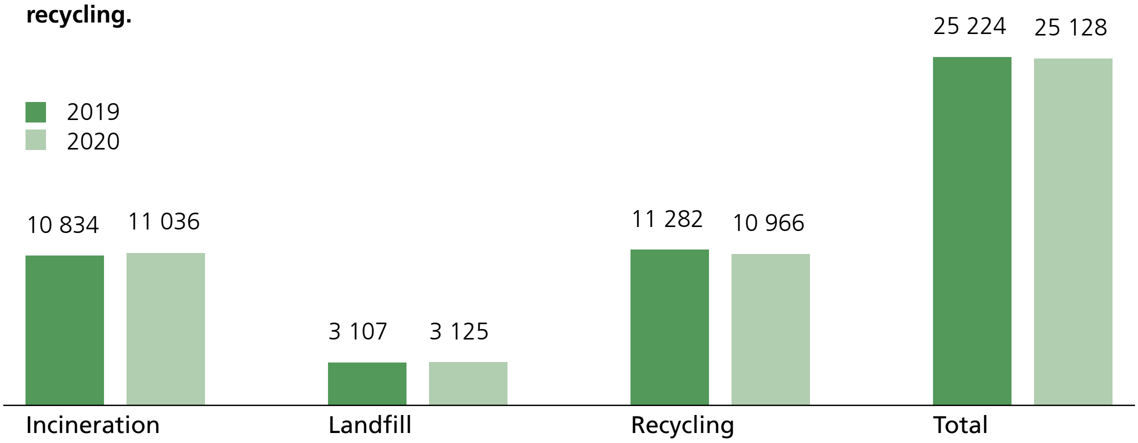
was thanks to new energy-efficient equipment for the production of the premium edge and, on the other hand, thanks to an exceptionally good order situation, which meant that the energy-intensive start-up and shut-down of the machines was no longer necessary due to extra shifts. In addition to internal consumption monitoring, Prüm and Garant have their energy management systems externally checked and certified by TÜV every year. Invado in Poland also monitors its electricity consumption during operation, especially with regard to production volume. Every year, the company compares the values with those of the previous year. In accordance with regulations, detailed audits are also carried out at regular intervals. In the future, the division intends to expand and optimise its energy management further.

Energy-efficient machines pay off
The Doors Division is pursuing several approaches to reduce energy consumption. At RWD Schlatter, a new, in-house painting facility was put into operation, eliminating the need for transport to an external service provider. In addition, the company can now better control the painting processes and quality. Another important point is new, more energy-efficient machines and processes, which require a consistent investment policy. Whenever a machine needs to be replaced, the division acquires modern, energy-saving equipment. An example of this is the significantly more efficient CNC machining centre of RWD Schlatter and, in the machinery of Invado, the replacement of large motors with energy-saving electric spindles coupled to frequency converters. Savings are also being made in lighting; Invado is currently switching to LED lights, for example.

Using production waste sensibly
In 2020, Invado realised a major thermal energy project: A newly installed Biotec boiler enables the thermal utilisation of harmless production waste. The obtained thermal energy is used for heating and hot water processing. Residual materials from production – wood chips and dust – are also burned in the existing combined heat and power (CHP) plant at the Prüm door factory. The heat produced there heats a large part of the factory and drives a turbine to generate electricity. Over the year, the CHP plant produces more electricity and heat than the site consumes. Therefore, surrounding industries can buy the surplus green energy. The division is also making progress in the area of packaging; less film and Styrofoam packaging conserves resources and minimizes waste.

Resource efficiency

Arbonia is committed to using resources responsibly. Clever product design and a production that is as free of defects as possible ensure that materials are used efficiently. Although it is not possible to completely avoid production residues, at least some of them are returned to production through recycling.



Waste by disposal method (in metric tonnes)

Key figures for resource efficiency

	2020	2019	Delta
Error costs in % of net revenues	1.6	1.7	–5%
Waste in t	**25 128**	**25 224**	**–0.4%**
Non-hazardous waste	**15 925**	**15 821**	**1%**
Incineration	4 967	4 801	3%
Landfill	2 002	2 153	–7%
Recycling	8 956	8 867	1%
Hazardous waste	**9 203**	**9 403**	**–2%**
Incineration	6 069	6 033	0.6%
Landfill	1 123	955	18%
Recycling	2 011	2 415	–17%

The figures for commercial and hazardous waste cover all manufacturing companies in the Arbonia Group as well as the headquarters in Arbon, Switzerland. Pure distribution companies were not included.

Heating, Ventilation and Air Conditioning Division

Good resource management relieves the burden on the environment, avoids waste, and reduces material consumption and rejects. The objective of the HVAC Division is to reduce error costs to less than 1% of revenue annually while increasing productivity. The division also wants to use more recycled materials.

Resource efficiency is continuously monitored, among other methods, by tracking key figures for internal and external error costs, by internal audits as well as supplier audits, by functional cost and value analyses, and by monthly reporting.

By complying with internal and external guidelines and thanks to efficient processes, it was possible to reduce reject and error costs further in 2020.

Sanitary Equipment Division

The Sanitary Equipment Division attaches great importance to resource-efficient manufacturing in product development in order to optimise material consumption and avoid waste. The objective is to minimise reject and error costs through continuous monitoring of resource efficiency.

In the past years, the division has changed its packaging concept for this reason and now largely dispenses with the use of film. This has enabled it to reduce its plastic consumption and the associated costs. By progressively using digital media, the division has also succeeded in greatly reducing its paper consumption for brochures and printed advertising material.

Windows Division

The Windows Division reduces production waste to an absolute minimum. In contract manufacturing, this poses a challenge since each product is individually customised according to the customer's requirements. The risk of errors is higher and the need for optimisation is greater than in serial manufacturing.

Where technically possible and economically viable, production residues are recycled: In the vinyl window production at Dobroplast, there is an almost seamless cycle. Profile scrap that is created during production is ground and added back to the dry blend (dry mix of vinyl powder). In addition, recycling materials are consistently used alongside fresh vinyl. The production sites of the suppliers are certified as "zero granulate loss" according to the pro-K industrial association and are members of Rewindo GmbH. In the new insulating glass production in Pravenec (SK), as well as at Dobroplast, the glass cutting is also continuously optimised to reduce waste.

Doors Division

The Doors Division achieves maximum utilisation of materials through the reduction of waste and through stable, simple processes. Residual materials from production are recycled as much as possible. However, informing and training employees is also important to improve resource efficiency. The division links this topic closely to product quality, because high-quality products mean fewer customer complaints and thus fewer rejects. The companies of the division also want to reduce their inventories and improve delivery accuracy.

At Invado, the sustainability certification of products is an important topic. More and more buyers are paying attention to low-pollutant materials and the seal of the Forest Stewardship Council (FSC). In the future, Invado therefore wants to launch more products on the market with the FSC label as well as products that emit less formaldehyde. In 2020, the company was able to significantly increase both the sales volume of certified products as well as the material efficiency. Emission control is also a focus for the other companies of the Doors Division. The products of Prüm and Garant are therefore regularly subjected to a pollutant test by the ECO Institute and certified accordingly.

Prüm, Garant, and RWD Schlatter achieved further successes in 2020. Prüm harmonised the materials that it used and was therefore able to purchase larger quantities at better prices as well as reduce transport costs. Thanks to an adjustment of the design processes and the associated outsourcing of a sub-process to a more efficient supplier, Prüm and Garant were able to simplify manufacturing and reduce rejects.

Procurement & supply chain

Arbonia mainly uses wood, steel, aluminium, as well as vinyl in its production and pays attention to sustainability not only in its own organisation but also with its suppliers. Since the majority of materials are sourced from suppliers in the EU, a high standard is already enshrined in law. Nevertheless, environmental and social criteria play an increasingly important role in the selection of suppliers. The group is raising awareness of ESG criteria in purchasing and is working on a group-wide standard for supplier assessment that includes ESG-relevant content. Technically, this assessment is to be mapped on a group e-procurement platform.

As part of the digitisation of procurement, the Corporate Procurement department began establishing such a platform as a technical layer over the ERP systems of the divisions in the reporting year. This allows the most modern procurement processes to be established in a modular system. In the future, the platform will also enable efficient networking with suppliers, external information providers, and service providers. For supplier evaluation, in addition to internally generated key figures, external key figures such as creditworthiness, risk indicators, or ESG ratings are to be combined into a holistic assessment. Arbonia is currently examining how creditworthiness indicators and ESG information can be recorded in the system for the 200 largest suppliers as early as 2021. At the same time, it is evaluating the purchase of an external ESG rating for its most important suppliers in order to check how many suppliers and what portion of the purchasing volume is covered by an ESG assessment. Suppliers already have to guarantee that human rights are respected and, in particular, that child labour and forced labour are prevented. Since more than 95% of the purchasing volume comes from the EU or the EEA, Arbonia assumes that there are no risks in this respect in the supply chain.

Arbonia prefers to procure the materials, semi-finished goods, and products required for its production from local suppliers in order to promote the local economy and minimise delivery distances. The total purchasing volume of Arbonia in the last years was around one billion Swiss francs per year. Of this, Arbonia purchased almost 65% from local suppliers, i.e. suppliers from the same country as the purchasing companies of Arbonia. When including suppliers based in countries where Arbonia also has sites, the proportion is even higher at around 80%.

Community

Arbonia's employees are the driving force, ambassadors, and key supporters of Arbonia's goal of supplying its domestic markets with energy-efficient, high-quality, and durable building products to promote energy-efficient new buildings and renovations for a resource-efficient future. They have shown themselves to be particularly dedicated, determined, and reliable under the difficult conditions and personal restrictions caused by the global medical emergency during the COVID-19 pandemic.

During this unusual time of the pandemic, Arbonia did not have to contend with an above-average number of absences or fluctuations, nor with reduced availabilities in distribution. As a result, it was possible to maintain production capacities at a high level. Particularly the commitment and conscientiousness in implementing the necessary protective measures at work as well as at home contributed to this.

Occupational health and safety

Occupational health and safety is more than just avoiding accidents at work. Prevention, ergonomics, and well-being at the workplace are equally relevant. For Arbonia, occupational health and safety is a key issue. Developments are continuously monitored internally and externally, and risk prevention and health protection also play a central role in employee training.

The key figures for occupational health and safety cover the employees of all manufacturing companies of the Arbonia Group as well as the headquarters in Arbon, Switzerland. Pure distribution companies were not included.

Key occupational health and safety figures

	2020	2019	Delta
Proportion of employees covered by an occupational health and safety management system	98%	71%	
Absence rate	6.2%	7.6%	
Accident frequency rate (number of accidents per 200 000 hours worked)	4.0	4.1	–3%

With the introduction of a division-wide system, the Windows Division was able to further increase occupational health and safety above the respective national standards in the 2020 financial year.

Heating, Ventilation and Air Conditioning Division

Safety rests on many pillars

At the HVAC Division, the focus is on people. The health, satisfaction, and performance of employees are to be maintained and the sickness and accident rate minimised. To achieve these goals, the occupational health and safety committee meets regularly in Plattling (D), among other places, and improvements are implemented where necessary. Internal area inspections and hazard analyses for all workplaces – by the company doctors, among others – are standard. During the COVID-19 pandemic, hygiene concepts were also drawn up and followed.

The division also cooperates with the industrial inspectorate and the employers' liability insurance association and undergoes external safety audits. For medical emergencies, it has efficient management plans with defined reporting chains. Employees are required to report dangerous situations immediately to their supervisor or the specially trained safety officer.

Employees are provided with the protective equipment and work safety clothing required for their work free of charge, and each employee receives safety instructions for their workplace. In addition, defibrillators are available at all locations. If an accident should occur or an employee is falling ill, shift paramedics and first aiders are available. Employees also benefit from company health programmes such as "Focus on People" and can take advantage of company medical care and preventative medical check-ups.

Involvement and training of employees

Employees are involved in the design of the occupational health and safety systems because they have valuable suggestions for improvement. The division offers regular internal and external safety training. Certain occupational groups, such as welders, crane operators, and forklift drivers, undergo special training, for example. In addition, employees can take advantage of training that is relevant to their field of work, provided by the employers' liability association for wood and metal. The statistics on sickness and accident rates provide a monthly overview of the current situation. The causes of each accident are analysed in order to eliminate dangers in the future.

The HVAC Division has been successful with its occupational health and safety concept. There are seldomly any absences due to accidents or illness. The employees are motivated and usually remain loyal to the company for many years. A low error rate and the high productivity underscore that occupational health and safety is well established in the division.

Bicycles for health

In the reporting year, the HVAC Division implemented further measures for the continuous improvement of health protection. For example, with the "Jobcycle" initiative, the company made it easier for employees at the Plattling site (D) to access e-bikes so that daily outdoor exercise could be better integrated into everyday life and the commute to work could also have a positive impact on one's quality of life and health.

Sanitary Equipment Division

Protecting and promoting health
For the Sanitary Equipment Division, the health of its employees has top priority, which is why it strives to keep sickness and accident rates as low as possible. In order to maintain and strengthen the health as well as the performance of its employees, it has initiated a wide range of measures. The employees of the division benefit from company health programmes such as the "Focus on People" programme as well as other activities. In addition, they have access to an extensive range of courses and training on a variety of subjects. They can also take advantage of company medical care and preventative medical check-ups.

The challenges of the COVID-19 pandemic and the associated increased protection of employees also prompted the Sanitary Equipment Division to develop variable real glass protective partitions under the name "KermiPROTECT" or "Koralle SW100". These partitions elicited a huge response on the market. In addition to being used in offices, they can also be used in retail stores or restaurants. The glass products are distinguished from conventional Plexiglas variants by their high stability and permanent resistance to cleaning agents.

Careful prevention promises success
The division pursues the goal of identifying potential hazards before they arise. This is ensured, among other things, by regular meetings of the working committee. In addition to an analysis of the current situation, measures are derived to continuously improve occupational health and safety when necessary. Internal area inspections and hazard analyses for all workplaces – with the company doctors, among others – have now been implemented as standard. This makes it possible to identify specific challenges of individual workplaces or activities. In addition to this continuous internal self-auditing, the division also regularly receives feedback from external auditing bodies: These are area inspections by the industrial inspectorate and the employer's liability insurance association as well as external safety audits.

In the internal environment, the division acts through its predefined management plans and reporting chains. In order to identify any hazards directly where they happen, potentially dangerous situations must be reported immediately to the supervisor or the safety officers trained for this purpose. Shift paramedics and first aiders are always available in case of accidents or illness. The statistics on sickness and accident rates provide a monthly overview of the current situation and are a tool for management. In addition to this evaluation, the causes of each accident are analysed in order to avoid dangers in the future.

To protect the employees of the division, they are provided with the necessary protective equipment and work safety clothing free of charge, and they receive safety training when they start work. Another measure that can save lives in an emergency is the provision of defibrillators at all locations.

Codetermination and training
In the reporting year, the employees were once again involved in designing the occupational health and safety systems. The resolutions are not just specifications from the company but also the employees' own ideas and inputs. The specific training of certain occupational groups is essential for occupational health and safety; for example, special instructions are organised for forklift drivers. In addition, employees can take advantage of training that is relevant to their field of work, provided by the employers' liability association for wood and metal.

Successful concept
The occupational health and safety concept of the Sanitary Equipment Division has proven to be a complete success. There are seldomly any absences due to accidents or illness. Motivation and loyalty to the employer are the results. Coupled with a low error rate and high producti vity, this demonstrates that the division can show an exemplary result for occupational health and safety.

Windows Division

Fewer accidents and occupational illnesses
The Windows Division takes its duty to care for its employees very seriously. This is not only a matter of corporate responsibility but also has competitive reasons: Good safety management prevents costs and downtime and ensures a high production quality. Last but not least, applicants are increasingly paying attention to employers' safety standards and health benefits. The division aims to support its good reputation in this area through initiatives such as "Health & Safety first" and the new health and safety goals set in 2020, among others. These goals include lowering risks through the reduced use of hazardous substances as well as the systematic identification of ergonomically critical workplaces.

Safety data as a basis for planning
With regularly collected key figures and audits, the Windows Division is continuously improving its occupational health and safety management. Internal and external experts also contribute to this. In 2020, the division improved its accident analyses and introduced a new accident reporting system, among other things.

Occupational health and safety above the legal standard
The safety requirements in the manufacturing industry are high. All production sites are obliged to qualify safety specialists, in some cases also for individual topics such as environmental safety or handling chemicals. Inspections focusing on occupational health and safety and workplace controls are also mandatory. Instead of merely fulfilling these requirements, the division also has the implementation of the occupational health and safety measures checked by external authorities, such as the safety commission for the carpentry trade. The division also works with the Swiss National Accident Insurance Fund (Suva) and familiarises its employees with Suva's "Vital Rules", among other things. These rules cover topics such as securing objects and operating machinery according to regulations. Employees also have the opportunity to make their own suggestions for improving occupational health and safety. For this purpose, they can contact their supervisor or the safety specialist directly or submit their comments and ideas for process optimisation via the Intranet.

Comprehensive prevention and health services
The employees of the Windows Division can take advantage of comprehensive services in the area of health and occupational health and safety. These include occupational health management, company medical care and preventative medical check-ups, health and fitness programmes, as well as prevention campaigns together with Suva. After a long illness, employees also receive support in reintegrating into the workplace. The division also offers its employees individual ergonomic advice and training directly at their workplace. Aids such as standing desks and special mats for healthy standing are also made available to employees.

Regular training for risk protection
The Windows Division offers its employees the opportunity to attend internal and external courses to improve occupational health and safety. In 2020, for example, EgoKiefer in Altstätten (CH) held an emergency first aid course, and all installers received training on the topics of safety, health, asbestos, and assembly aids. In addition to general safety training, Slovaktual also conducted training in specific areas of work during the reporting year, such as handling electrical machines and forklift trucks. The regular training on health protection and hygiene at the workplace was also on the agenda. In addition to other training courses, the team leaders at Wertbau were trained in risk assessment, for example.

Doors Division

Occupational health and safety as a key value
For the Doors Division, occupational health and safety has a high relevance because it can prevent injuries and illnesses and, in extreme cases, even save lives. Invado therefore describes occupational health and safety as a key value and succinctly summarises its mission on occupational health and safety and hygiene as "Safety first. Always". The division constantly analyses and monitors the status of occupational health and safety in order to continuously improve. If accidents occur, their causes and consequences are precisely evaluated in order to be able to exclude dangers in the future.

The commitment to occupational health and safety also has advantages for operational processes and profitability and additionally reduces the risk of liability: Healthy employees mean little downtime, work processes can be planned well, machines are used optimally, and the product quality is high. For employees, it is motivating and strengthens their bond with the company when their employer is committed to their health and well-being and involves them in improving occupational health and safety. In every work contract, RWD Schlatter also commits to its customers to maintain a standard of occupational health and safety.

This task is everyone's responsibility
The division continuously sensitises its employees with appropriate information on the topic of occupational health and safety. Strict requirements and controls lead to high safety standards. The company's own committees take care of the different aspects of occupational health and safety; at Prüm and Garant, for example, these are the occupational health and safety committee, the health working group, the shop floor, and the works council committee for occupational health and safety. Occupational health and safety is also the responsibility of each individual employee, and everyone is obligated to report hazards and close calls. The division uses standardised processes to minimise hazards as much as possible. Prüm and Garant use a hazardous substances database and risk assessments, for example. Specific employee briefings on safety topics are standard at Prüm, Garant, and Invado. At RWD Schlatter, occupational health and safety is already included in the quality management but is continuously developed further by the safety officers and the shop floor management.

Active for health
Employees have access to occupational health services and health promotion programmes. The division subsidises membership in fitness clubs and yoga or Pilates classes. By promoting ergonomics, the division aims to prevent employee health problems such as back pain. In 2020, RWD Schlatter invested in new machines to reduce the workload, for example. By replacing older cranes and installing new ones, it was possible to improve ergonomics as well as efficiency in the cutting, manufacturing, and painting areas. The automation of individual production steps has also increased occupational health and safety. Every new employee receives a safety briefing for his or her workplace, and there are also regular training courses tailored to the requirements of different work areas. For example, there are training courses for technicians, engineers, and forklift drivers as well as instructions that authorise people to operate electrical and gas equipment. Due to the COVID-19 pandemic, however, all training courses on occupational health and safety had to be cancelled at Prüm and Garant in 2020.

Risk protection in the time of COVID-19
The COVID-19 pandemic has posed considerable challenges for occupational health and safety. At Prüm and Garant in 2020, almost all activities of the occupational health and safety department revolved around protection against the virus. Thanks to the intra-company COVID-19 management, there were no production downtimes and no known permanent damage to health. Despite the difficult framework conditions in 2020, Invado also draws a positive conclusion on the topic of occupational health and safety: In an ISC occupational health and safety audit conducted on behalf of the ADEO Group, Invado achieved an overall grade of B with a score of 97 out of 100 possible points.

Dynamic corporate culture

Arbonia lives a dynamic, open corporate culture and creates a pleasant, appreciative, and supportive working environment. Equal treatment and equal opportunity enjoy a high priority. Wages, social benefits, and contracts comply with the principles of a responsible group. This has a positive effect on employee motivation, reduces fluctuation, and strengthens competitiveness.

Fair conditions motivate employees
In 2020, the majority of Arbonia's employees were employed in four countries: Germany (38%), Poland (20%), Slovakia (18%), and Switzerland (12%). The remaining 12% were employed in Russia, France, the Czech Republic, Italy, Spain, Belgium, and the Netherlands. While the labour market is regulated differently in each country, the overarching guidelines of the group and the divisions apply at all locations. With the help of these guidelines, Arbonia aims to retain employees and recruit qualified personnel.

As an employer, Arbonia regularly compares itself with other companies and engages in dialogue with industry associations and other stakeholders. In this way, the group wants to ensure that it can maintain and further optimise its high level as a fair employer in line with the market in order to retain employees and be attractive to new applicants. Arbonia also measures its success as an employer with the fluctuation rate. This was 16.2% in 2019 and was reduced to 13.9% in the reporting year.

Equal opportunities for everyone
Arbonia does not tolerate discrimination of any kind: Employees are not allowed to be discriminated against on the basis of gender, sexuality, ethnicity, or religion. In the building supply industry, the majority of employees are male. This is no different at Arbonia either, but the group would also like to recruit more female employees and fill more key and leadership positions with women.

Binding code of conduct
The group's code of conduct stipulates the equal treatment of all employees, among other things. All employees receive training on the code of conduct when they join Arbonia. In the event of violations, they can contact their superiors, the human resources department, or the whistleblowing offices directly. Misconduct can be reported there, and after a report has been made, a defined process takes place for handling it. If necessary, organisational or personnel consequences are drawn. The whistleblowing offices are only rarely used. In surveys, employees can also regularly comment on the working environment they experience, for example, on their dealings with superiors and colleagues as well as on their workload.

Active exchange with social partners
The group maintains a good cooperation with employee representatives in all countries. This is an essential factor for Arbonia's business success. In Switzerland, all companies are members of Swissmem, the association of the Swiss mechanical, electrical, and metalworking industries. The collective labour agreement of the Swiss mechanical, electrical, and metalworking industries (MEM) is applied, unless other mandatory collective labour agreements are in effect. For this reason, contacts with the social partners usually take place via the industry association.

Helping to shape the corporate culture
Arbonia's code of conduct, salary system, leadership development, collective labour agreements, and wage agreements as well as strategic guidelines for human resources management are approved by the Board of Directors and implemented across all levels down to the local sites. The group supports the divisions in succession planning, leadership development, and the collection of key performance indicators, which are used to review the effectiveness of measures taken. When necessary, human resources issues are discussed and addressed across divisions.

Education as a valuable asset
With 162 trainees (mostly at Kermi, Prüm, and Garant in Germany) in a wide range of occupational fields, Arbonia was able to increase this number slightly compared to the previous year. Not only was the number of traineeships increased but the quality of training on offer has been repeatedly confirmed by Arbonia's trainees receiving awards. Arbonia supports the commitment to and interest in further vocational development with educational leave, sometimes with cost sharing. In addition, "dual study places" are offered every year in order to support young college students in a targeted and practical manner.

In addition to these vocational training measures, internal and external training courses ensure that employees are familiar with technical innovations and prepared for changing technical requirements. For example, the exhibitions at the respective locations as well as special training rooms offer the opportunity to learn on products during operation.

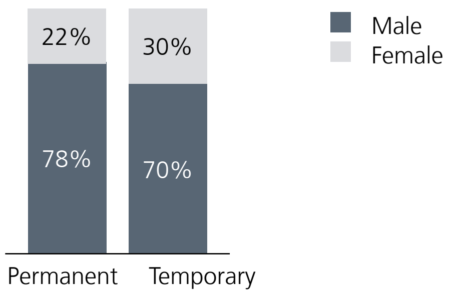
Flexible workplaces in times of a pandemic
Arbonia operates 18 production plants in nine countries. Two thirds of the employees are in the "blue collar" sector and are therefore unable to work from home. It is a central concern of Arbonia to maintain the corporate culture of an industrial company that uses modern production facilities and tools to manufacture products

consisting of innovative technical expertise, high-quality materials, enthusiasm, ambition, and masterful execution. Before the pandemic, home office or teleworking was used rather sparingly, but in 2020 it was used extensively by employees in the "white collar" sector, as far as the job allowed. In many cases, the home office was seen as a rewarding change and as a means of promoting concentration. Arbonia will therefore continue to expand this form of work regardless of the external circumstances.

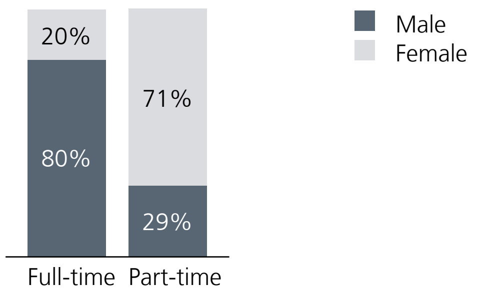
Composition of the workforce at the end of the year, in persons

	2020	Share	2019	Share
Employees (permanent employees only; in FTE)	7 993		7 966	
Employees (permanent employees only)	8 151	96%	8 153	97%
Apprentices, interns, trainees and externals	296	4%	269	3%
Employees by employment contract (permanent employees only)				
Permanent	7 400	91%	7 285	89%
Temporary	751	9%	868	11%
Employees by employment type (permanent employees only)				
Full-time	7 671	94%	7 674	94%
Part-time	480	6%	479	6%

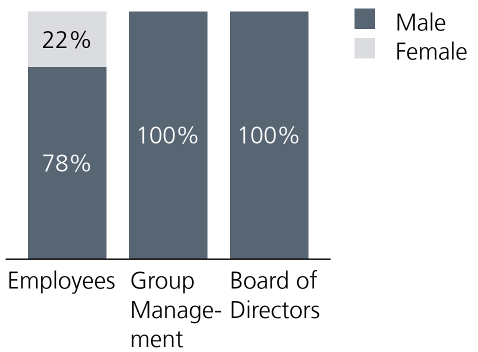
Employees by employment contract in 2020, only permanent employees



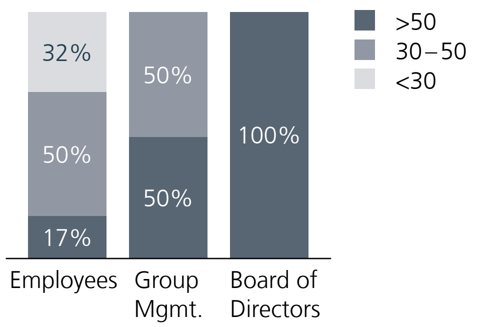
Employees by employment type in 2020, only permanent employees



Diversity by gender in 2020



Diversity by age group in 2020



Creating and securing jobs

Arbonia is a major employer at all its production sites and an important economic factor in the respective regions. The creation and protection of jobs is therefore not only relevant to the success of the group but is also linked to an economic and social responsibility for the operating sites and the surrounding communities. The companies of Arbonia have had a strong influence on some locations and maintain long-term relationships with local stakeholders. Since most employees live around the operating sites, Arbonia leaves behind a reflection of its corporate culture in the regions. It is important to the group to ensure the long-term attractiveness of its locations. The innovation strength and positive aura should have an external effect.

Arbonia wants to retain its employees for many years, because their loyalty and experience are extremely valuable. Personal care, appreciation, further training possibilities, and group-wide career opportunities are important factors in retaining employees at the company. When it comes to hiring new employees, Arbonia is dependent on the local conditions at the sites and on the labour markets. Especially at the Eastern European production sites, there was a great deal of competition in the past from the automobile and automotive supplier industries in the search for qualified employees.

In order to remain attractive as an employer, Arbonia is focusing on expanding its capacities with a long-term horizon. It is increasing its efficiency through synergy effects within the group, through investments in infrastructure, and through digitisation measures. Routine activities are increasingly being automated, which has a positive impact on the quality of the jobs. Arbonia provides its employees with modern, efficient facilities and offers them attractive, future-oriented jobs as well as a wide range of development and career opportunities.

No jobs had to be cut at Arbonia due to the COVID-19 pandemic. The group was able to protect its employees so well that the number of illness cases remained below the statistical average.

Compensation structure

In Arbonia's executive bodies, highly qualified individuals are committed to ensuring that the group continues to grow profitably and remains competitive, and that the interests of the stakeholders are taken into account in a balanced manner. Through its compensation structure, Arbonia creates incentives to retain experienced and successful members of Group Management and divisional management as well as the Board of Directors (see Compensation Report, pages 107 – 114). The compensation is in line with the market and tasks and takes into account the responsibility for the sustainable future of the group. Up to 80% of the total compensation of the Board of Directors and Group Management consists of shares (Group Management at least 17%).

Since Arbonia is a listed group, the compensation of the Board of Directors and Group Management is subject to the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (OaEC) and must be approved by the General Meeting each year. The design of the compensation structure is influenced by many factors. The company's performance, analyses by independent third parties, and the market situation are decisive. A regular comparison with the compensation structure of comparable listed companies is also carried out. The Nomination and Compensation Committee is responsible for the compensation policy.

Cybersecurity

The increasing digitisation requires higher and higher security standards to prevent cybercrime and protect important information, data, and intellectual property. An attack on the digital infrastructure and group data could lead to significant outages, supply bottlenecks, and financial losses. Arbonia wants to reduce this risk to an absolute minimum and is therefore pursuing targeted measures to strengthen its resistance to cyberattacks (cyber resilience).

Arbonia establishes processes, guidelines, and standards and regularly checks that they are complied with and implemented. With its information security strategy, Arbonia pursues a holistic security approach that is continuously reviewed with audits and penetration tests.

In 2019, the position of the group ICT officer was created at the group level to coordinate the measures and activities and support the divisions and companies in implementing the necessary security measures.

Cash

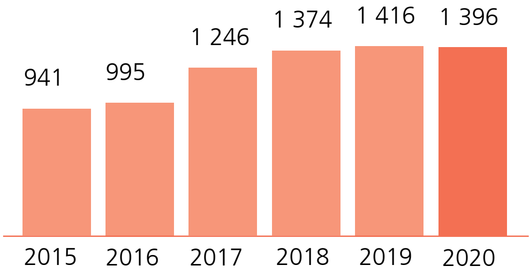
Sustainable business strategy & market orientation

Arbonia considers the long-term orientation of its business model towards future markets and sustainable, profitable growth to be a sustainable business strategy. With a focus on energy-saving and CO_2-efficient products, the group is on the right track. With its product portfolio and its innovative strength, Arbonia is well prepared to meet future needs and hold its own in the market.

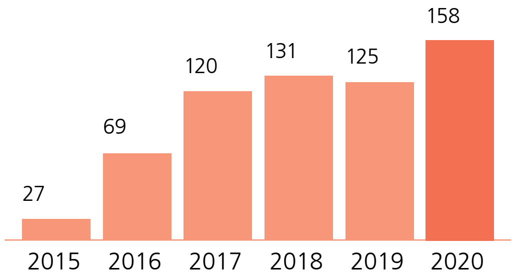
Between 2015 and 2019, Arbonia successfully completed an impressive restructuring and repositioning programme. During this period, the company and its four divisions relocated seven production plants, including to best-cost locations, invested over CHF 400 million in new production plants and more efficient processes, and increased its vertical integration.

Arbonia has set itself the goal of offering its employees a secure job and creating value for its shareholders.

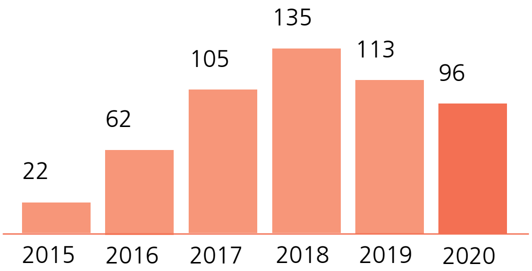
Even after the sale of the Windows Division, which is expected to be completed in the second quarter of 2021 and in which all existing employment contracts will be retained, Arbonia will continue to pursue an adapted strategy that is even more focused on sustainability.



Revenue
in million CHF



EBITDA with one-time effects
in million CHF



Investments
in million CHF

Strategic pillars after the sale of the Windows Division
The **Sanitary Equipment Division** with its shower doors and shower partitions will be integrated into the **Doors Division**. The strategic logic of the integration lies in the better use of synergies in joint market development in contract sales on the one hand and in procurement on the other. In addition, the product range of the Doors Division with functional and interior doors made of wood will be expanded to include shower doors, which allows the glass doors and glass partitions area to be expanded for interiors. The Doors Division is strengthening its position as a single-source solution provider for accessibility, including the keyless KIWI access system built into the doors.

Based on this expected and sustainable organic growth, the robust profitability of the divisions, and the liquidity of the group, additional inorganic growth is also being sought by means of targeted acquisitions in existing and/or neighbouring markets, including Eastern Europe. This brings Arbonia closer and closer to its goal of becoming the leading door supplier in Central Europe.

On the one hand, the **HVAC Division** continues to focus on organic growth in the product groups of underfloor heating, heat pumps, and residential ventilation, including their patented filter technology, which can also be offered as a system, and on the other hand on consolidation, process optimisation to increase productivity, and cost leadership in steel panel radiators, column radiators, and design radiators.

While the volume in the Western European radiator market will move sideways over the next few years, the division still expects profitable growth in these products through investments in the growth market of Eastern Europe and Russia as well as through the listed measures. In the past, the division has invested heavily in production processes in order to generate sustainably stable margins above the competition. In addition, it actively participates in the consolidation to gain market shares.

Accelerated growth is pursued with the fast-growing system products such as heat pumps, underfloor heating, as well as ventilation, air-conditioning, and filter technology in order to significantly change the revenue mix of the components and system business by 2025.

The division is focusing its development on the "house of the future": On the basis of existing and new photovoltaic systems in private houses and, in the future, in apartment buildings as well, a system solution is to be developed for heat and cold generation and control, supplemented by storage of the electricity generated by the photovoltaics.

The heat pump market, which has been growing strongly for years, is also benefiting from the European climate targets and their subsidising of CO_2-reducing and energy-saving products. For this reason, the HVAC Division is investing in expanding the capacity for energy-efficient systems at its site in the Czech Republic and will build a new production plant there starting in 2021, which will increase the existing production capacity many times over from 2022 onwards.

It is planned to support the accelerated organic growth in system products with targeted acquisitions.

Product management

Arbonia's product management includes quality assurance, product labelling, and product responsibility. Compliance with regulations and standards plays a central role for all divisions.

A large portion of Arbonia's production sites already operate with certifications for environmental management (ISO 14001) and energy (ISO 50001).

Key product management figures

	2020	2019	Delta
Total production volume[1] in TCHF	961 270	975 994	–2%
of which at ISO 14001 certified sites	40.6%	40.1%	
of which at ISO 50001 certified sites	53.1%	52.9%	

[1] Production costs of goods produced at the site, excluding purchases.

Heating, Ventilation and Air Conditioning Division

Standards and regulations for building products are becoming more and more demanding and extensive. For the HVAC Division, the challenge is to meet existing and new requirements and implement them in corresponding products.

The division actively participates in bodies such as the German Institute for Standardisation (DIN) and the Federation of German Heating Industry (BDH). The participation in these bodies enables the division to help shape technical progress and incorporate innovations into its product management early on. Within the division, processes and product programme planning have to be continuously adapted, various certifications have to be carried out, and employees have to be trained. For newly developed or adapted products, documentation must be created and industrial property rights applied for. To increase public interest, the division presents its innovations at design competitions, among other things.

The division measures the success of its product management efforts based on the sales development of new products and feedback from the market environment. In the reporting year, product management primarily focused on reducing and recycling packaging materials and recycling worn-out products. The division introduced a new, highly efficient generation of heat pumps and expanded its remote maintenance capabilities. This ensures that heat pumps installed at end customers are constantly operated at high COP (coefficient of performance) values and thus reduce energy consumption. The product development follows a systematic process with defined milestones for monitoring success. Among other things, attention is paid to the careful use of materials and high recyclability, which favours environmentally friendly, lightweight packaging materials and refrigerants with a low global warming potential (GWP).

Sanitary Equipment Division

Increasingly demanding and comprehensive standards and regulations for building products make internal product management indispensable and justifies its high relevance for the Sanitary Equipment Division. The drive to implement existing and new customer requirements in new products in compliance with applicable regulations and standards is a daily challenge.

The division therefore actively participates in bodies such as the German Institute for Standardisation (DIN) and the German Sanitary Industry Association (VDS). The participation in these bodies enables the division to help shape technical progress and incorporate innovations into the respective product management early on. Within the division, processes and product programme planning have to be continuously adapted, various certifications have to be carried out, and employees have to be trained. For newly developed or adapted products, documentation must be created and industrial property rights applied for.

Through these processes, the division ensures that customers receive an all-round high-quality and durable product: The shower stalls are characterised by exceptional durability and are always tested according to EN 14428 (CE) and PPP 53005 (TÜV/GS), which ensures safety in use with regard to stability, waterproofing, and ease of care, among other things. In addition, the use of single-pane safety glass up to 10 millimetres thick is documented according to EN 12150.

Windows Division

Product management at the Windows Division focuses on the proper labelling of products in accordance with the regulations and laws of the respective sales markets. All products undergo the relevant safety tests and certifications; in particular, they are CE-certified and thus comply with EU standards. In addition, the windows are accredited with the certificates that are important for the respective sales markets. In Germany, for example, this is the RAL mark, and in Switzerland the Minergie and Minergie-ECO labels. Furthermore, the division has been offering products made of FSC- or PEFC-certified wood as standard since 2020.

The Windows Division communicates the technical values and certifications of its products very extensively, including in customer and dealer information, product catalogues, and user manuals. Slovaktual also offers technical consultations to its franchise holders. The company has also introduced a quality management system and complies with the ISO 9001:2016 standard. In addition, products are inspected in accredited laboratories and quality checks are carried out within the company on an ongoing basis to check weld seams, for example. Customer complaints also factor into the quality management.

Doors Division

The product management of the Doors Division focuses on two areas: On the one hand, the products must comply with all legal regulations and be manufactured in conformity with approvals; on the other hand, customer requirements must be met precisely. The division achieves the latter by using the know-how of local companies and coordination at the division level. In this way, it combines the know-how of the production sites with the customer knowledge of the distribution companies. This makes it possible to satisfy even the most demanding customer wishes. A good example is RWD Schlatter and its competence centre for functional doors, which is available to the entire division. Such doors, which meet increased requirements for fire or sound protection among other things, can be adapted to the demands of customers in all markets.

The top priorities for the division are product safety and suitability for everyday use. Both points are continuously monitored internally and externally, for example, through the internal control system and quality management. The operations of Invado in Poland and RWD Schlatter in Switzerland are certified according to ISO 9001, and as a result, standardised processes guarantee the quality of the products, the delivery reliability, and the correct product labelling prescribed for the respective country of sales. RWD Schlatter now places a QR code on the product labels which can be used to call up the product information. In addition, the division carries out in-house production controls, which in turn are checked once a year as part of external audits.

The continuous quality improvements of its products are supported by the constant optimisation of its quality management and manufacturing processes, the modernisation of its machinery, as well as a careful selection of suppliers, who in turn have to meet high quality standards. In the end, however, the contribution of the employees is decisive for high quality standards, which is why the Doors Division offers appropriate training and motivates its employees to take responsibility for the quality of the products.

Important certifications, tests, and seals of approval are the FSC and PEFC certificates for sustainably sourced wood, the pollutant test by the ECO Institute, the Environmental Product Declaration (EPD), the RAL quality mark of the German Institute for Quality Assurance, and energy management according to ISO 50001.

Digitisation

Digitisation offers many opportunities: It simplifies work processes, reduces errors, and offers the possibility of involving users directly in the development of solutions. Arbonia manages digitisation with the help of a specially created organisation, ARBONIA DIGITAL GmbH. This organisation communicates with all levels of the group, involves employees, and continuously provides information on project progress, such as through product demos and newsletters (see ARBONIA DIGITAL, pages 10 – 11).

Arbonia uses digitisation to simplify cooperation at construction sites, for example, with Building Information Modelling (BIM) and Product Information Management (PIM). Digital processes and digitally available information reduce the manual effort for employees and eliminate potential sources of error. They also offer the opportunity to stand out from the competition. Customers, partners, and employees have increasing expectations for the digital representation of service and business models. Direct access to information and services is valued, and simple processes and fast processing times are expected.

In its digitisation projects, Arbonia is guided by user requirements. It applies agile working methods and lean management principles. This means that customers, partners, and users are involved in development processes, prototypes are tested directly in the market, and solutions are implemented quickly without a long planning phase. Mistakes are part of this working procedure; they are allowed and provide important experience values.

The digitisation process is already showing an impact: Partners and customers are becoming more aware of Arbonia's digital competencies. The newly developed "DoorIT" calculation and quotation software for the Doors Division is a flagship project that is gaining recognition both in and outside of the group. The initial aim of this software is to enable the dealers of Prüm and Garant to configure, calculate, and order doors more quickly. Internal processes are also simplified. The go-live is planned for 2021. In the second step, the software is to be made accessible to the other companies of the division as well.

GRI-Reporting

In 2020, Arbonia AG is reporting in detail on its sustainability commitment for the first time. This report was prepared in accordance with the GRI Standards: "Core" option. There were no significant changes to the Group's organisational structure or the supply chains of the Group companies in the reporting year. The scope of consolidation of the annual report can be seen on page 187.

This page addresses the following GRI standard: 102-45.

GRI content index

For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report. The GRI Materiality Disclosures Service was performed on the German version of the report.

Universal standards

Disclosure	Titel	Pages / Information
GRI 101:2016 Foundation		
GRI 102:2016 General Disclosures		
Organisational Profile		
102-1	Name of the organisation	Arbonia AG
102-2	Activities, brands, products, and services	I, 17, 25, 33, 41
102-3	Location of headquarters	Arbon, Switzerland
102-4	Location of operations	I
102-5	Ownership and legal form	88
102-6	Markets served	5
102-7	Scale of the organisation	II
102-8	Information on employees and other workers	74
102-9	Supply chain	67
102-10	Significant changes to the organisation and its supply chain	82
102-11	Precautionary Principle or approach	52 – 53
102-12	External initiatives	54
102-13	Membership of associations	54
Strategy		
102-14	Statement from senior decision-maker	4 – 9
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	54
Governance		
102-18	Governance structure	88 – 89
102-32	Highest governance body’s role in sustainability reporting	54
Stakeholder Engagement		
102-40	List of stakeholder groups	55
102-41	Collective bargaining agreements	29%
102-42	Identifying and selecting stakeholders	54
102-43	Approach to stakeholder engagement	54
102-44	Key topics and concerns raised	55

Disclosure	Titel	Pages / Information
Reporting Practice		
102-45	Entities included in the consolidated financial statements	82
102-46	Defining report content and topic Boundaries	53
102-47	List of material topics	53
102-48	Restatements of information	None
102-49	Changes in reporting	None
102-50	Reporting period	January 1 – December 31, 2020
102-51	Date of most recent report	n. a.
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	223
102-54	Claims of reporting in accordance with the GRI Standards	82
102-55	GRI content index	83 – 85
102-56	External assurance	No external assurance

Topic-specific standards

Disclosure	Titel	Pages	Reason for omission
Innovative products and solutions			
GRI 103:2016 Management approach			
103-1	Explanation of the material topic and its Boundary	57 – 59	
103-2	The management approach and its components	57 – 59	
103-3	Evaluation of the management approach	57 – 59	
	Personnel and monetary expenditures for innovation	57 – 59	
	Innovation projects	56	

CO_2 and energy		
GRI 103:2016 Management approach		
103-1	Explanation of the material topic and its Boundary	61 – 64
103-2	The management approach and its components	61 – 64
103-3	Evaluation of the management approach	61 – 64
GRI 302:2016 Energy		
302-1	Energy consumption within the organization	60
302-3	Energy intensity	60
302-4	Reduction of energy consumption	61, 62, 63
GRI 305:2016 Emissions		
305-1	Direct (Scope 1) GHG emissions	60
305-2	Energy indirect (Scope 2) GHG emissions	60
305-4	GHG emissions intensity	60
305-5	Reduction of GHG emissions	61, 62, 63

Occupational health and safety		
GRI 103:2016 Management approach		
103-1	Explanation of the material topic and its Boundary	69 – 72
103-2	The management approach and its components	69 – 72
103-3	Evaluation of the management approach	69 – 72
GRI 403:2018 Occupational Health and Safety		
403-1	Occupational health and safety management system	69 – 72
403-2	Hazard identification, risk assessment, and incident investigation	69 – 72
403-3	Occupational health services	69 – 72
403-4	Worker participation, consultation, and communication on occupational health and safety	69 – 72
403-5	Worker training on occupational health and safety	69 – 72
403-6	Promotion of worker health	69 – 72
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	69 – 72
403-8	Workers covered by an occupational health and safety management system	69
403-9	Work-related injuries	69

Sustainable business strategy and market orientation		
GRI 103:2016 Management approach		
103-1	Explanation of the material topic and its Boundary	52 – 53
103-2	The management approach and its components	53, 54, 77
103-3	Evaluation of the management approach	76 – 77

Corporate Governance

This report complies with the Corporate Governance Directive (CGD) of the SIX Exchange Regulation dated 20 June 2019. Unless otherwise indicated, the disclosures apply as of 31 December 2020.

1. Group structure and shareholder base

1.1. Group structure

Board of Directors	Group Management
Alexander von Witzleben Chairman of the Board of Directors	**Alexander von Witzleben** Delegate of the Board of Directors and interim CEO
Peter Barandun Vice-Chairman	**Daniel Wüest** Chief Financial Officer
Peter E. Bodmer	**Ulrich Bornkessel** [1] Head of the Heating, Ventilation and Air Conditioning (HVAC) Division
Markus Oppliger	
Heinz Haller	**Knut Bartsch** [2] Head of the Sanitary Equipment Division
Michael Pieper	
Thomas Lozser	**Nicolas Casanovas** [3] Head of the Windows Division
Dr. Carsten Voigtländer	**Claudius Moor** Head of the Doors Division

[1] Arbonia AG announced on 2 March 2021 that Ulrich Bornkessel will be stepping down as of 30 June 2021 as Head of the HVAC Division and as a member of Group Management. Alexander Kaiss will succeed him as of 1 July 2021 as Head of the HVAC Division and member of Group Management.
[2] Due to the integration of the Sanitary Equipment Division in the Doors Division effective 1 July 2021 (see section 1.1.1), Knut Bartsch will step down as Head of the Sanitary Equipment Division and as a member of Group Management as of 30 June 2021.
[3] Upon closing of the sale of the windows business announced on 5 January 2021 and expected in the second quarter of 2021 (see section 1.1.1), Nicolas Casanovas will step down as a member of Group Management.

1.1.1. Operational Group structure

As of 31 December 2020, the operational Group structure of Arbonia AG comprises (1) the HVAC Division, (2) the Sanitary Equipment Division, (3) the Windows Division, and (4) the Doors Division (see divisional structure page 13). Together with the Finance/Controlling/Reporting area, the four divisions form the Group's operational structure as of 31 December 2020.

As of 31 December 2020, Arbonia Group Management comprises the interim CEO, the CFO, and the heads of the four divisions (1) HVAC, (2) Sanitary Equipment, (3) Windows, and (4) Doors. Group Management is supported by Corporate Functions.

The company reports in line with IFRS on the basis of the above divisional structure. Descriptions of the divisions as of 31 December 2020 are found on pages 14 – 45.

Arbonia AG announced on 5 January 2021 that it will sell its window business to the Danish DOVISTA Group. The transaction is subject to the required approval by the responsible competition authorities. The closing of the contract is expected in the second quarter of 2021.

After the closing of the above-mentioned sale of the windows business, the operational group structure of Arbonia AG will comprise (1) the HVAC Division, (2) the Sanitary Equipment Division, and (3) the Doors Division. As of that date, Arbonia Group Management will comprise the interim CEO, the CFO, as well as the heads of the three divisions (1) HVAC, (2) Sanitary Equipment, and (3) Doors.

Arbonia announced on 2 March 2021 that it will integrate the Sanitary Equipment Division into the Doors Division as of 1 July 2021. As of 1 July 2021, the operational group structure of Arbonia AG comprises (1) the HVAC Division with the Heating Technology Business Unit as well as the Ventilation and Air Conditioning Business Unit, and (2) the Doors Division with the Wood Solutions Business Unit as well as the Glass Solutions Business Unit (see the divisional structure on page 13). As of 1 July 2021, Arbonia Group Management will consist of the interim CEO, the CFO, and the heads of the two divisions (1) HVAC and (2) Doors.

Arbonia AG announced on 2 March 2021 that a new holding organisation will be introduced as of the Annual General Meeting on 22 April 2022. The previous organisation, in which the Chairman of the Board of Directors also holds the position of interim CEO, will be replaced by a holding structure without a dual mandate. As of the Annual General Meeting on 22 April 2022, the organisation of the Arbonia Group forsees an Executive Chairman of the Board of Directors and a CFO, who will be Head of Corporate Functions at the same time. As of that date, Group Management will consist of the CFO and (subject to the completion of the sale of the windows business) the heads of the two divisions (1) HVAC and (2) Doors.

1.1.2. Scope of consolidation

The scope of consolidation of Arbonia AG, headquartered in Arbon TG ("Arbonia" or the "company") comprises the Group companies listed in the financial report on page 187 (collectively the "Group"). The name, registered office and share capital of the main Group companies, as well as the interests held by the Group, are also detailed on these pages. Arbonia shares are listed at the SIX Swiss Exchange in Zurich under securities number 11 024 060 (ISIN CH0110240600). Information about market capitalisation can be found in the Supplementary Information for Investors on page 215. Other than Arbonia, none of the other Group companies included in the scope of consolidation are listed at any stock exchange in Switzerland or abroad.

1.2. Major shareholders

	31/12/2020		31/12/2019
Voting and capital shares		Shareholding notification	Voting and capital shares
	In %		In %
Artemis Beteiligungen I AG	22.09	17/12/2016	22.07
Leo Looser	3.03	17/04/2019	3.03
M&G Plc, London, UK	3.16	18/06/2020	
Looser family shareholders		16/04/2019	< 3.0

On 17 December 2016, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 20.02% (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html). As of 31 December 2020, the shareholding of Artemis Beteiligungen I AG amounted to 22.09%.

On 4 February 2020, Morgan Stanley reported a shareholding (securities lending) of 5.06% and on 13 February 2020 a shareholding of 0.0005% (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

On 18 June 2020 M&G Plc reported a shareholding of 3.16% (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

On 29 October 2020 Credit Suisse Funds AG reported a shareholding of 3.04%, and on 18 December 2020 Credit Suisse Funds AG reported a shareholding of 2.98% (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

Arbonia is not aware of any shareholders' agreements among its shareholders.

1.3. Cross-shareholdings

No cross-shareholdings of more than 5% of the votes or the capital exist between Arbonia and other companies.

2. Capital structure

2.1. Capital

As of 31 December 2020, the ordinary capital of Arbonia is CHF 291 787 620.60, the conditional capital is CHF 29 148 000.00, and the authorised capital is also CHF 29 148 000.00.

The ordinary capital results from note 48 of the annex to the consolidated financial statement on page 174.

	Quantity	Nominal value	Share capital
Registered shares 31/12/2019	69 473 243	4.20	291 787 620.60
Registered shares 31/12/2020	69 473 243	4.20	291 787 620.60

2.2. Authorised and conditional capital

Authorised capital

The General Meeting on 24 April 2020 authorised the Board of Directors to increase the share capital by a maximum of CHF 29 148 000 by issuing a maximum of 6 940 000 fully paid-up registered shares of a par value of CHF 4.20 each at any time until 24 April 2022.

No changes related to the authorised capital took place in 2020 (see section 2.3).

In certain circumstances, the Board of Directors can exclude in whole or parts the preferential subscription right of shareholders in favour of third parties. Shares can be issued in one or multiple stages.

The authorised and conditional capital are available on an alternative instead of a cumulative basis. If new shares are issued based on the authorised capital, the conditional capital shall also decrease by the same amount as the authorised capital.

Conditional capital

The share capital can be increased by a maximum of CHF 29 148 000 by issuing a maximum of 6 940 000 fully paid-up registered shares with a nominal value of CHF 4.20 each. These registered shares are to be issued upon exercise of option rights granted in conjunction with convertible bonds, bonds with option rights or similar forms of financing offered by Arbonia or one of its subsidiaries. Shareholders' subscription rights are excluded.

If new shares are issued based on the conditional capital, the authorised capital shall also decrease by the same amount as the conditional capital.

Group of beneficiaries, conditions, and modalities
The group of beneficiaries and the terms and conditions for issuing shares from the authorised and conditional capital are described in Art. 3a and Art. 3b of the Articles of Association (available at www.arbonia.com/en/company/corporate-governance).

2.3. Changes in capital
In the last three reporting years (2018 – 2020), the share capital of CHF 291 787 620.60, which is fully paid-up and divided into 69 473 243 registered shares of a nominal value of CHF 4.20 each, remained unchanged.

2.4. Shares and participation certificates
The company has issued 69 473 243 registered shares at a nominal value of CHF 4.20. Each registered share grants the same entitlement to receive dividends and represents one vote at the General Meeting. No preferential rights have been granted. The company has not issued any participation certificates.

2.5. Dividend right certificates
The company has not issued any dividend right certificates.

2.6. Limitations on transferability and nominee registrations
2.6.1. Limitations on transferability
On request, purchasers and beneficiaries of registered shares are registered in the share register as shareholders with voting rights if they expressly declare that they have purchased the shares in their own name and for their own account.

2.6.2. Granting of exceptions
The company's Articles of Association do not permit any exceptions to the rules described above in 2.6.1. Accordingly, the Board of Directors did not grant any exceptions in the reporting year.

2.6.3. Nominee registrations
Nominees are persons who, on applying for registration, do not explicitly declare that they hold the shares for their own account and with whom the Board of Directors has signed an agreement to this effect. As a matter of principle, a nominee is not entered in the share register with voting rights for more than 3% of the registered share capital entered in the Commercial Register. Beyond this limit, a nominee is only entered in the share register with voting rights insofar as he or she discloses the names, addresses and shareholdings of the persons for whose account he or she holds 0.5% or more of the registered share capital entered in the share register. In the event of such a disclosure, the nominee concerned is entered in the share register with voting rights up to a maximum of 8% of the registered share capital entered in the Commercial Register.

2.6.4. Procedure and requirements for limitations on transferability
Under Art. 13 of the Articles of Association (www.arbonia.com/en/company/corporate-governance), limitations on the transferability of registered shares require the approval of at least two thirds of the voting shares represented and the absolute majority of the nominal share value represented.

2.7. Convertible bonds and options
There are no outstanding convertible bonds or options issued by Arbonia.

3. Board of Directors
The Board of Directors of Arbonia consists of experts who cover the key subject areas of Arbonia as a building components supplier. The Board of Directors attaches due importance to the diversity of the body, reflecting one of the Group's corporate principles. When positions on the Board of Directors are filled in the future, women will be included in the list of potential nominations.

3.1. Members of the Board of Directors
As of 31 December 2020, the Board of Directors consisted of the following members:

Alexander von Witzleben

1963, German citizen, resident in Erlenbach ZH, degree in business management, from 17 April 2015 to 30 June 2015 Chairman of the Board of Directors and, since 1 July 2015, Chairman and Delegate of the Board of Directors. 1990–1993 KPMG Deutsche Treuhand Gesellschaft, Munich (D); 1993–1995 Head of Central Finance/Controlling JENOPTIK AG, Jena (D); 1996–2003 member of the Board of Directors, CFO, JENOPTIK AG, Jena (D); 2003–2007 Chairman of the Board of Directors, CEO, JENOPTIK AG, Jena (D); 2007–2008 member of the Board of Directors of Franz Haniel&Cie. GmbH, Duisburg (D); since 2009 Chairman of the Board of Directors at Feintool International Holding AG, Lyss and interim CEO in 2009. Alexander von Witzleben has been a member of the Board of Directors of Artemis Holding AG, Hergiswil, since 20 May 2015. This company has a shareholding of 22.09% in Arbonia and a shareholding of 50.32% in Feintool International Holding AG, Lyss. Alexander von Witzleben has been a member of the executive management of Arbonia on an interim basis since 1 July 2015. Aside from this, he has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: Member of the Advisory Board of KAEFER Isoliertechnik GmbH&Co. KG, Bremen (D); Chairman of the Supervisory Board of PVA TePla AG, Wettenberg (D); Chairman of the Supervisory Board of VERBIO Vereinigte BioEnergie AG, Leipzig (D); member of the Supervisory Board of Siegwerk Druckfarben AG&Co. KGaA, Siegburg (D); member of the Board of Directors of Artemis Holding AG, Hergiswil NW; Chairman of the Board of Directors of Feintool International Holding AG, Lyss BE.

Peter Barandun

1964, Swiss citizen, resident in Einsiedeln SZ, Executive MBA HSG, non-executive Vice-Chairman of the Board of Directors since 17 April 2015 (2014-2015 non-executive Member of the Board of Directors). 1985–1990 Deputy Head of Sales at Grossenbacher AG, St. Gallen; 1990–1995 Head of Sales Eastern Switzerland at Bauknecht AG, Lenzburg; 1995–1996 Head of Sales Switzerland/member of the management of Bauknecht AG, Lenzburg; 1996–2002 Director of the divisions Electrolux and Zanussi Electrolux AG, Zurich; since 2002 CEO Electrolux Switzerland/Chairman of the Board of Directors of Electrolux AG, Zurich. Peter Barandun has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: Chairman of the Board of Directors of Electrolux Holding AG, Zurich ZH, and of Electrolux AG, Zurich ZH; Vice-Chairman of FEA (Swiss Association of the Domestic and Industrial Electrical Appliances), Zurich ZH; Vice-Chairman of the Board of Swiss Ski, Muri near Bern BE; member of the Board of Directors of Fundamenta Group Holding AG, Zug ZG; member of the Supervisory Board of Fundamenta Group (Deutschland) AG, Munich (D).

Peter E. Bodmer

1964, Swiss citizen, resident in Küsnacht ZH, lic. oec. publ., Executive MBA, IMD, non-executive member of the Board of Directors since 19 April 2013. 1993–1994 Head of Sales at Kaiser Precision Tooling Ltd., Rümlang; 1995–1998 Deputy Director, Head of Integration and CFO Europe at GKN Sinter Metals GmbH; 1998–2005 COO and CFO of Maag Holding AG; 2005–2012 member of Group Management at the Implenia Group; since 2011 various management and consulting mandates as Chairman and CEO of the BEKA Group. Peter E. Bodmer has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: member of the Board of Directors of Peach Property Group AG, Zurich ZH; member of the Board of Directors of Kuratle Group AG, Leibstadt AG; member of the Board of Directors of Brütsch/Rüegger Holding AG, Urdorf ZH; Vice-Chairman of the Board of Directors of Helvetica Property Investors AG, Zurich ZH; member of the Board of Directors of INOVETICA Holding AG, Baar ZG; president of the Foundation Board of Zurich Innovation Park, Dübendorf ZH; president of the Foundation Board of Profond Pension Fund, Zurich ZH; member of the Foundation Board of the Wilhelm Schulthess-Stiftung, Zurich ZH; member of the Board of Directors of Klinik Schloss Mammern AG, Mammern TG; member of the Board of Directors of Nüssli (Schweiz) AG, Hüttwilen TG, active as an advisor for various companies, whereby his activities as an advisor do not present any conflict of interest with the Arbonia Group.

Markus Oppliger

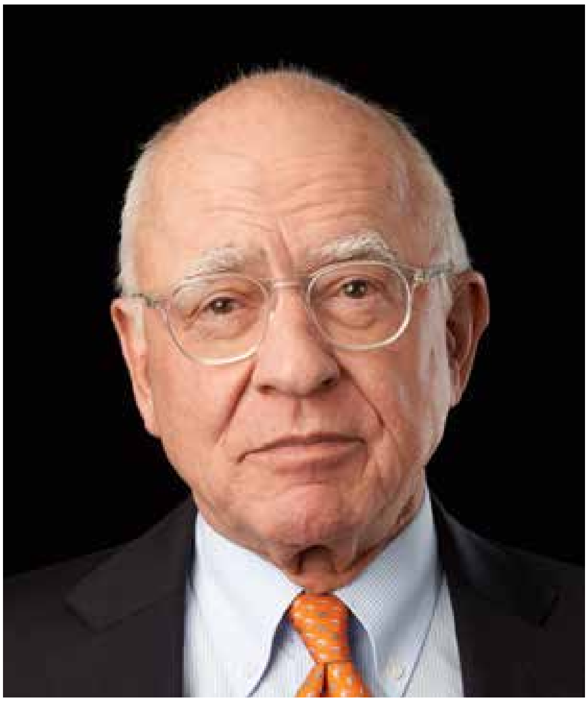
1959, Swiss citizen, resident in Wangs SG, accounting and controlling expert with a federal diploma, auditor with a federal diploma, non-executive member of the Board of Directors since 19 April 2013. 1978–1983 Prefera Treuhandgesellschaft Sargans; 1983–1988 Bank in Liechtenstein/Prince of Liechtenstein Foundation; 1989–2013 at Ernst&Young, partner from 1996 and Quality&Risk Management Leader of the Advisory Services of Ernst&Young GSA (Germany, Switzerland, Austria) from 2009; various consulting mandates as an independent management consultant and owner of Oppliger Management Consulting since 2013. Markus Oppliger has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: Chairman of the Board of Directors of Siga Ausstellung AG, Mels SG; Chairman of the Board of Directors of Pizolbahnen AG, Bad Ragaz SG; Member of the Foundation Board of Stiftung Pizol mit Herz, Vilters-Wangs SG; judge at the commercial court in the Canton of St. Gallen, term of office 2017/2023; member of the Board of Directors of St. Gallisch-Appenzellische Kraftwerke AG, St. Gallen SG; member of the Board of Directors of Songwon Industrial Co. Ltd., Ulsan, South Korea; active as an advisor for various companies, whereby his activities as an advisor do not present any conflicts of interest with the Arbonia Group.

Heinz Haller

1955, Swiss citizen, resident in Andermatt UR, MBA IMD, Lausanne, non-executive member of the Board of Directors since 25 April 2014. 1980–1994 various management positions in The Dow Chemical Company, Horgen/Frankfurt (D) / Midland MI (USA); 1994–1999 Managing Director of Plüss-Staufer AG, Oftringen; 2000–2001 Chief Executive Officer of Red Bull Sauber AG/Sauber Petronas Engineering AG, Hinwil; 2002–2006 Managing Director of Allianz Capital Partners GmbH, Munich (D); 2006–2010 Executive Vice-President Performance Products and Systems Divisions and DAS (Dow Agricultural Science Division) of The Dow Chemical Company, Midland MI (USA); 2010–2012 Executive Vice-President & Chief Commercial Officer of The Dow Chemical Company, Midland MI (USA); 2012–2018 Executive Vice-President of The Dow Chemical Company, President Dow Europe, Middle East, Africa & India (EMEAI). Heinz Haller has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: member of the Board of Directors of South Pole Holding AG, Zurich ZH; member of the Board of Directors at Limmat Wealth AG, Zurich ZH; member of the Foundation Board of Zurich Innovation Park, Dübendorf ZH; chairman of the Board of Directors of GETEC PARK.SWISS AG, Muttenz BL; member of the Board of Directors of the Hockey Club Ambri Piotta SA, Quinto TI.



Michael Pieper

1946, Swiss citizen, resident in Hergiswil NW, lic. oec. HSG, non-executive member of the Board of Directors since 17 April 2015. Owner and CEO of the Franke/Artemis Group since 1989; 1989–2012 CEO of the Franke Group, CEO of the Artemis Group since 2013. Michael Pieper has never been part of the executive management of Arbonia or its subsidiaries. Michael Pieper controls the largest shareholder in Arbonia (see 1.2) and, through companies under his ownership, has material business relationships with Arbonia subsidiaries (see pages 185/186).

Other activities and vested interests: member of the Board of Directors of Franke Holding AG, Aarburg AG (CH); member of the Board of Directors of BERGOS AG (previously BERGOS BERENBERG AG), Zurich ZH; Vice-Chairman of the Board of Directors of Forbo Holding AG, Baar ZG; member of the Board of Directors of Rieter Holding AG, Winterthur ZH; member of the Board of Directors of Autoneum Holding AG; Winterthur ZH, member of the Board of Directors of Reppisch-Werke AG, Dietikon ZH.

Thomas Lozser

1961, Swiss and US citizen, resident in Novi, Michigan (USA), degree in engineering from ETH, MBA, non-executive member of the Board of Directors since 13 December 2016. 1987–1988 Quality Assurance Assistant, Elco, Vilters; 1988–1989 Manufacturing Engineer, MPI International, Deerfield, Wisconsin (USA); 1989–1992 Assistant to the President and Manager Computer Systems, MPI International, Rochester Hill, Michigan (USA); 1992–1998 General Manager and President/Plant Manager, Kautex Textron, Avilla, Indiana (USA); 1998–2000 Senior Vice President Operations, Kautex Textron, Troy, Michigan (USA); 2000–2002 President and shareholder, Magnetic USA Inc., Olney Illinois (USA); following the takeover by SKF USA Inc. 2002–2005 Vice President Sales Lineartechnik, SKF USA Inc. Bethlehem, Pennsylvania (USA); 2005–2010 CEO of the Coatings business unit at the former Looser Group, Arbon; independent entrepreneur since 2010. Thomas Lozser has never been part of the executive management of Arbonia. He has no material business relationships with Arbonia or its subsidiaries.

Other activities and vested interests: member of the Board of Directors of Mopec Inc., Oak Park, Michigan (USA).

Dr. Carsten Voigtländer

1963, German citizen, resident in Mühbrook (D), graduate in mechanical engineering, Dr. Ing. process engineering, INSEAD Advanced Management Programme, non-executive member of the Board of Directors since 12 April 2019. 1989–1994 research assistant at the Institut für Thermodynamik of the Technische Universität Braunschweig (D), 1994–2002 various management positions at Neumag GmbH, Neumünster (D): 1994–1996 development engineer, 1996–1998 Head of the Engineering and Project Management Department, 1998–2000 Managing Director Technology, 2000–2002 spokesman of the management board for Technology, Service, commercial areas; 2002–2006 CEO and member of the management board at Saurer GmbH & Co. KG, Neumünster (D); 2006–2009 CEO and member of expanded Group Management OC Oerlikon AG and chairman of the management board of Oerlikon Textile GmbH & Co. KG, Remscheid (D); 2009–2018 various management positions at Vaillant GmbH, Remscheid (D): 2009–2010 CTO and Managing Director, 2011–2018 CEO and chairman of the management board and director of the Sales, Marketing and Service areas (2011–2015). Since 2018 various consultancy, administration and supervisory board mandates as well as owner of Voigtländer Board Advisory, Mühbrook (D). Dr Carsten Voigtländer has never been part of the executive management of Arbonia or its subsidiaries. He has no material business relationships with Arbonia or its subsidiaries.

Further activities and vested interests: Vice-Chairman of the Board of Directors of Saurer Intelligent Technology Co. Ltd., Shanghai (CN); member of the Board of Directors of Behr Bircher Cellpack BBC AG, Villmergen AG; Senior Advisor of INNIO Jenbacher GmbH & Co. OG, Jenbach (AT); member of the Board of Directors of Electrolux Professional AB, Ljungby (SE); member of the Foundation Board of Friedhelm Loh Stiftung & Co. KG, Haiger (D); member of the advisory board of STAR Deutschland GmbH, Sindelfingen (D); member of the Board of Directors of Stulz Verwaltungsgesellschaft mbH, Hamburg (D); member of the board of Modern Electron Inc., Bothell (USA); member of the advisory board of Future Carbon GmbH, Bayreuth (D); active as an advisor for various companies, whereby his activity as an advisor does not present any conflict of interest with the Arbonia Group.

3.2. Number of permissible mandates pursuant to Art. 12 para. 1 section 1 of the Swiss Ordinance Against Excessive Compensation (OaEC)

Members of the Board of Directors may have a maximum of ten mandates outside the Group, of which no more than five may be with listed companies. This rule also applies for members of the Board of Directors who, at the same time, belong to Group Management by assuming the role of a delegate of the Board of Directors and interim CEO. More details on the rules for the number of permitted mandates can be found in Art. 29 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

3.3. Election and term of office

The Chairman of the Board of Directors and the other members of the Board of Directors are individually elected by the Annual General Meeting for a term of office of one year. The members of the Board of Directors may be re-elected. The terms of office of the current members of the Board of Directors are as follows:

Board of Directors	Year of birth	First election	End of the term of office
Alexander von Witzleben, Chairman	1963	2015	2021
Peter Barandun, Vice-Chairman	1964	2014	2021
Peter E. Bodmer	1964	2013	2021
Markus Oppliger	1959	2013	2021
Heinz Haller	1955	2014	2021
Michael Pieper	1946	2015	2021
Thomas Lozser	1961	13/12/2016*	2021
Dr. Carsten Voigtländer	1963	2019	2021

* The election took place on 1 November 2016 and the assumption of office took place on 13 December 2016.

3.4. Internal organisation

3.4.1. Allocation of tasks within the Board of Directors

The Chairman of the Board of Directors is Alexander von Witzleben and the Vice-Chairman is Peter Barandun. Since Alexander von Witzleben was appointed delegate of the Board of Directors and interim CEO on 1 July 2015, Markus Oppliger has been acting as Lead Director. The Board of Directors is supported by an Audit Committee and a Nomination and Compensation Committee.

3.4.2. Committees of the Board of Directors

The duties, responsibilities and working procedures of the committees are laid down in the by-laws (www.arbonia.com/en/company/organisation). The Board of Directors appoints the members of the committees, with the exception of the Compensation Committee, whose members are elected by the General Meeting. The chairpersons of the committees are appointed by the Board of Directors.

3.4.2.1. Audit Committee

The Audit Committee is convened by the Chairperson as often as business requires, but at least three times a year. It consists of three members. Two members of the Audit Committee are non-executive and independent. Alexander von Witzleben, member of the Audit Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. All members of the Audit Committee have experience in finance and accounting.

The Audit Committee reviews the effectiveness of the external and internal auditors, the internal control system including risk management, the compliance with standards from a financial and legal perspective, the accounting system, the financial reports and the performance, fees and independence of the external auditors. It draws up a recommendation to the Board of Directors regarding the submission of the financial statements to the General Meeting. Within the scope of these duties, the Audit Committee has comprehensive rights of inspection and information. It may order investigations and consult external advisors.

Reporting to the Audit Committee is Internal Audit, which performs an independent, Group-wide auditing and monitoring role (see 3.6 below). The Audit Committee is authorised to make decisions regarding the tasks entrusted to it provided that the respective matter does not concern a non-delegable duty of the Board of Directors pursuant to Art. 716a of the Swiss Code of Obligations. The committee may submit issues within the scope of its decision-making powers to the Board of Directors.

The committee consists of the following members:
– Markus Oppliger, Chairman
– Alexander von Witzleben
– Peter E. Bodmer

The Audit Committee met four times during the reporting year. Of these, one meeting was held as a telephone conference and one meeting as a video conference. The interim CEO and the CFO attended all four meetings, and the external and internal auditors attended three meetings. At the subsequent meeting of all members of the Board of Directors, the Chairman reports on the meetings of the Audit Committee. The meetings of the Audit Committee lasted two and a half hours on average. The Chairman of the Audit Committee and the Head of Internal Audit regularly held additional meetings to discuss the findings of Internal Audit and its duties in detail. In the reporting year, the Audit Committee dealt with, among others, the effects of the COVID-19 pandemic on the course of business as well as the key financial figures, which served as the basis for the extraordinary reporting of the Arbonia Group in the reporting year.

3.4.2.2. Nomination and Compensation Committee
The members of the Compensation Committee were elected by the General Meeting on 24 April 2020. The members of the Compensation Committee also take care of the duties of the Nomination Committee. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015.

The Nomination and Compensation Committee is convened by the Chairperson of the committee as often as business requires, normally two to three times a year. The Nomination and Compensation Committee gives the Board of Directors recommendations regarding the Group's salary policy and compensation system. It submits a motion to the Board of Directors for the attention of the General Meeting regarding the total compensation for the members of the Board of Directors and the fixed and variable compensation of the members of Group Management. The Nomination and Compensation Committee determines the salaries of the individual members of Group Management. It approves, in principle, bonus programmes and profit-sharing schemes for employees as well as pension fund solutions and benefit plans. The Nomination and Compensation Committee is also responsible for the preparation of the Compensation Report and the request to the full Board of Directors for approval. Furthermore, the committee determines the principles for the selection of candidates for election to the Board of Directors and Group Management. It identifies suitable candidates for the Board of Directors and Group Management and conducts the requisite selection procedures. The Nomination and Compensation Committee also determines the principles for the management and development of the members of the Board of Directors and Group Management. It assists the Board of Directors in self-assessment and assesses the performance of the members of Group Management. In the reporting year, the Nomination and Compensation Committee dealt with, among other things, succession planning for the respective heads of the Doors, Windows and HVAC Divisions and submitted a corresponding proposal for each to the full Board of Directors. The Nomination and Compensation Committee then dealt with the concept of succession planning for key functions in the group in order to ensure business continuity.

Essentially, the Nomination and Compensation Committee fulfils a supporting and preparatory function for the benefit of the full Board of Directors. The Nomination and Compensation Committee is only authorised to make decisions regarding the tasks expressly delegated to it under the Group's regulation of powers. The full Board of Directors decides on matters not expressly delegated to the Nomination and Compensation Committee under the regulation of powers. The committee may submit issues within the scope of its decision-making powers to the Board of Directors.

The Nomination and Compensation Committee consists of the following members:
– Peter Barandun, Chairman
– Alexander von Witzleben
– Heinz Haller

The Nomination and Compensation Committee met five times during the reporting year. Of these, one meeting was held as a telephone conference and one meeting as a video conference. The interim CEO attended all five of the meetings, and the CFO attended two of the meetings. At the subsequent meeting of the full Board of Directors,, the Chairman reports on the meetings of the Nomination and Compensation Committee.

The meetings of the Nomination and Compensation Committee lasted one and a half hours on average.

3.4.3. Working procedures of the Board of Directors
The Chairperson convenes the Board of Directors as often as business requires, but at least four times a year. During the reporting year, the Board of Directors met for five ordinary and two extraordinary meetings. Three of these meetings were held as a video conference and two meetings as a telephone conference. In the reporting year, the Board of Directors also passed four resolutions by circular letter. Ordinary meetings of the Board of Directors usually last half of a day. One of the five ordinary meetings in the reporting year lasted an entire day. Extraordinary meetings, of which there were two in the reporting year as mentioned, usually last one hour. In the reporting year, the Board of Directors performed its duties directly. The interim CEO and CFO attended all meetings. The members of Group Management attended the five ordinary meetings. Managers are regularly invited to meetings to discuss issues that fall within their field of responsibility or scope of activities.

The Board of Directors reviews its operability and discusses its performance on various occasions in executive sessions that usually take place at the end of every meeting.

3.5. Regulation of powers

The Board of Directors is responsible for guiding, supervising and monitoring management. It represents the company externally and attends to all matters that are not transferred to another body within the company on the basis of legislation, Articles of Association or by-laws. The Board of Directors enacts the necessary rules, instructions and guidelines and establishes the organisational structure and risk policy. The main duties of the Board of Directors are:

– Guidance of the Group and issuing of necessary instructions
– Establishment of the Group's organisational structure;
– Appointment and dismissal of persons entrusted with management;
– Supervision of persons entrusted with company management, specifically with regard to following legislation, Articles of Association, rules and instructions;
– Structuring of the accounting system, financial control and financial planning;
– Preparation of the Annual Report and the Compensation Report, as well as preparation for the General Meeting and implementation of its resolutions;
– Preparation of compensation requests for the General Meeting;
– Determination of the capital structure of the company;
– Issue of bonds, participation certificates, convertible bonds and options as well as determination of the terms and conditions;
– Determination of the strategy of the company, the divisions and the subsidiaries;
– Decisions concerning investments, joint ventures, real estates and participations, where these are of particular importance to the company and exceed a certain level;
– Annual risk assessment for the company;
– Notification of the court in the event of over-indebtedness.

The division of powers between the Board of Directors and Group Management is set out in detail in the by-laws (www.arbonia.com/en/company/organisation) and in the regulation of powers. Unless otherwise stated in legislation, the Articles of Association or by-laws, the Board of Directors delegates management entirely to Group Management, led by the Chairperson of Group Management (CEO), pursuant to Art. 2.5 of the by-laws (www.arbonia.com/en/company/organisation).

3.6. Information and control instruments vis-a-vis the management board

Through various channels, the Board of Directors is regularly updated on the activities of Group Management and the divisions. The management information system (MIS) provides the members of the Board of Directors with key information about the financial and income situation of the Group on a monthly basis. The interim CEO reports regularly to the Board of Directors during ordinary meetings of the Board of Directors and without delay in the event of extraordinary developments. The members of Group Management regularly attend ordinary meetings of the Board of Directors and report on business in their areas. As a rule, the members of the Board of Directors may request any additional information required to carry out their tasks.

The external auditors provide the Audit Committee with information on the main findings of the audit. Regular contact also takes place between the Chairperson of the Audit Committee, the CFO and the Head of Internal Audit (see 3.4.2.1). Where required, he too informs the other members of the Board of Directors regarding his findings.

The principal role of Internal Audit is to monitor processes and structures throughout the Group. Internal Audit has also been responsible for the risk management process since the middle of the reporting year. Internal Audit summarises the audits it is to carry out in an annual audit plan. This audit plan also incorporates the identified risks as part of the risk management process that is performed every year in each of the divisions and in Corporate Functions. Each audit plan is approved by the Audit Committee. The Audit Committee also assigns special audit mandates to Internal Audit as and when required. The respective audit findings are discussed with the Audit Committee and communicated to the Board of Directors in writing. During the reporting year, the Internal Audit provided the members of the Board of Directors with 12 audit reports. If material risks are identified, measures are defined to reduce them. Internal Audit adopts a systematic approach to monitoring risks and measures and carries out its work in accordance with the international standards governing internal auditors' professional duties. It regularly reports to the Audit Committee and Board of Directors on the scale of risks and any changes to the risk situation as well as the status of measures implemented. The Board of Directors received a total of four written reports on the implementation of measures during the reporting year. The external auditors also have access to all audit reports and the reports from the ongoing monitoring of risks and measures. Additionally, Internal Audit issued three Internal Audit status reports informing the Audit

Committee and the Board of Directors about the key findings from the audits and the current status of the internal control system (ICS).

Furthermore, the Audit Committee and Board of Directors receive information concerning the results of the risk management process.

The Audit Committee is also informed about incoming whistleblowing reports. Three internal reporting offices are available for reports of this kind. All Arbonia employees are requested to report any violations of the Code of Conduct of which they become aware (www.arbonia.com/de/unternehmen/corporate-governance/#tab-code-of-conduct).

4. Group Management

4.1. Members of Group Management

In June 2020, Peter Spirig, the former Head of the Doors Division, and Harald Pichler, the former Head of the Windows Division, stepped down from their functions and as members of Group Management. On 1 July 2020, Claudius Moor took over as Head of the Doors Division and Nicolas Casanovas as Head of the Windows Division, which means that they have both been members of the Group Management since then. As of 31 December 2020, Group Management consisted of the following members:

Alexander von Witzleben

(see 3.1).
Delegate of the Board of Directors and interim CEO since 1 July 2015.

Other activities and vested interests: (see 3.1)

At the Annual General Meeting on 22 April 2022, Alexander von Witzleben will step down from Group Management.

Daniel Wüest

1970, Swiss citizen, Master of Arts (lic. oec. publ.) in economics with specialisation in Finance and Banking, Chief Financial Officer (CFO) since 2019; 2014–2019 Head of Mid-Market Advisory Switzerland, UBS Switzerland AG, Zurich; 1997–2014 various positions at UBS Investment Bank Zurich: most recently from 2009–2014 as Managing Director Investment Banking.

Other activities and vested interests: Daniel Wüest has no other material activities or vested interests.

Ulrich Bornkessel

1956, German citizen, dipl. Business Administration, Emerging Leaders (MBA); Head of Heating, Ventilation and Air Conditioning Division since 2018; 2014–2017 Head of Air Conditioning & Ventilation Technology Business Unit; 2012–2013 Head of International Markets & Sales Arbonia Group (formerly AFG Group); 2011–2015 Chairman and CEO Ractec AG, Oberuzwil (SG); 2006–2009 CEO Airwell Air Conditioning Elco Holding, Tel Aviv (Israel); 2005–2006 European President Electro Consumer Products Elco Holding, Tel Aviv (Israel); 1993–2004 various positions at Carrier Corporation (United Technologies), Connecticut (USA); most recently, Director Germany, Nordic Countries & Eastern Europe (Carrier EMEA).

Other activities and vested interests: visiting lecturer at Lucerne University of Applied Sciences and Arts (HSLU) since 2010.

Ulrich Bornkessel will resign as of 30 June 2021 as the Head of the HVAC Division and as a member of Group Management due to his retirement. Alexander Kaiss will succeed him as of 1 July 2021 as the Head of the HVAC Division and member of Group Management.

Knut Bartsch

1968, German citizen, Dipl. Wirtsch. Ing., Head of the Sanitary Equipment Division and CFO of the Heating, Ventilation and Air Conditioning Division since 2018; Head of the Building Technology Division 2015–2017; 2004–2014 Divisional Spokesman of the Building Technology Division; 1996–1997 Assistant Corporate Manager at Preussag AG/TUI AG; joined Kermi GmbH in 1997, Director since 1999, Chairman of Kermi Group Management since 2015.

Other activities and vested interests: member of the CCI plenary meeting since 2013, deputy chairman of the CCI expert committee Industry of the Chamber of Commerce and Industry for Lower Bavaria since 2019.

Due to the integration of the Sanitary Equipment Division in the Doors Division effective 1 July 2021 (see section 1.1.1), Knut Bartsch will step down as the Head of the Sanitary Equipment Division and as a member of Group Management as of 1 July 2021.

Nicolas Casanovas

1984, Swiss citizen, Master in Marketing, Service and Communication Management, University of St. Gallen (HSG), Master in International Management, ESADE Barcelona (ES), Head of the Windows Division since 2020; 2018–2020 Managing Director Sales EgoKiefer AG and member of the Windows Division Management; 2017 Head of Group Strategy and Company Development of the Arbonia Group; 2011–2017 project manager in Zurich (CH), Munich (D), and Toronto (CA) at The Boston Consulting Group; 2010–2011 Assistant CFO Novartis Animal Health at Novartis AG.

Other activities and vested interests: Nicolas Casanovas has no other material activities or vested interests.

Upon closing of the sale of the windows business announced on 5 January 2021 and expected in the second quarter of 2021 (see section 1.1.1), Nicolas Casanovas will step down as a member of Group Management.

Claudius Moor

1983, Swiss citizen, Master in Information, Media and Technology Management, University of St. Gallen (HSG), Head of the Doors Division since 2020; 2019–2020 Managing Director Sales & Marketing Prüm and Garant, 2017–2020 member of the Doors Division management; 2015–2017 Head of Group Strategy and Company Development; 2010–2015 business consultant and project manager at The Boston Consulting Group; 2005–2010 founder and owner of Moor Business Support; 2002–2005 financial accounting clerk at General Dynamics European Land Systems – Mowag GmbH.

Other activities and vested interests: since 2019 advisory board and since 2020 chairman of the advisory board of KIWI.KI Berlin (D).

4.2. Number of permissible mandates pursuant to Art. 12 para. 1 section 1 of the Swiss Ordinance Against Excessive Compensation (OaEC)

Members of Group Management may have a maximum of five mandates outside the Group, of which no more than one may be with a listed company. More details on the rules for the number of permitted mandates can be found in Art. 29 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

4.3. Management contracts

Arbonia has not signed any management contracts with companies or natural persons outside the Group.

5. Compensation, shareholdings, and loans

5.1. Content and determination procedure for compensation and shareholding programmes

The basis and elements of compensation and the shareholding programmes as well as the procedure for their determination are presented in the Compensation Report on pages 107–114.

5.2. Principles of performance-related compensation, the allocation of shares, and the determination of the additional amount

The variable compensation of members of Group Management depends on the company results. The success criteria comprise business-related targets. The full bonus amount determined in the individual agreement is paid out if the targets are fully achieved. If the targets are exceeded, the variable compensation may exceed the bonus amount determined by individual agreement up to a maximum amount. If achievement of the targets lies below a particular threshold, no variable compensation is paid. The variable compensation amounts to a maximum of 150% of the fixed compensation. In deviation from this regulation, the Board of Directors is exceptionally permitted in special situations to deviate from the time of target setting and target assessment, from the lower threshold, and from the maximum variable compensation. In these special situations, the Board of Directors sets the corporate objectives, which must be related to the special situation, at the time it chooses and determines the relevant time for measuring the objectives. It also determines the maximum additional variable compensation, which may in no case exceed twice the annual salary, consisting of fixed and maximum variable compensation. More details on performance-related compensation can be found in Art. 24 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

The Board of Directors determines the details of the assignment of shares to the members of the Board of Directors and Group Management in a share-based payment programme. Art. 25 of the Articles of Association contains information on what the share-based payment programme covers (www.arbonia.com/en/company/corporate-governance).

An additional amount is available for the compensation of members of Group Management who are newly appointed or promoted after approval of the maximum total compensation for Group Management if the compensation already approved for the period involved is insufficient. This additional amount may not exceed 40% for the CEO and 20% each for every other member of Group Management of the approved total compensation for Group Management for the period involved. This rule can be found in Art. 27 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

5.3. Loans, credit, and pension benefits

According to Art. 26 of the Articles of Association, Arbonia shall not grant the members of the Board of Directors and Group Management any loans, credit, or pension benefits outside the occupational pension scheme or securities. Exempt from this are advances of social security and tax charges for persons subject to withholding tax (www.arbonia.com/en/company/corporate-governance).

5.4. Rules concerning voting at the General Meeting on compensation

Pursuant to Art. 23 of the Articles of Association, for each compensation period the Board of Directors brings forward motions for the General Meeting concerning prospective approval of the maximum compensation of the Board of Directors for the period until the next ordinary General Meeting and of the maximum fixed and variable compensation of Group Management for the next financial year. Art. 23 of the Articles of Association grants the Board of Directors the right to waive prospective approval of compensation on motions and to have the General Meeting approve the total amount of the corresponding payment in arrears for the previous official or financial year (retrospective approval). In 2016 the Board of Directors resolved to have votes on compensation carried out retrospectively in future. Every year, the Board of Directors submits the Compensation Report for the financial year ended to the General Meeting for consultative (non-binding) approval. More details on compensation agreements can be found in Art. 23 of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

6. Shareholders'participation

6.1. Voting right restriction and representation

The Articles of Association do not contain any regulations that deviate from the law with regard to participation in the General Meeting and exercise of voting rights. Each share registered in the share register entitles the holder to one vote. Every shareholder may be represented at the General Meeting by a proxy furnishing written power of attorney or by the independent proxy (with written or electronic power of attorney).

According to Art. 12 of the Articles of Association, the Board of Directors determines the requirements for the power of attorney, and instructions for the independent proxy. Under this regulation, the Board of Directors is also entitled to determine the requirements for electronic voting (www.arbonia.com/en/company/corporate-governance).

6.2. Statutory quorums

Under Article 13 (9) of the Articles of Association, registered shares may only be converted into bearer shares by a resolution at the General Meeting, approved by at least two thirds of the voting shares represented and the absolute majority of the nominal share value represented. Under Article 12 (6) of the Articles of Association, in the event of votes which do not produce a result in the first round, the relative majority shall decide in the second round. Apart from this, the Articles of Association do not contain any regulations that deviate from the law (www.arbonia.com/en/company/corporate-governance).

6.3. Convocation of the General Meeting

The Articles of Association do not contain any regulations that deviate from the law.

6.4. Inclusion of items on the agenda

Shareholders who individually or together hold CHF 1 000 000 of nominal share capital are entitled to submit a written request for inclusion of an item on the agenda. Such requests must be submitted to the Board of Directors in writing, specifying the motions, at least 40 days before the date of the General Meeting.

6.5. Entries in the share register

When sending invitations for the General Meeting, the Board of Directors will announce the date up to which entries can be made in the share register with regard to participation in the General Meeting.

7. Change of control and defence measures

7.1. Duty to make an offer

A purchaser of company shares must make a public offer as stipulated by Art. 135 (1) of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FinfraG). There is no opting-out clause (Art. 125 (3) and (4) of the FinfraG) or opting-up clause (Art. 135 (1) of the FinfraG).

7.2. Change-of-control clauses

Arbonia has no agreements or plans for the benefit of members of the Board of Directors and/or Group Management or other members of senior management that contain change-of-control clauses. However, the share-based payment programme for members of Group Management and the Board of Directors allows the Board of Directors to cancel the vesting period for the transfer of the granted shares in the event of a change of control.

8. Statutory auditors

8.1. Duration of the mandate and term of office of the lead auditor

8.1.1. Date of assumption of the existing mandate

On 28 April 2017, the General Meeting elected KPMG AG, St. Gallen, as the new statutory auditor. It audits the 2020 Financial Statements and the consolidated financial statement of Arbonia.

8.1.2. Assumption of office of the lead auditor

Kurt Stocker has held the position of lead auditor since 28 April 2017.

8.2. Auditing fees

In 2020, the various statutory auditors billed a total of CHF 1 191 000 (previous year: CHF 1 235 000) for auditing the Financial Statements and consolidated financial statement of Arbonia and the Financial Statements of the Group companies. Of this amount, the statutory auditor KPMG AG accounted for CHF 1 050 000 (previous year: CHF 1 047 000) in 2020.

8.3. Additional fees

In 2020, the statutory auditor KPMG AG and other statutory auditors of Group companies billed CHF 1 750 000 (previous year: CHF 369 000) for additional services, CHF 1 743 000 (previous year: CHF 341 000) of which was attributable to KPMG AG. Of the additional services performed by KPMG AG in 2020, CHF 941 000 was for tax advice, CHF 740 000 for Due Diligence services and CHF 62 000 was for other services.

8.4. Informational instruments of the external auditors

The external auditors attended a total of three meetings of the Audit Committee in the reporting year. The Audit Committee monitors the qualification, independence, and performance of the external statutory auditors on behalf of the Board of Directors and reports to the Board of Directors on its findings. In the reporting year, the Audit Committee oversaw the activities of the external statutory auditors by having the reports on the Financial Statements, consolidated financial statement and the comprehensive report explained directly by the statutory auditors (see section 3.4.2.1). The external auditors and Internal Audit also regularly discuss the methodology and further development of the internal control system (ICS). The internal and external auditors closely cooperate in the assessment of the substance of the ICS under Art. 728a of the Swiss Code of Obligations and the evaluation of the effectiveness and efficiency of the ICS. The following factors are considered in the choice of external auditors: professional expertise, international network (representation in the relevant countries), value for money, industry experience as well as continuity, and rapid availability of the audit team.

At the request of the external statutory auditor, the Audit Committee approves the audit fees and reviews them in light of developments in the previous year and an assessment of performance to ensure that they are appropriate. In accordance with the law, the external auditors' lead auditor is rotated at least once every seven years.

9. Information policy

Arbonia pursues an open information policy towards the public and financial markets, based on the principles set out in the SIX Exchange Regulation listing rules and directives and in the Swiss Code of Best Practice for Corporate Governance. By means of the annual report, Arbonia provides information about business performance, organisation, and strategy. Integral parts of the Annual Report are the Management Report from page 3, the Compensation Report from page 107, and, for the first time, the Sustainability Report starting on page 48 for the reporting year 2020. Arbonia's First Semester Financial Report contains the consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement, and statement of changes in equity. During the reporting year, Arbonia published twelve press releases. In addition to this, Arbonia gives comprehensive reports on its operating activities at its annual financial media and analyst conference. Arbonia also fosters dialogue with investors and the media at special events and roadshows.

Arbonia's contact details are as follows:

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All company information is available on the website www.arbonia.com. Interested parties can subscribe to press releases at www.arbonia.com/en/media/subscribe-to-press-releases, and Arbonia publications can be ordered at www.arbonia.com/en/media/order-publications. All published press releases can be found at www.arbonia.com/en/media/press-releases.

The calendar of events is provided on page 223 of the Annual Report and on the Arbonia website at www.arbonia.com/en/investors.

Compensation Report

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2020 (chapter B). The compensation report complies with current corporate governance standards and has been compiled in accordance with the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (OaEC) and Appendix 1 to the Swiss Code of Best Practice for Corporate Governance. The quantitative disclosures pursuant to Art. 14–16 OaEC are presented in chapter B. These disclosures were audited by the statutory auditor of Arbonia. The audit confirmation is presented on page 115.

A The compensation system of Arbonia

1. Principles of the compensation system

The compensation system and the structure of the occupational pension scheme are based on the conviction that the success of a company depends to a considerable extent on the quality and dedication of its personnel. Arbonia wants to leverage its compensation system and the total compensation paid on this basis to attract and retain people with the necessary skills and qualities and to motivate them to deliver a consistently high level of performance. The compensation system is designed to ensure that the interests of top managers are consistent with the interests of the Group and its shareholders.

Compensation model for the Board of Directors and Group Management during the year under review

	Board of Directors	Group Management
Fixed compensation	Basic fee plus extra pay for committee chairmanship and membership in committees[1] At least 50% of the fee in shares restricted for 4 years[2]	Basic salary including fringe benefits in cash[3] on the basis of individual classification (function, experience, skills)
Variable compensation	None	Compensation in % of basic salary depending on the financial targets A total of 50% of the variable compensation in shares restricted for 4 years[4]
Pension scheme / fringe benefits	Lump-sum allowances	Lump-sum allowances, company car regulation, retirement planning

[1] The Chairman of the Board of Directors waives compensation for his activity on both committees (see 3.1).
[2] One member of the Board of Directors is resident in the USA and receives his fee in cash only (see 3.4).
[3] In his function as interim CEO, the Chairman and delegate of the Board of Directors receives fixed compensation containing both a cash element and an element in temporarily restricted shares (see 4.1).
[4] In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 4.2).

2. Organisation and competencies

The Compensation Committee also performs the Nomination Committee's duties. The Compensation and Nomination Committee is responsible for the Group's compensation policy, particularly at the uppermost level of the company. It also assists the Board of Directors in the identification and selection of candidates for the Board of Directors and Group Management. The duties and competencies of the Nomination and Compensation Committee are set out in the Articles of Association (www.arbonia.com/en/company/corporate-governance) and in the by-laws (https://www.arbonia.com/en/company/organisation) and regulation of powers. The committee submits motions for decision to the Board of Directors and makes proposals and recommendations.

Among other things, its duties include:
- Periodic review of the salary policy and the compensation system
- Annual review of the fixed compensation of the Board of Directors
- Annual review of the fixed and variable compensation of Group Management
- Assessment of the performance of the members of Group Management
- Identification of candidates for the Board of Directors and Group Management
- Determination of the principles for the management and development of the members of the Board of Directors and Group Management

The committee is made up of three members. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. Every year, the members are individually elected by the General Meeting for one year. The CFO is normally invited to the meetings of the Nomination and Compensation Committee. The members of the Board of Directors not on the committee did not attend the committee meetings in the reporting year. Members of the Board of Directors not on the committee are kept informed by the Chairman of the Nomination and Compensation Committee in the subsequent meeting of the full Board of Directors following each committee meeting about any significant decisions and measures, especially relating to the compensation process and compensation system. The Nomination and Compensation Committee met five times during the reporting year.

3. Compensation of the Board of Directors

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in the future. At the General Meeting on 23 April 2021, a decision shall be made retrospectively on the total compensation for the members of the Board of Directors for the year of office 2020/2021, which shall also end on the same day. On 23 April 2021, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 950 000 for the year of office 2020/2021.

Compensation for members of the Board of Directors consists of the following components for the reporting year:

3.1. Fixed compensation

The members of the Board of Directors receive a fixed compensation for all of their work for the Board of Directors. This remained unchanged in the year of office 2020/2021. The basic fee for the office of Chairman of the Board of Directors is CHF 240 000. The Vice Chairman receives a fee of CHF 80 000, with the other members of the Board of Directors receiving a fee of CHF 60 000 each. In addition to this compensation, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20 000 for their activity in the respective committee. Every other committee member is entitled to CHF 10 000 per year of office. The Chairman of the Board of Directors waives compensation for his activity on both committees and considers it to be included in his aforementioned fee of CHF 240 000.

The fees paid to members of the Board of Directors are reviewed periodically and were last adjusted in 2015 (in relation to the Chairman of the Board of Directors).

3.2. Variable compensation

The members of the Board of Directors do not receive any variable compensation.

3.3. Allowances and in-kind benefits

The members of the Board of Directors are paid lump-sum allowances. The Chairman of the Board of Directors receives a lump-sum allowance amounting to CHF 15 000 per annum; members of the Board of Directors resident in Switzerland receive a lump-sum allowance of CHF 6 000 per annum, and members of the Board of Directors resident outside of Switzerland receive a lump-sum allowance of CHF 12 000 per annum.

These allowances cover minor expenses and travel costs within Switzerland. Costs of overseas trips and overnight stays are borne by the company. The allowances are included in the presented other compensation of the term of office. The members of the Board of Directors do not receive any in-kind benefits.

3.4. Shares and options

At least 50% of the compensation paid to the members of the Board of Directors, including the compensation paid to committee members, is paid in the form of restricted Arbonia shares. The remaining 50% can either be paid out in cash or up to another 30% in restricted

Arbonia shares. Members of the Board of Directors who are resident outside of Switzerland and the European Union receive their full Board of Directors fee in cash.

Making the Board of Directors take their fees in the form of restricted shares is designed to ensure that the incentive system is consistent with the long-term prosperity of the company, encourage a management philosophy which takes due account of risk, and reflect shareholder interests. According to the Board Member Share Plan approved by the Board of Directors, at least 50% of the net fees for the Board of Directors, i.e. the Board of Directors fees minus lump-sum allowances and withholding taxes, takes the form of restricted Arbonia shares. When members of the Board of Directors are domiciled in the European Union, the Swiss withholding tax is treated as compensation paid in cash. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period for calculating the fair market value shall begin no later than on the tenth trading day following the publication of the annual results. Shares allocated in this way are subject to a restriction period of four years, which can, however, be lifted for those leaving the Board of Directors.

Arbonia does not have any option programme for the members of the Board of Directors.

3.5. Attendance fees
The members of the Board of Directors do not receive any attendance fees. No additional compensation is paid for the preparation and attendance of the ordinary and extraordinary meetings of the Board of Directors, the Audit Committee, and the Nomination and Compensation Committee.

3.6. Loans and credit
According to Art. 26 of the Articles of Association (www.arbonia.com/en/company/corporate-governance), no loans, credits or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of the Board of Directors. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The Chairman of the Board of Directors exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2020.

3.7. Compensation, loans, and credit to related parties
No loans or credit are granted to any parties related to the members of the Board of Directors. Moreover, no compensation is paid to any parties related to the members of the Board of Directors.

3.8. Signing bonus and termination benefits
No signing bonus or termination benefits are paid to the members of the Board of Directors.

4. Compensation of Group Management
In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in the future. At the General Meeting on 23 April 2021, a decision shall be made retrospectively on the total compensation for the members of Group Management for the 2020 financial year. On 23 April 2021, the Board of Directors will submit an application for the retrospective approval of the Group Management's total compensation of CHF 6 070 000 for the 2020 financial year.

In accordance with the regulation of powers, the compensation paid to Group Management is requested by the Nomination and Compensation Committee and determined by the Board of Directors. It consists of the following components:

4.1. Fixed compensation
The compensation of the members of Group Management depends on the individual function as well as the qualification and experience of the person that assumes the function. The fixed compensation for the members of Group Management is paid out in cash, while the fixed compensation for the delegate of the Board of Directors and interim CEO is paid out in cash and in shares. In the reporting year, the fixed compensation paid out to the delegate of the Board of Directors and interim CEO was made up of a cash element amounting to CHF 280 000 as well as 60 000 in shares. The shares are subject to the provisions of the share-based payment programme (see 4.4) and are restricted for four years.

4.2. Variable compensation
In the reporting year, the variable compensation accounted for up to 193.74% of the fixed compensation for members of Group Management. In his function as interim CEO, the current Chairman of the Board of Directors and delegate of the Board of Directors waives any variable compensation.

According to the bonus regulations valid for the reporting year, the amount of the variable compensation depends on the achievement of financial targets. If a member of Group Management meets his targets in full, he receives a variable payment (nominal bonus) laid down in his individual agreement. The financial targets are assessed on the extent to which they have been met, with the relevant bonus component rising to 125% at most. If the targets for a bonus component of 125% are met, a pro rated share based on 150% of the nominal bonus is paid out. As a general rule, failure to meet at least 75% of a financial target will mean that none of the respective bonus component is paid. In the reporting year, quantitative targets relating to the EBITDA margin, the free cash flow (without divestments), the operative cash flow (without investments/divestments), the group result, the holding costs, the return on capital employed, and the growth were determined for the members of Group Management.

In the reporting year, two members of Group Management each received or will receive a special bonus, based on Art. 24 Para. 2 of the Articles of Association (www.arbonia.com/en/company/corporate-governance). Both members performed extraordinary additional work in the scope of the strategic realignment of the Arbonia Group, which went far beyond what would normally be expected.

4.3. Allowances and in-kind benefits

Some members of Group Management receive lump-sum allowances of CHF 21 600 per year. The lump-sum allowances of the delegate of the Board of Directors and interim CEO are CHF 6 600 per year.

Additionally, the members of Group Management are provided with a company car and a mobile phone. The private use of the company car is offset for members of Group Management according to the respective tax regulations applicable in the country.

4.4. Shares and options

The two special bonuses mentioned in section 4.2, the variable compensation of a member of Group Management who stepped down in the reporting year, as well as – by exception – the variable compensation of two other members of Group Management were paid out in cash in the reporting year 2020 or will be paid out in cash in the reporting year 2021. During the reporting year, 50% of the variable compensation of the other members of Group Management was paid out in cash and 50% was paid out in the form of an allocation of shares under the share-based payment programme approved by the Board of Directors on 1 May 2014. The number of shares is calculated based on the volumeweighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period for calculating the fair market value shall beginn no later than on the tenth trading day following the publication of the annual results. The restricted shares are subject to a four-year restriction period. The restriction period applies even if the employee leaves the company. The Board of Directors may, however, lift the restriction on the transfer of shares allocated under the share-based payment programme in certain cases, such as in the event of a change of control.

Arbonia does not have any option programme for the members of Group Management.

4.5. Privileges

Like all other employees, the members of Group Management can benefit from various employee privileges, e.g. from REKA cheques up to CHF 600 with a discount of 20% (only members with Swiss employment contracts) or from discounts on Arbonia products.

4.6. Loans and credit

According to Art. 26 of the Articles of Association (www.arbonia.com/en/company/corporate-governance), no loans, credit, or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of Group Management. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The delegate of the Board of Directors and interim CEO exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2020.

4.7. Contract term

The contracts of the members of Group Management have been concluded for an unlimited term and with a notice period of six months.

4.8. Compensation, loans, and credit to related parties

No loans or credit are granted to any parties related to the members of Group Management. Moreover, no compensation is paid to any parties related to the members of Group Management.

4.9. Signing bonus, termination benefits, and change-of-control clauses

No member of Group Management is entitled to a signing bonus, termination benefit, or compensation due to a change of control ("golden parachute").

4.10. Pension benefits

Group Management members with Swiss employment contracts are insured according to the Arbonia pension scheme regulations and according to the Arbonia senior management pension scheme. The Arbonia senior management pension scheme covers the fixed salary not covered under the basic scheme and 80% of the contractual nominal bonus against old age, death and incapacity risks. According to the Swiss Occupational Pensions Act (OPA), the maximum salary including bonus to be considered is limited to CHF 853 200 (as of 1 January 2020, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 642 560 (as of 1 January 2020). The employer contribution is the same for all three available plans and amounts to 25% of the insured salary (according to the regulations, in force since 01.01 2019). The delegate of the Board of Directors and interim CEO is insured under the Arbonia senior management pension scheme. The only member of Group Management with a German employment contract has a pension commitment according to the regulations of the "Essener Verband".

B Compensation paid to members of the Board of Directors and Group Management in 2020

5. Board of Directors

5.1. Changes in the Board of Directors

Compared to the previous year, there were no changes to the Board of Directors, which continues to consist of eight members. Alexander von Witzleben is Chairman and Peter Barandun is Vice Chairman of the Board of Directors. Alexander von Witzleben has been the delegate of the Board of Directors and interim CEO since 1 July 2015.

Compared to the 2019 financial year, the total fee of the Board of Directors has remained unchanged in the reporting year.

5.2. Table

in 1 000 CHF						2020
	Functions exercised in 2020	Fee in cash	Fee in shares	Pension expenses[1]	Other compensation[2]	Total
Alexander von Witzleben[3]	Chairman Interim CEO Member of the AC[4] Member of the NCC[5]	120	150	15	15	300
Peter Barandun[6]	Vice-Chairman Chairman of the NCC	20	100		6	126
Peter E. Bodmer[7]	Member Member of the AC	14	70		6	90
Markus Oppliger	Member Chairman of the AC	40	50	5	6	101
Heinz Haller	Member Chairman of the AC	14	70	4	6	94
Michael Pieper	Member	12	60	3	6	81
Thomas Lozser	Member	60		4	6	70
Carsten Voigtländer	Member	30	37	3	12	82
Total compensation to members of the Board of Directors		**310**	**537**	**34**	**63**	**944**

[1] Employer contributions to social insurance policies
[2] Lump-sum allowances
[3] The compensation for Alexander von Witzleben in 2020 as Chairman of the Board of Directors is included in this table. The compensation as interim CEO of a total of CHF 1'167'760 is included in the compensation of Group Management in chapter 6.2.
[4] AC = audit committee
[5] NCC = Nomination and Compensation Committee
[6] The compensation for Peter Barandun for the period of office 2020/2021 is paid to Peter Barandun AG, which is responsible for the deduction and payment of social contributions.
[7] The compensation for Peter E. Bodmer for the period of office 2020/2021 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

in 1 000 CHF						2019
	Functions exercised in 2019	Fee in cash	Fee in shares	Pension expenses[1]	Other compensation[2]	Total
Alexander von Witzleben[3]	Chairman Interim CEO Member of the AC[4] Member of the NCC[5]	120	150	15	15	300
Peter Barandun	Vice-Chairman Chairman of the NCC	20	100	6	6	132
Peter E. Bodmer[6]	Member Member of the AC	14	70		6	90
Markus Oppliger	Member Chairman of the AC	40	50	5	6	101
Heinz Haller	Member Chairman of the AC	14	70	5	6	95
Michael Pieper	Member	12	60	2	6	80
Thomas Lozser	Member	60		4	12	76
Carsten Voigtländer	Member as of 12 April 2019	20	25	2	8	55
Total compensation to members of the Board of Directors		**300**	**525**	**39**	**65**	**929**

[1] Employer contributions to social insurance policies
[2] Lump-sum allowances
[3] The compensation for Alexander von Witzleben in 2019 as Chairman of the Board of Directors is included in this table. The compensation as interim CEO of a total of CHF 1 122 278 is included in the compensation of Group Management in chapter 6.2.
[4] AC = audit committee
[5] NCC = Nomination and Compensation Committee
[6] The compensation for Peter E. Bodmer for the period of office 2019/2020 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

6. Group Management

6.1. Changes in Group Management

Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015. In the reporting year, two previous members resigned from Group Management and two new members joined Group Management as their successors.

The total compensation of Group Management has increased compared to the previous year. One reason for this increase is the aforementioned fact that two members left Group Management in the middle of the reporting year and their successors also joined Group Management mid-year. This has resulted in a partial overlap of the compensation of the departing and new members of Group Management in the reporting year, which affects the amount of the total compensation. In addition, the total compensation of Group Management increased due to the two special bonuses mentioned in Section 4.2 paid based on Article 24 Para. 2 of the Articles of Association.

6.2. Table

in 1 000 CHF			**2020**			**2019**
	Group-Management[3]	**thereof to Harald Pichler**	**thereof to Alexander von Witzleben, interim CEO**	**Group-Management[3]**	**thereof to Harald Pichler**	**thereof to Alexander von Witzleben, interim CEO**
Annual salary (cash)	2 352	446	280	2 293	450	280
Annual salary (shares)	740		740	699		699
Variable compensation (bonus in cash)	1 441	864		713	253	
Variable compensation (bonus in shares)	461			742	253	
Pension expenses[1]	949	208	141	891	186	136
Other compensation[2]	127	29	7	130	28	7
Total	**6 070**	**1 547**	**1 168**	**5 468**	**1 170**	**1 122**
Number of members	8[4]			7[5]		

[1] Employer contributions to social insurances, occupational pension schemes, accident and health insurance
[2] Comprises lump-sum allowances, private use of the company car/car allowance and other services and in-kind benefits
[3] The compensation of Knut Bartsch is paid in euros. The exchange rate used is 1.07 for 2020 and 1.11 for 2019.
[4] Includes former Head of Doors Division until 31 August 2020 and new Head of Doors Division as of 1 July 2020, includes former Head of Windows Division until 31 December 2020 and new Head of Windows Division as of 1 July 2020
[5] Includes former CFO until 30 June 2019 and new CFO as of 1 April 2019

KPMG

Report of the Statutory Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 107 to 114) of Arbonia AG for the year ended 31 December 2020. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in sections 3.6, 4.6, 5.2 and 6.2 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

Opinion

In our opinion, the compensation report for the year ended 31 December 2020 of Arbonia AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Kurt Stocker Licensed Audit Expert Auditor in Charge	Oliver Eggenberger Licensed Audit Expert

St. Gallen, 22 February 2021

KPMG AG, Bogenstrasse 7, PO Box 1142, CH-9001 St. Gallen

Consolidated Finanical Statements

Financial Statements

Financial commentary of Daniel Wüest (CFO)

Revenue development
On 4 January 2021, Arbonia announced the sale of the Windows Division. As a result of the sale, Arbonia will receive around CHF 350 million in cash and cash equivalents at the time of closing (expected at the beginning of Q2 2021). In return, around 25% of group revenue and EBITDA will be deconsolidated as of the closing of the transaction. In accordance with the accounting standards of IFRS, the 2020 consolidated financial statement already shows only the three remaining divisions ("continuing operations"), while the result of the Windows Division is shown as a "result from discontinued operations" and the assets and liabilities as "assets/liabilities held for sale".

On the basis of the continuing operations, Arbonia achieved net revenues of CHF 1038.4 million in the reporting year 2020, which represents a decrease of –1.8% in comparison to the previous year (CHF 1057.8 million). Adjusted for currency effects, growth was 2.0% (organic), which is a remarkable achievement given the restrictions due to COVID-19. This growth was largely due to price effects and to a lesser extent to volume effects. The Doors Division and Sanitary Equipment Division achieved strong organic growth of 5.0% and 4.0% respectively. The HVAC Division recorded slightly negative organic growth of –0.4%, whereby the indirect sales business unit achieved organic growth of 2.0% while the direct sales business unit, which is heavily active in Italy and Belgium and was thus strongly affected by the COVID-19 restrictions, suffered organic growth of –6.9%. At group level, organic growth was 5.8% in the second half of the year compared to –1.7% in the first half of the year. The main drivers of the good revenue growth were the German and Swiss markets, where, with a few regional exceptions, construction sites remained open and demand for building materials was high due to the positive environment (low interest rates, high savings rate, temporary reduction of VAT in Germany, renovation needs, and CO_2 subsidies), which more than compen-sated for the negative impact of COVID-19. Arbonia expects that most of these supportive factors will also continue in 2021 and thus a good environment will still prevail. However, this is in a still challenging market environment and provided that the COVID-19 measures are not tightened further and restrictions are eased over the year.

In the 2020 financial year, Arbonia increased its shareholding in KIWI, a provider of keyless locking systems in Germany, to over 20% as part of another financing round together with Deutsche Wohnen. The price for the increase in shareholding was around CHF 4.9 million. The KIWI locking system will be installed exclusively in the wooden doors of Arbonia's Doors Division. In December 2020, it also acquired the remaining 65% of Webcom Management Holding for around CHF 6.7 million.

Accelerated increase in earnings
Group result at net profit level improved by 71% to CHF 44.9 million compared to the previous year (CHF 26.2 million). This corresponds to earnings per share of CHF 0.65.

On the cost side, the weaker euro and the Eastern European currencies had a positive effect on the costs that were mainly incurred in these currencies. While the personnel costs ratio remained unchanged (33.3%), the cost of materials ratio and the other operating expenses ratio decreased slightly. The cost of materials ratio decreased by 1.2 percentage points to 43.7% due to insourcing and even lower material costs in the first half-year, while other operating expenses decreased by 0.7 percentage points to 14.1%, mainly due to lower travel and marketing expenses. Without one-time effects, the personnel ratio was marginally higher.

Due to operational improvements, the increase in vertical integration through insourcing of production steps, as well as a more favourable product, price, and country mix, EBITDA from continuing and discontinued operations with one-time effects increased by 25.9% to CHF 157.8 million (previous year: CHF 125.4 million) in the 2020 financial year, whereby the EBITDA margin improved from 8.9% to 11.3%. All four divisions achieved an EBITDA margin of over 11% and were able to increase it by 1.2 percentage points (Sanitary Equipment Division) up to 4.9 percentage points (Windows Division) compared to the previous year. EBITDA from continuing operations with one-time effects amounted to CHF 116.3 million (previous year: CHF 100.7 million), which corresponds to an increase of 15.5%. Without one-time effects, EBITDA from continuing operations amounted to CHF 114.5 million (previous year: CHF 107.7 million) and an increase of 6.3%.

Depreciation and amortisation remained practically unchanged compared to the previous year and resulted in a disproportionate increase in EBIT. Considering continuing and discontinued operations with one-time effects, EBIT increased by CHF 33.6 million or 84.6% from CHF 39.7 million to CHF 73.3 million, which corresponds to an EBIT margin of 5.2%. EBIT from continuing operations with one-time effects increased by CHF 13.8 million or 34.4% from CHF 40.1 million to CHF 53.9 million. Without taking into account one-time effects, EBIT increased by CHF 3.0 million or 5.9% from CHF 49.1 million to CHF 52.1 million.

The net financial expense figure increased in 2020 from CHF 6.0 million to CHF 12.9 million, due on the one hand to offsetting currency losses compared to the previous year and on the other hand to costs in connection with the refinancing of the syndicated loan (see below). Lower commitment fees and interest margins in the new syndicated loan in combination with a reduced net debt will lead to lower interest expenses in the future.

Income tax expense decreased slightly to CHF 11.2 million (previous year: CHF 11.6 million) in the 2020 financial year, despite a higher operating profit and thus also higher group earnings before taxes (EBT). The effective tax rate of 27.4% (previous year: 33.9%) decreased due to the use of previously non-capitalised loss carry-forwards and, in contrast to the previous year, positive effects of tax charges from previous years.

Significant increase in cash flow underscores operational progress and performance

The free cash flow amounted to CHF 52.5 million in the 2020 financial year (previous year: CHF 8.4 million). The positive development is due to the cash flow from operating activities, which was around CHF 30 million higher than in the previous year and rose to CHF 141.3 million in the reporting year (previous year: CHF 111.8 million). In addition, as in the previous year, investments in property, plants, and equipment as well as in intangible assets decreased further from CHF 113.0 million to CHF 95.5 million, which corresponds to an investment rate (investments/revenue) of 6.8% (previous year: 8.0%). Until the completion of the new frame production and the associated capacity expansion at the German production site Prüm of the Doors Division, the expansion investment ratio will remain high until 2022.

Higher equity ratio, lower net debt, and increase in the dividend

The total assets of Arbonia as of 31 December 2020 decreased only negligibly to CHF 1515.2 million compared to the previous year (CHF 1534.4 million). This is mostly due to the exchange rate conversions of assets and liabilities held in foreign currencies as of the balance sheet date. However, despite negative exchange rate effects, shareholders' equity increased to CHF 893.2 million (previous year: CHF 873.3 million), which is due to the high net profit and the deferred dividend for the 2019 financial year. Consequently, the equity ratio also increased from 56.9% to a very solid 59.0% at the end of the year.

The net debt decreased as per 31 December 2020 by around CHF 40 million to CHF −140.6 million (previous year CHF −180.6 million). The leverage ratio (net debt/EBITDA) fell to −0.9x (previous year: −1.4x), which is well below the defined value of the covenant, so that Arbonia has sufficient strategic and financial leeway. In addition, Arbonia renewed the syndicated loan of CHF 350 million, which expires in 2021, ahead of schedule in November 2020. The firmly committed syndicated loan facility now amounts to CHF 250 million and thereby reflects the improved and solid financial situation of Arbonia. In addition, more favourable terms and conditions were agreed with the banking syndicate as part of the renewal of the facility, which will reduce the financial expense by several hundred thousand Swiss francs per year. The term is once again five years – with the possibility of extending it twice by one year each time. The only covenant is the leverage ratio.

The solid balance structure even before the inflow of funds from the sale of the Windows Division and the further increase in profitability allow Arbonia to increase the distribution to shareholders further for the third year since the resumption of dividend payments for the 2018 financial year. The Board of Directors will propose to the General Meeting to distribute a dividend of CHF 0.25 per registered share for the 2020 financial year, half from retained earnings and half from capital contribution reserves. In addition, the dividend of CHF 0.22 for the 2019 financial year, which was postponed due to COVID-19, is to be paid out, so that the shareholders will receive a total gross distribution of CHF 0.47 after the General Meeting on 23 April 2021.

Consolidated Financial Statements Arbonia Group

Consolidated Income Statement

in 1 000 CHF	Note	2020	in %	2019 restated [1]	in %
Continuing operations					
Net revenues	**31**	**1 038 421**	**100.0**	**1 057 832**	**100.0**
Other operating income		14 807	1.4	17 062	1.6
Capitalised own services		6 369	0.6	7 422	0.7
Changes in inventories of semi-finished and finished goods		3 333	0.3	2 248	0.2
Cost of material and goods		– 454 017	– 43.7	– 475 227	– 44.9
Personnel expenses		– 345 604	– 33.3	– 351 978	– 33.3
Other operating expenses		– 147 017	– 14.2	– 156 661	– 14.8
EBITDA	**31**	**116 292**	**11.2**	**100 698**	**9.5**
Depreciation, amortisation and impairments	36-40	– 47 505	– 4.6	– 45 133	– 4.3
Amortisation of intangible assets from acquisitions	36, 40	– 14 915	– 1.4	– 15 494	– 1.5
EBIT	**31**	**53 872**	**5.2**	**40 071**	**3.8**
Financial income	51	469	0.0	1 164	0.1
Financial expenses	51	– 13 401	– 1.3	– 7 136	– 0.7
Group result before income tax		**40 940**	**3.9**	**34 099**	**3.2**
Income tax expense	52	– 11 210	– 1.1	– 11 561	– 1.1
Group result from continuing operations		**29 730**	**2.9**	**22 538**	**2.1**
Group result from discontinued operations after taxes	**36**	**15 184**	**1.5**	**3 669**	**0.3**
Group result		**44 914**	**4.3**	**26 207**	**2.5**
Attributable to:					
Shareholders of Arbonia AG		44 914		26 207	
Earnings per share from continuing operations in CHF	48	0.43		0.33	
Earnings per share from discontinued operations in CHF	48	0.22		0.05	
Earnings per share in CHF	48	0.65		0.38	

Basic and diluted earnings are identical.

[1] see note 36

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in 1 000 CHF	2020	2019
Group result	**44 914**	**26 207**
Other comprehensive income		
Items that will not be reclassified to income statement		
Remeasurements of employee benefit obligations	– 2 106	– 7 440
Deferred tax effect	956	2 494
Total items that will not be reclassified to income statement	**– 1 150**	**– 4 947**
Items that may be reclassified subsequently to income statement		
Currency translation differences	– 25 523	– 24 966
Cumulative currency translation differences transferred to the income statement		111
Total items that may be reclassified subsequently to income statement	**– 25 523**	**– 24 855**
Total other comprehensive income after taxes	**– 26 673**	**– 29 802**
Total comprehensive income	**18 241**	**– 3 595**
Attributable to:		
Shareholders of Arbonia AG	18 241	– 3 595
Total comprehensive income from continuing operations	5 039	– 5 396
Total comprehensive income from discontinued operations	13 202	1 801

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

in 1 000 CHF	Note	31/12/2020	in %	31/12/2019	in %
Assets					
Cash and cash equivalents	32	52 107		58 354	
Accounts receivable	33	82 357		124 964	
Other current assets		28 213		30 159	
Inventories	34	133 642		168 938	
Contract assets	33	11 574		25 603	
Deferred expenses		5 241		5 396	
Current income tax receivables		678		2 013	
Financial assets	35			1 629	
Assets held for sale	36	283 292		9 823	
Current assets		**597 104**	**39.4**	**426 879**	**27.8**
Property, plant and equipment	37	491 437		578 169	
Right-of-use assets	38	56 457		81 113	
Investment property	39	1 296		4 134	
Intangible assets	40	163 492		187 305	
Goodwill	40	177 598		197 338	
Deferred income tax assets	46	7 206		8 537	
Capitalised pension surplus	47	12 315		44 683	
Financial assets	35	8 265		6 257	
Non-current assets		**918 066**	**60.6**	**1 107 536**	**72.2**
Total assets		**1 515 170**	**100.0**	**1 534 415**	**100.0**

in 1 000 CHF		31/12/2020		31/12/2019	
	Note		in %		in %
Liabilities and shareholders' equity					
Accounts payable		92 947		125 844	
Contract liabilities	33	2 892		8 446	
Other liabilities		21 981		29 293	
Financial debts	42	1 265		31 352	
Lease liabilities	55	9 532		13 581	
Accruals and deferred income		67 179		79 955	
Current income tax liabilities		14 628		13 952	
Provisions	45	10 418		17 749	
Liabilities associated with assets held for sale	36	100 498			
Current liabilities		**321 340**	**21.2**	**320 172**	**20.9**
Financial debts	42	138 904		145 151	
Lease liabilities	55	29 792		48 863	
Other liabilities		15 476		15 577	
Provisions	45	9 463		12 041	
Deferred income tax liabilities	46	49 265		63 420	
Employee benefit obligations	47	57 715		55 941	
Non-current liabilities		**300 615**	**19.8**	**340 993**	**22.2**
Total liabilities		**621 955**	**41.0**	**661 165**	**43.1**
Share capital	48	291 787		291 787	
Share premium		512 583		512 583	
Treasury shares	49	– 2 456		– 4 426	
Other reserves	50	– 108 710		– 83 187	
Retained earnings		200 011		156 493	
Shareholders' equity		**893 215**	**59.0**	**873 250**	**56.9**
Total liabilities and shareholders' equity		**1 515 170**	**100.0**	**1 534 415**	**100.0**

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

in 1 000 CHF	Note	2020	2019
Group result		**44 914**	**26 207**
Depreciation, amortisation and impairments	37 - 40	84 555	85 647
Profit/loss on disposal of non-current assets	35 - 38	– 2 406	– 1 272
Changes in non-cash transactions	55	19 636	13 240
Net interest expense	31	6 070	4 664
Income tax expense	31	14 638	8 087
Changes in working capital	55	6 800	9 473
Changes in current liabilities	55	– 10 704	– 18 854
Interest paid		– 4 869	– 3 549
Interest received		148	452
Income tax paid		– 17 470	– 12 296
Cash flows from operating activities - net		**141 312**	**111 799**
To investment activities			
Purchases of property, plant and equipment	37	– 92 248	– 109 551
Purchases of investment properties	39		– 61
Purchases of intangible assets	40	– 3 295	– 3 361
Acquisition of subsidiaries/businesses (net of cash acquired)	41	– 3 310	– 1 113
Issuance of financial assets	35	– 3 425	– 1 782
From divestment activities			
Proceeds from sale of property, plant and equipment	36, 37	8 582	1 177
Proceeds from sale of investment properties	39	4 879	923
Proceeds from sale of intangible assets		12	78
Repayment of financial assets		3	10 263
Cash flows from investing activities - net		**– 88 802**	**– 103 427**

in 1 000 CHF	Note	2020	2019
From financing activities			
Proceeds from financial debts	42, 55	45 062	78 082
To financing activities			
Repayments of financial debts	42, 55	– 80 461	– 70 763
Lease liability payments	55	– 14 990	– 14 436
Distribution from capital contribution reserves			– 13 736
Purchase of treasury shares	49	– 983	
Cash flows from financing activities - net		**– 51 372**	**– 20 853**
Effects of translation differences on cash and cash equivalents		– 844	– 279
Change in cash and cash equivalents		**294**	**– 12 760**
Reconciliation of change in cash and cash equivalents			
Cash and cash equivalents as of 01/01 continuing operations	32	58 354	70 877
Cash and cash equivalents as of 01/01 discontinued operations			237
Cash and cash equivalents as of 31/12 continuing operations	32	52 107	58 354
Cash and cash equivalents as of 31/12 discontinued operations	36	6 541	
Change in cash and cash equivalents		**294**	**– 12 760**

The notes on pages 129 to 188 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in 1 000 CHF	Note	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total share-holders' equity
Balance at 01/01/2019		**291 787**	**526 319**	**– 7 101**	**– 58 332**	**135 054**	**887 727**
Group result						26 207	26 207
Total 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**
Group result						44 914	44 914
Total other comprehensive income after taxes	50				– 25 523	– 1 150	– 26 673
Total comprehensive income					**– 25 523**	**43 764**	**18 241**
Changes in treasury shares	49			– 983			– 983
Share based payments	56			2 952		– 246	2 706
Total transactions with owners				**1 970**		**– 246**	**1 724**
Balance at 31/12/2020		**291 787**	**512 583**	**– 2 456**	**– 108 710**	**200 011**	**893 215**

The notes on pages 129 to 188 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.

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021 (see note 36).

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 22 February 2021 and require approval from the Annual General Meeting on 23 April 2021. The publication of the consolidated financial statements occurred on 2 March 2021 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 2019.

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

Published standards that are not yet effective nor adopted early
The 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.

3. Reporting entity

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

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

The following material changes occurred in the Group:

In the financial year 2020
- As of 1 December 2020, Arbonia acquired the remaining 65% of Webcom Management Holding GmbH, DE-Bad Liebenstein (see note 41).

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

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	2020		2019	
		Year-end rate	Average rate	Year-end rate	Average rate
EUR	1	1.0814	1.0704	1.0857	1.1127
GBP	1	1.2024	1.2046	1.2773	1.2694
USD	1	0.8986	0.9390	0.9687	0.9938
CZK	100	4.1204	4.0498	4.2728	4.3355
PLN	100	23.4333	24.1069	25.4951	25.8979
CNY	100	13.4754	13.6046	13.8918	14.3962
RUB	100	1.1974	1.3067	1.5658	1.5365

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.

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
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.

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 financial results, tax and amortisation of intangible assets from acquisitions.

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 2020, the carrying amount of inventory was at CHF 133.6 million. Therein a provision for inventories of CHF 20.0 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 2020, the carrying amount of property, plant and equipment totalled CHF 491.4 million. At the time of the purchase useful lives for such assets are based on

estimates, as technical obsolescence or competition could lead to shorter useful lives than initially anticipated. Therefore the determination of useful lives is based on stringent standards and thereafter continuously reviewed and if necessary adjusted. A change in estimate could impact the level of future depreciation charges. For further information on property, plant and equipment, see note 37.

Estimated impairment of goodwill
As of 31 December 2020, the carrying amount of goodwill was at CHF 177.6 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. At initial recognition, assumptions and estimates must be made about the expected 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 2020, the carrying amount of intangible assets acquired in a business combination amounted to CHF 151.1 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 2020, the carrying amount of the provisions totalled CHF 19.9 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 2020, the underfunding amounted to CHF 45.4 million, thereof CHF 12.3 million recorded in the balance sheet as capitalised pension surplus and CHF 57.7 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 2020, the carrying amount of deferred tax assets before offsetting totalled CHF 31.9 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.

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021 (see note 36).

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.

in 1 000 CHF								2020
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group
Sales with third parties at point in time	529 092	144 944	226 360	301 551	1 201 947			1 201 947
Sales with third parties over time			131 484	62 834	194 318			194 318
Sales with other segments		20	14	1	35		– 35	
Net revenues	**529 092**	**144 964**	**357 858**	**364 386**	**1 396 300**		**– 35**	**1 396 265**
Segment results I (EBITDA)	**59 182**	**16 992**	**42 381**	**49 149**	**167 704**	**– 9 860**	**– 9**	**157 835**
in % of net revenues	*11.2*	*11.7*	*11.8*	*13.5*	*12.0*			*11.3*
Depreciation and amortisation	– 25 648	– 4 172	– 19 909	– 15 561	– 65 290	– 1 843		– 67 133
Reversal of impairment on property, plant and equipment			29		29			29
Impairment property, plant and equipment	– 281		– 1 006		– 1 287			– 1 287
Segment results II (EBITA)	**33 253**	**12 820**	**21 495**	**33 588**	**101 156**	**– 11 703**	**– 9**	**89 444**
in % of net revenues	*6.3*	*8.8*	*6.0*	*9.2*	*7.2*			*6.4*
Amortisation of intangible assets from acquisitions	– 3 646	– 1 797	– 1 249	– 9 472	– 16 164			– 16 164
Segment results III (EBIT)	**29 607**	**11 023**	**20 246**	**24 115**	**84 991**	**– 11 703**	**– 8**	**73 280**
in % of net revenues	*5.6*	*7.6*	*5.7*	*6.6*	*6.1*			*5.2*
Interest income	299	77	219	44	639	8 159	– 8 509	289
Interest expenses	– 5 500	– 275	– 2 151	– 2 499	– 10 425	– 4 463	8 530	– 6 358
Minority share from associated companies			101	– 479	– 379			– 379
Other financial result	– 3 638	– 1 492	– 2 673	– 1 152	– 8 955	10 552	– 8 877	– 7 280
Result before income tax	**20 768**	**9 333**	**15 742**	**20 029**	**65 871**	**2 545**	**– 8 864**	**59 552**
Income tax expense	– 4 764	– 1 957	– 3 428	– 4 850	– 14 999	361		– 14 638
Result after income tax	**16 004**	**7 376**	**12 314**	**15 179**	**50 872**	**2 906**	**– 8 864**	**44 914**
Average number of employees	**2 914**	**811**	**2 632**	**2 025**	**8 382**	**63**		**8 445**
Total assets	**559 177**	**108 525**	**296 790**	**527 225**	**1 491 717**	**1 032 032**	**– 1 008 579**	**1 515 170**
thereof associated companies				8 194	8 194			8 194
Total liabilities	**301 340**	**53 109**	**182 357**	**237 008**	**773 814**	**236 548**	**– 388 407**	**621 955**
Purchases of property, plant and equipment, right-of-use assets, investment properties and intangible assets	**33 126**	**7 629**	**11 169**	**50 348**	**102 272**	**2 049**		**104 321**

In the Windows Division, the impairment mainly relates to machinery of the plant in Altstätten resulting from the closure and thus decommissioning of production machinery.

in 1 000 CHF								2019
	HVAC	Sanitary Equipment	Windows	Doors	Total reportable segments	Corporate Services	Elimina-tions	Total Group
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.

The consolidated financial statements were prepared in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" and the related disclosures and adjustments of certain prior-year figures. The above-mentioned segment information however follows internal management reporting, which is why the discontinued operations per note 36 consisting of Windows Division are also included.

The reconciliation of the continuing and discontinued operations on the segment information is presented as follows:

in 1 000 CHF			2020
	Continuing operations	Discontinued operations Windows	Total segments
Net revenues	**1 038 421**	**357 844**	**1 396 265**
Segment results I (EBITDA)	**116 292**	**41 543**	**157 835**
in % of net revenues	*11.2*	*11.6*	*11.3*
Segment results II (EBITA)	**68 787**	**20 657**	**89 444**
in % of net revenues	*6.6*	*5.8*	*6.4*
Segment results III (EBIT)	**53 872**	**19 408**	**73 280**
in % of net revenues	*5.2*	*5.4*	*5.2*
Interest result	– 5 713	– 356	– 6 069
Other financial result	– 7 218	– 440	– 7 659
Result before income tax	**40 940**	**18 612**	**59 552**
Income tax expense	– 11 210	– 3 428	– 14 638
Result after income tax	**29 730**	**15 184**	**44 914**
Total assets	**1 234 104**	**281 066**	**1 515 170**
Total liabilities	**521 457**	**100 498**	**621 955**

in 1 000 CHF			2019
	Continuing operations	Discontinued operations Windows	Total segments
Net revenues	**1 057 832**	**358 135**	**1 415 967**
Segment results I (EBITDA)	**100 698**	**24 653**	**125 351**
in % of net revenues	*9.5*	*6.9*	*8.9*
Segment results II (EBITA)	**55 565**	**2 781**	**58 346**
in % of net revenues	*5.3*	*0.8*	*4.1*
Segment results III (EBIT)	**40 071**	**– 367**	**39 704**
in % of net revenues	*3.8*	*– 0.1*	*2.8*
Interest result	– 4 444	– 219	– 4 663
Other financial result	– 1 528	781	– 747
Result before income tax	**34 099**	**195**	**34 294**
Income tax expense	– 11 561	3 474	– 8 087
Result after income tax	**22 538**	**3 669**	**26 207**
Total assets	**1 246 158**	**288 257**	**1 534 415**
Total liabilities	**568 114**	**93 051**	**661 165**

Information about geographical areas

in 1 000 CHF				2020
	Switzerland	Germany	Other Countries	Total
Net revenues	371 596	568 453	456 216	1 396 265
Property, plant and equipment, right-of-use assets, investment properties, intangible assets and goodwill	127 405	530 472	395 052	1 052 929

in 1 000 CHF				2019
	Switzerland	Germany	Oher Countries	Total
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

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:

in 1 000 CHF	31/12/2020	31/12/2019
CHF	14 085	6 644
EUR	26 512	31 190
PLN	2 984	10 703
CZK	1 694	1 784
RUB	3 824	5 216
USD	305	295
GBP	212	105
Other currencies	2 491	2 417
Total	**52 107**	**58 354**

The effective interest on bank deposits is 0.0% (2019: 0.0%).

33. Accounts receivable/ contract balances

Accounts receivable

in 1 000 CHF	31/12/2020	31/12/2019
Accounts receivable	94 429	141 267
Allowance for accounts receivable	– 12 072	– 16 303
Total	**82 357**	**124 964**
thereof accounts receivable project business	7 875	29 551

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

The ageing analysis is as follows:

in 1 000 CHF	31/12/2020	31/12/2019
Not yet due	73 663	101 714
Overdue up to 30 days	6 120	14 421
Overdue more than 30, less than 60 days	1 626	4 078
Overdue more than 60, less than 90 days	557	1 580
Overdue more than 90, less than 180 days	411	1 397
Overdue more than 180, less than 360 days	– 52	1 278
Overdue more than 360 days	32	496
Total accounts receivable, net	**82 357**	**124 964**

Outstanding accounts receivable amounting to CHF 38.0 million (2019: CHF 18.5 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:

in 1 000 CHF	2020	2019
Balance at 01/01	**– 11 212**	**– 10 230**
Foreign exchange differences	144	269
Additional allowances	– 1 340	– 2 194
Used during year	841	843
Unused amounts reversed	1 761	100
Reclassification to assets held for sale	2 990	
Balance at 31/12	**– 6 816**	**– 11 212**

The expected credit losses were determined taking into account the current conditions and economic consequences of the coronavirus pandemic. Against this background, the assessment of credit losses focused on current conditions and future forecasts (in particular the future financial performance of the contracting party). The available collateral (e.g. credit insurance) were also included in the assessment. On the basis of these analyses, there was overall no significantly higher assessment of the credit default risk for the group companies.

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 2020 the book value of the transferred receivables amounted to CHF 16.4 million (2019: CHF 13.6 million). Thereof Arbonia already received from the factor CHF 14.7 million (2019: CHF 11.9 million) of cash and the difference of CHF 1.8 million (2019: CHF 1.7 million) is disclosed as other current assets against the factor. In addition, in other current assets an amount of CHF 0.2 million (2019: CHF 0.2 million) and in other liabilities an amount of CHF 0.2 million (2019: CHF 0.2 million) are recorded for the consideration of the continuing involvement. In 2020 there was no gain realised for the continuing involvement, the cumulative loss since the inception of the factoring agreement amounts to CHF 0.02 million.

Contract balances

in 1 000 CHF	31/12/2020	31/12/2019
Contract assets project business	11 574	25 603
Total contract assets	**11 574**	**25 603**
Contract liabilities project business	1 218	4 270
Other advance payments by customers	1 674	4 176
Total contract liabilities	**2 892**	**8 446**

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:

in 1 000 CHF	2020	2019
Balance at 01/01	**25 603**	**27 968**
Reclassification of contract assets existing at the beginning of the period to accounts receivable	– 22 692	– 24 517
Revenue recognition on projects in progress as of the balance sheet date based on percentage of completion	57 927	50 715
Offset against contract liabilities due to partial payments received	– 34 198	– 28 563
Reclassification to assets held for sale	– 15 066	
Balance at 31/12	**11 574**	**25 603**

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:

in 1 000 CHF	2020	2019
Balance at 01/01	**4 270**	**1 451**
Revenue recognised from amounts included in the contract liabilities at the beginning of the period	– 2 649	– 1 192
Partial payments received for projects in progress at the balance sheet date	36 020	32 574
Offset against contract assets	– 34 198	– 28 563
Reclassification to assets held for sale	– 2 225	
Balance at 31/12	**1 218**	**4 270**

In 2020, 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:

in 1 000 CHF	within 1 year	in 1-2 years	after 2 years
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2020	42 732	6 327	1 163
Revenues expected to be recognised on uncompleted order backlog as at 31/12/2019	114 477	6 402	2 604

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

34. Inventories

in 1 000 CHF	31/12/2020	31/12/2019
Raw material and supplies	64 856	91 236
Semi-finished and finished goods	61 198	70 226
Goods purchased for resale	7 588	7 343
Prepayments		133
Total	**133 642**	**168 938**

A provision of CHF 20.0 million (2019: CHF 21.6 million) has been provided for obsolete and slow-moving items and is deducted from inventories. 2020 and 2019, there are no inventories written down to the net realisable value and no write-downs to net realisable value were recorded.

35. Financial assets

in 1 000 CHF	31/12/2020	31/12/2019
Investments < 20%		3 685
Investments in associated companies > 20 % < 50 %	8 194	2 492
Other financial assets	71	80
Loans		1 629
Total	**8 265**	**7 886**
thereof disclosed as current assets		1 629

In April 2020, Arbonia increased its minority interest in the German company KIWI-KI GmbH, DE-Berlin, acquired in 2018, to over 20%. The purchase price amounted to CHF 4.9 million, of which CHF 1.6 million was offset against the convertible loan granted in October 2019. The cash outflow of CHF 3.3 million is included in the consolidated statement of cash flows in the position issuance of financial assets.

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

in 1 000 CHF	2020	2019
Balance at 01/01	**2 492**	**2 672**
Foreign exchange differences	37	– 97
Reclassification from investments < 20% and increase of investment	8 638	
Minority share from associated companies	– 378	149
Dividends received		– 232
Reclassification due to full business acquistion	– 2 595	
Balance at 31/12	**8 194**	**2 492**

Due to the acquisition of the remaining 65% share in Webcom Management Holding GmbH in December 2020, the company will be fully consolidated as of the end of the 2020 financial year (see note 41). As of 30 March 2017, Arbonia had acquired a 35% minority share of this German online windows dealer through payment of CHF 2.4 million.

Subsequently, the financial information of these associated companies is disclosed in condensed form.

Associated companies – Balance sheet

in 1 000 CHF	31/12/2020	31/12/2019
Current assets	6 318	1 766
Non-current assets	1 535	1 164
Total assets	**7 852**	**2 930**
Current liabilities	646	1 876
Non-current liabilities	627	190
Shareholders' equity	6 579	864
Total liabilities and shareholders' equity	**7 852**	**2 930**

The balance sheet as of 31 December 2020 includes KIWI-KI GmbH, whereas the previous year shows Webcom.

Associated companies - Income statement

in 1 000 CHF	2020	2019
Net revenues	15 701	12 202
Results after taxes	– 1 631	515

The income statement for 2020 and 2019 includes Webcom, whereas KIWI-KI GmbH has only been included in the income statement since the increase of the investment to over 20% in April 2020.

Business transactions with associated companies

in 1 000 CHF	2020	2019
Sale of goods and services	2 146	3 258
Purchase of goods and services	42	24
Receivables at balance sheet date	20	
Liabilities at balance sheet date	26	21

Loans
At the beginning of October 2019, KIWI-KI GmbH was granted an interest-bearing convertible loan of EUR 1.5 million, repayable by the end of February 2020. The loan was converted into shares at a predetermined share value on the occasion of the financing round successfully carried out in April 2020.

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

The ageing analysis for loans was as follows for 2019:

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

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

in 1 000 CHF	2020	2019
Balance at 01/01	**– 3 000**	**– 3 000**
Used during year	3 000	
Balance at 31/12		**– 3 000**

The impairment of loans of CHF 3.0 million which originated from the sale of the kitchen division in 2014, was derecognised in the reporting year. The recovery or partial recovery of the claim from the insolvency proceedings that have been ongoing for years is estimated to be low.

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

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021. In accordance with IFRS 5, Arbonia reports the business unit windows as of 31 December 2020 as discontinued operations. All prior-year figures in the income statement and the accompanying notes have been adjusted accordingly. In the consolidated balance sheet as of 31 December 2020, assets and liabilities of the discontinued operations windows are disclosed in the respective held for sale asset and liability positions. Previous year's figures in the balance sheet, however, were not adjusted.

In 2020, the production property in Belgium was sold. The cash inflow of CHF 7.2 million is included in the consolidated statement of cash flows under proceeds from sale of property, plant and equipment. The sale of the investment property in Germany, which was reclassified in the previous year, could not yet be completed in 2020 as expected; the sale is now expected in the first half of 2021.

Assets held for sale and discontinued operations

in 1 000 CHF	31/12/2020	31/12/2019
Cash and cash equivalents	6 541	
Receivables and other assets	37 557	
Inventories and contract assets	42 681	
Deferred expenses	428	
Property, plant and equipment and right-of-use assets	130 376	9 823
Intangible assets and goodwill	34 498	
Deferred income tax assets	952	
Capitalised pension surplus	30 229	
Financial assets	30	
Total	**283 292**	**9 823**

Liabilities associated with assets held for sale and discontinued operations

in 1 000 CHF	31/12/2020	31/12/2019
Liabilities	38 962	
Financial debts and lease liabilities	19 770	
Accruals and deferred income	23 058	
Provisions	10 555	
Deferred income tax liabilities	8 153	
Total	**100 498**	

Result from discontinued operations

in 1 000 CHF	2020	2019
Net revenues	**357 844**	**358 135**
Other operating income and capitalised own services	2 445	2 628
Changes in inventories of semi-finished and finished goods	– 3 459	1 222
Cost of material and goods	– 146 698	– 163 056
Personnel expenses	– 123 112	– 128 097
Other operating expenses	– 45 477	– 46 179
EBITDA	**41 543**	**24 653**
Depreciation, amortisation and impairments	– 20 886	– 21 871
Amortisation of intangible assets from acquisitions	– 1 249	– 3 149
EBIT	**19 408**	**– 367**

Financial result	– 796	562
Result from discontinued operations before income tax	**18 612**	**195**
Income tax expense	– 3 428	3 474
Result from discontinued operations	**15 184**	**3 669**

The results for the reporting period comprise sales costs for the disposal of the business unit windows of CHF 0.8 million.

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

in 1 000 CHF	2020	2019
Cash flows from operating activities	**46 916**	**31 426**
Cash flows from investing activities	**– 12 574**	**– 16 687**
Cash flows from financing activities	**– 4 616**	**– 4 434**

37. Property, plant and equipment

in 1 000 CHF	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
Net book value at 01/01/2019	**252 167**	**182 903**	**17 164**	**93 983**	**546 217**
Cost					
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**
Foreign exchange differences	– 10 716	– 12 910	– 1 069	– 1 964	– 26 659
Change in scope of consolidation	367	1	128		496
Additions	3 292	21 784	2 948	64 224	92 248
Disposals	– 600	– 23 756	– 3 966	– 406	– 28 728
Reclassification to assets held for sale	– 58 857	– 128 863	– 14 214	– 4 448	– 206 382
Reclassifications	11 335	31 226	1 822	– 45 113	– 730
Balance at 31/12/2020	**320 953**	**377 748**	**42 446**	**91 784**	**832 931**

in 1 000 CHF	Land and buildings	Plant and machinery	Other equipment	Prepayments and assets under construction	Total
Accumulated depreciation					
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**
Foreign exchange differences	– 1 367	– 5 969	– 635	– 524	– 8 495
Depreciation	9 614	32 511	5 403		47 528
Impairment		1 262	25		1 287
Reversal of impairment		– 29			– 29
Disposals	– 243	– 23 688	– 3 879	– 6	– 27 816
Reclassification to assets held for sale	– 8 927	– 78 813	– 9 464	– 256	– 97 460
Reclassifications		– 4 932	368	6 526	1 962
Balance at 31/12/2020	**108 210**	**196 317**	**31 221**	**5 746**	**341 494**

Net book value at 31/12/2019	**266 999**	**214 291**	**17 394**	**79 485**	**578 169**
Net book value at 31/12/2020	**212 743**	**181 431**	**11 225**	**86 038**	**491 437**

In 2019, land and buildings and plant and machinery included capitalised borrowing costs in the amount of CHF 2.0 million. No borrowing costs were capitalised in 2020.

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:

in 1 000 CHF	31/12/2020	31/12/2019
Property, plant and equipment	41 370	19 783
Intangible assets	690	489
Total	**42 060**	**20 272**

Land and buildings amounting to CHF 50.8 milion (2019: CHF 51.0 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:

in 1 000 CHF	Right-of-use buildings	Right-of-use plant and machinery	Right-of-use other equipment	Total
Net book value at 01/01/2019	**68 950**	**6 810**	**10 993**	**86 753**
Cost				
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 and remeasurements	471	– 39	– 576	– 144
Balance at 31/12/2019	**74 864**	**8 345**	**17 224**	**100 433**
Foreign exchange differences	– 179	– 95	– 224	– 498
Additions	2 110	849	5 946	8 905
Disposals and remeasurements	2 403	– 6	– 1 178	1 219
Reclassification to assets held for sale	– 21 414	– 460	– 6 287	– 28 161
Reclassifications		– 2 538	– 733	– 3 271
Balance at 31/12/2020	**57 784**	**6 095**	**14 748**	**78 627**
Accumulated depreciation				
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**
Foreign exchange differences	– 24	– 23	– 80	– 127
Depreciation	7 930	1 041	5 632	14 603
Disposals	– 47		– 1 090	– 1 137
Reclassification to assets held for sale	– 5 637	– 369	– 3 133	– 9 139
Reclassifications		– 983	– 367	– 1 350
Balance at 31/12/2020	**13 581**	**1 777**	**6 812**	**22 170**
Net book value at 31/12/2019	**63 505**	**6 234**	**11 374**	**81 113**
Net book value at 31/12/2020	**44 203**	**4 318**	**7 936**	**56 457**

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

in 1 000 CHF	2020	2019 restated [1]
Expenses relating to short-term leases	1 752	2 742
Expenses relating to leases of low-value assets (excluding short-term leases)	325	277
Expenses for variable lease payments	675	643
Total	**2 752**	**3 662**

[1] see note 36

Total cash outflows for leases amounted to CHF 20.2 million in 2020 (2019: CHF 21.0 million). Of this amount, CHF 14.3 million (2019: CHF 14.8 million) was attributable to continuing operations.

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 2020, possible future cash outflows of CHF 1.2 million (2019: CHF 1.8 million) were not included in the lease liability as it is not reasonably certain that the lease agreements will be renewed.

39. Investment property

in 1 000 CHF	Investment property - land	Investment property - buildings	Total
Net book value at 01/01/2019	**4 341**	**2 474**	**6 815**
Cost			
Balance at 01/01/2019	**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**
Disposals	– 2 786	– 977	– 3 763
Balance at 31/12/2020	**1 603**	**24 728**	**26 331**
Accumulated depreciation			
Balance at 01/01/2019	**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**
Depreciation		52	52
Disposals		– 977	– 977
Balance at 31/12/2020	**499**	**24 536**	**25 035**
Net book value at 31/12/2019	**3 890**	**244**	**4 134**
Net book value at 31/12/2020	**1 104**	**192**	**1 296**
Fair values of investment properties at 31/12/2019			**11 302**
Fair values of investment properties at 31/12/2020			**8 516**

In 2020, an investment property in Switzerland was sold, resulting in a sales gain of CHF 2.1 million. The net cash inflow of CHF 4.9 million is included in the consolidated statement of cash flows under proceeds from sale of investment properties.

Rental income from investment properties amounted to CHF 1.3 million (2019: CHF 1.6 million) and is included in other operating income. Related direct operating expenses were CHF 0.1 million (2019: CHF 0.3 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

in 1 000 CHF	Brands	Customer relationships	Tech-nologies	Other intangible assets from business combinations	Other intangible assets	Total	Goodwill
Net book value at 01/01/2019	**78 192**	**101 818**	**16 152**	**4 042**	**9 355**	**209 559**	**204 068**
Cost							
Balance at 01/01/2019	**116 450**	**143 698**	**20 984**	**18 962**	**41 881**	**341 975**	**284 784**
Foreign exchange differences	– 3 193	– 4 174	– 763	– 381	– 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	**113 257**	**139 524**	**20 221**	**18 581**	**46 344**	**337 927**	**278 054**
Foreign exchange differences	– 1 353	– 2 441	– 95	– 67	– 191	– 4 147	– 2 237
Change in scope of consolidation					8 266	8 266	
Additions					3 295	3 295	
Disposals					– 3 287	– 3 287	
Reclassification to assets held for sale	– 27 897	– 17 073		– 14 008	– 29 925	– 88 903	– 67 718
Reclassifications					4 733	4 733	
Balance at 31/12/2020	**84 007**	**120 010**	**20 126**	**4 506**	**29 235**	**257 884**	**208 099**
Accumulated amortisation							
Balance at 01/01/2019	**38 258**	**41 880**	**4 832**	**14 920**	**32 526**	**132 416**	**80 716**
Foreign exchange differences	– 758	– 1 063	– 200	– 244	– 413	– 2 678	
Change in scope of consolidation					– 33	– 33	
Amortisation	7 242	9 883	1 104	413	4 437	23 079	
Disposals					– 2 162	– 2 162	
Balance at 31/12/2019	**44 742**	**50 700**	**5 736**	**15 089**	**34 355**	**150 622**	**80 716**
Foreign exchange differences	– 516	– 1 448	– 20	– 46	– 131	– 2 161	
Amortisation	6 963	7 744	1 060	397	4 949	21 113	
Disposals					– 3 275	– 3 275	
Reclassification to assets held for sale	– 25 634	– 16 160		– 11 015	– 19 098	– 71 907	– 50 215
Balance at 31/12/2020	**25 555**	**40 836**	**6 776**	**4 425**	**16 800**	**94 392**	**30 501**
Net book value at 31/12/2019	**68 515**	**88 824**	**14 485**	**3 492**	**11 989**	**187 305**	**197 338**
Net book value at 31/12/2020	**58 452**	**79 174**	**13 350**	**81**	**12 435**	**163 492**	**177 598**

Expenses for research and development in the amount of CHF 16.3 million (2019: CHF 15.3 million) have been charged to the income statement, since they did not fulfil the capitalisation criteria. Of this amount, CHF 13.3 million (2019: CHF 12.1 million) was attributable to continuing operations. The additions to intangible assets consist of CHF 0.6 million (2019: CHF 0.3 million) of own development costs and CHF 2.7 million (2019: CHF 3.1 million) of purchased or acquired items.

Goodwill
As of 31 December 2020 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:

in 1 000 CHF	Doors	Sanitary	Wertbau	Sabiana	Slovaktual	Total
Balance at 31/12/2019	**141 417**	**14 647**	**3 130**	**23 700**	**14 444**	**197 338**
Foreign exchange differences	– 2 072		– 12	– 94	– 59	– 2 237
Reclassification to assets held for sale			– 3 118		– 14 385	– 17 503
Balance at 31/12/2020	**139 345**	**14 647**		**23 606**		**177 598**

Goodwill impairment tests 2020
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 2020 and were used for the impairment tests.

The value in use calculation for the annual 2020 impairment tests assumed the following key assumptions:

in %	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
Budgeted gross margin	57.1	66.4	51.5	42.0	41.8
Growth rate	1.6	1.3	1.0	2.0	1.0
Discount rate	9.8	9.2	10.1	11.6	9.5

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 2020 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 57.1% to 55.1% would result in an impairment of the CGU Doors amounting to CHF 48.6 million. At a budgeted gross margin of 56.1%, the recoverable amount was equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.6% to 1.1% would lead to an impairment of CHF 43.6 million. At a reduction of 5.3% in EBITDA and a simultaneous reduction of eternal growth to 1.3%, the recoverable amount was equal to their carrying amount.

Goodwill impairment tests 2019

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

in %	Doors	Sanitary	Wertbau	Sabiana	Slovaktual
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 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 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 have resulted in an impairment of the CGU Doors amounting to CHF 48.1 million. At a budgeted gross margin of 55.1%, the recoverable amount would have been equal to their carrying amount. A 10% reduction in EBITDA and a simultaneous reduction of eternal growth from 1.7% to 1.2% would have led 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 would have been equal to their carrying amount.

41. Acquisitions

The following fair value of assets and liabilities had arisen from acquisitions in 2020 as mentioned under note 3:

Webcom

in 1 000 CHF	Fair Value
Assets	
Cash and cash equivalents	3 342
Accounts receivables	95
Other current assets	77
Inventories	422
Property, plant and equipment	496
Intangible assets	474
Financial assets	14
Total assets	**4 920**
Liabilities	
Accounts payable	405
Other liabilities	2 654
Financial debts	97
Current income tax liabilities	141
Provisions	31
Deferred income tax liabilities	136
Total liabilities	**3 464**
Net assets acquired before remeasurement	**1 456**
Intangible assets/Goodwill	7 792
Net assets acquired	**9 247**
Fair value of initial interest	– 2 595
Acquisition price	**6 652**
Net cash outflow was as follows:	
Purchase price	6 652
Cash and cash equivalents acquired	– 3 342
Net cash outflow on acquisition	**3 310**

As of 1 December 2020, Arbonia acquired the remaining 65% of the German online retailer Webcom Management Holding GmbH, DE-Bad Liebenstein. The purchase price amounted to CHF 6.7 million and is allocated to the discontinued operation windows. Therefore, in accordance with the provisions of IFRS 5, Arbonia has refrained from determining the fair value of the acquired assets and there in particular the intangible assets. Similarly, certain disclosures on individual balance sheet items and the income statement have been omitted. Certain information is disclosed in note 35 under associated companies.

42. Financial debts

On 3 November 2020, Arbonia entered into a syndicated loan for CHF 250 million. This loan, arranged with a consortium of domestic and foreign banks, has a term of five years, with the option to extend the agreement twice for one year each. With the taking out of this new syndicated loan, the syndicated loan concluded on 14 September 2016 for CHF 350 million with a term until 14 September 2021 was replaced prematurely.

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. In November 2020, Arbonia repaid EUR 4 million of the five-year tranche prematurely.

The financial debts are comprised of the following:

in 1 000 CHF	31/12/2020	31/12/2019
Promissory note loan	130 849	135 713
Syndicated loan		30 000
Mortgages	9 065	10 115
Bank loans	255	675
Total	**140 169**	**176 503**

In contrast to the replaced syndicated loan, the new syndicated loan contains the leverage ratio as the only covenant. The syndicated loan concluded in 2016 also contained the minimum net worth and the interest coverage ratio as additional covenants. 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 2020 and 2019.

The maturities of the financial debts are as follows:

in 1 000 CHF	31/12/2020	31/12/2019
within 1 year	1 265	31 352
between 1 and 5 years	124 078	69 538
after 5 years	14 826	75 613
Total	**140 169**	**176 503**

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

		31/12/2020
	CHF	EUR
Financial debts		1.7%

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

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:

in 1 000 CHF	31/12/2020	31/12/2019
CHF		30 000
EUR	140 169	146 503
Total	**140 169**	**176 503**

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:

in 1 000 CHF	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
							31/12/2020
Non-derivative financial instruments							
Accounts payable	92 947	92 947	92 947				
Other liabilities (without derivatives)	17 127	22 197	1 114	433	650		20 000
Lease liabilities	39 324	42 512	5 388	4 945	8 746	15 840	7 593
Accruals and deferred income	40 705	40 705	39 141	1 564			
Financial debts	140 169	151 110	3 371	1 050	3 146	127 871	15 672
Derivative financial instruments							
Interest rate swaps	1 485						
Cash outflow		1 485	139	141	256	569	380
Total	**331 757**	**350 956**	**142 100**	**8 133**	**12 798**	**144 280**	**43 645**

in 1 000 CHF	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
							31/12/2019
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**	**455 292**	**214 637**	**9 779**	**16 638**	**99 293**	**114 945**

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.

						31/12/2020
in 1 000 CHF	FA FVTPL	FA AC	FL FVTPL	FL AC	Book value	Fair Value Level 2
Cash and cash equivalents		52 107			52 107	
Accounts receivable		82 357			82 357	
Other current assets		2 793			2 793	
Deferred expenses		3 263			3 263	
Other financial assets		71			71	
Assets		**140 591**			**140 591**	
Accounts payable				92 947	92 947	
Derivative financial instruments			1 485		1 485	1 485
Other liabilities (without derivatives)				17 127	17 127	
Lease liabilities				39 324	39 324	
Accruals and deferred income				40 705	40 705	
Promissory note loan				130 849	130 849	133 540
Loans				255	255	
Mortgages				9 065	9 065	10 386
Liabilities			**1 485**	**330 271**	**331 756**	

							31/12/2019
in 1 000 CHF	**FA FVTPL**	**FA AC**	**FL FVTPL**	**FL AC**	**Book value**		**Fair Value**
						Level 2	**Level 3**
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**		

Abbreviations in the header of this table are explained in note 9 "Financial Instruments" on page 131.

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. The investments < 20% measured at fair value through profit or loss in 2019, related 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 was also measured at fair value through profit or loss. The fair value as at 31 December 2019 corresponded to the original purchase price of CHF 3.7 million or the original loan amount of EUR 1.5 million. In April 2020, Arbonia increased its minority interest to over 20% (see note 35).

In 2020 and 2019, no gains/losses resulted from level 3 financial instruments. Furthermore, no reclassifications occurred between the levels 1 and 2.

45. Provisions

in 1 000 CHF	Warranty	Personnel	Restructuring	Onerous contracts project business	Other provisions	Total
Balance at 01/01/2019	**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**
Foreign exchange differences	– 124	– 60	– 15		– 27	– 226
Change in scope of consolidation	14	12			6	32
Additional provisions	10 574	1 615	495	250	1 598	14 532
Used during the year	– 9 106	– 1 950	– 1 227	– 244	– 384	– 12 911
Unused amounts reversed	– 113	– 297	– 190		– 182	– 782
Reclassification to liabilities associated with assets held for sale	– 5 906	– 292	– 1 500	– 307	– 2 550	– 10 555
Balance at 31/12/2020	**9 803**	**7 559**	**27**	**39**	**2 452**	**19 880**
thereof current at 31/12/2019	9 523	2 537	2 464	340	2 885	17 749
thereof current at 31/12/2020	7 307	1 768	27	39	1 277	10 418

The current provision is expected to be fully utilised during 2021. The non-current provision is expected to be utilised as follows:

in 1 000 CHF	Warranty	Personnel	Restructuring	Onerous contracts project business	Other provisions	Total
between 1 and 5 years	2 489	4 185			409	7 083
after 5 years	7	1 606			766	2 379

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
On 20 March 2019, the HVAC Division announced a further reorganisation of areas of production at the Dilsen (BE) site. In 2019, 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. The restructuring of the radiator business was completed in summer 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:

in 1 000 CHF	31/12/2020 Deferred tax assets	31/12/2020 Deferred tax liabilities	31/12/2019 Deferred tax assets	31/12/2019 Deferred tax liabilities
Assets				
Accounts receivable	1 037	230	1 171	196
Other current assets		208	1	226
Inventories	1 947		2 179	
Non-current assets held for sale		179		2 456
Property, plant and equipment and right-of-use assets	110	24 973	269	28 525
Investment property	61		498	
Intangible assets	45	39 851	396	45 033
Capitalised pension surplus and financial assets		2 368		8 311
Liabilities				
Current liabilities	5 901	3 248	6 448	3 076
Non-current liabilities	5 410	2 462	5 684	1 239
Current and non-current provisions	1 053	425	1 284	395
Employee benefit obligations	9 353		8 864	
Deferred taxes from timing differences	**24 917**	**73 944**	**26 794**	**89 457**
Deferred tax assets derived from tax loss carryforwards	15 363		15 640	
Valuation allowance	– 8 395		– 7 860	
Net deferred taxes from timing differences	**31 885**	**73 944**	**34 574**	**89 457**
Offset of deferred tax assets and liabilities	– 24 679	– 24 679	– 26 037	– 26 037
Total deferred taxes	**7 206**	**49 265**	**8 537**	**63 420**

From the capitalised pension surplus and employee benefit obligations, CHF 1.3 million (2019: CHF 2.4 million) of deferred taxes from continuing operations 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 56.6 million (2019: CHF 63.5 million) in conjunction with investments in subsidiaries for which Arbonia has not recorded deferred tax liabilities based on the exemption provisions of IAS 12. For continuing operations, there are no deductible temporary differences for both 2020 and 2019 on which no deferred tax assets have been recognised.

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

in 1 000 CHF	2020	2019
Balance at 01/01	**54 883**	**65 293**
Change in scope of consolidation	136	
Changes to other comprehensive income for continuing operations	– 1 267	– 2 406
Changes to other comprehensive income for discontinued operations	311	– 89
Changes to the income statement for continuing operations	– 6 316	– 3 350
Changes to the income statement for discontinued operations	1 785	– 2 805
Reclassification to assets held for sale	952	
Reclassification to liabilities associated with assets held for sale	– 8 152	
Foreign exchange differences	– 273	– 1 760
Balance at 31/12	**42 059**	**54 883**

Unrecognised tax loss carryforwards in 1 000 CHF	31/12/2020	31/12/2019
Tax loss carryforwards	89 604	125 146
thereof recognised as deferred taxes	– 37 122	– 50 758
Unrecognised tax loss carryforwards	**52 482**	**74 388**
Portion expiring:		
within 1 year	546	150
between 1 and 5 years	33 592	61 061
after 5 years	18 344	13 177
Total	**52 482**	**74 388**

Tax effect on unrecognised tax loss carryforwards	**8 395**	**7 860**
thereof pertaining to tax rates below 15%	6 323	4 911
thereof pertaining to tax rates between 21% and 25%	120	97
thereof pertaining to tax rates between 26% and 30%	1 952	2 852

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. 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.

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

In 2020, two pension foundations were liquidated. Free funds of CHF 6.2 million were distributed to the employees who left the company in the form of one-time payments. The employees who remained in the company received contributions of CHF 2.9 million to their retirement savings as a benefit improvement, which was treated as an actuarial loss.

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:

in 1 000 CHF	31/12/2020	31/12/2019
Present value of funded obligations	121 217	308 231
Fair value of plan assets	132 759	351 394
Overfunding	**– 11 542**	**– 43 163**
Present value of unfunded obligations	56 941	54 421
Liability (net) recognised in the balance sheet	**45 400**	**11 258**
thereof recorded as employee benefit obligations	57 715	55 941
thereof recorded as capitalised pension surplus	– 12 315	– 44 683

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

in 1 000 CHF	2020	2019
Balance at 01/01	**362 652**	**343 692**
Interest cost	1 391	3 408
Current service cost	10 032	8 734
Past service cost		106
Contributions by plan participants	4 744	4 759
Benefits paid	– 18 539	– 12 124
Actuarial losses arising from changes in financial assumptions	6 851	26 891
Actuarial losses/gains arising from experience adjustements	6 765	– 5 096
Settlements/partial liquidation	– 5 644	– 5 773
Administration cost	153	141
Reclassification to liabilities associated with assets held for sale	– 190 033	
Foreign exchange differences	– 213	– 2 086
Balance at 31/12	**178 159**	**362 652**
thereof for active members	102 558	218 815
thereof for pensioners	69 517	137 582
thereof for deferred members	6 084	6 255

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

in 1 000 CHF	2020	2019
Balance at 01/01	**351 394**	**338 579**
Interest income	736	2 739
Return on plan assets excl. interest income	17 687	14 354
Contributions by the employer	7 601	7 761
Contributions by plan participants	4 744	4 759
Benefits paid	– 18 539	– 12 101
Settlements/partial liquidation	– 4 400	– 4 485
One-time payments to leavers from free funds	– 6 178	
Reclassification to assets held for sale	– 220 260	
Foreign exchange differences	– 26	– 211
Balance at 31/12	**132 758**	**351 394**

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

in 1 000 CHF	2020	2019
Actuarial losses	4 553	16 315
Actuarial losses from discontinued operations	9 063	5 480
One-time payments to leavers from free funds	6 178	
Return on plan assets excl. interest income	– 17 688	– 14 355
Remeasurements of employee benefit obligations	**2 106**	**7 440**

The amounts recognised in the income statement are as follows:

in 1 000 CHF	2020	2019
Current service cost	10 032	8 734
Past service cost		106
Net interest result	655	669
Administration cost	153	141
Settlements/partial liquidation	– 1 244	– 1 288
Net charges for defined benefit plans	**9 595**	**8 362**
thereof recorded under personnel expenses from continuing operations	5 811	4 836
thereof recorded under financial results from continuing operations	711	880
thereof recorded under Group result from discontinued operations after taxes	3 074	2 646

The principal actuarial assumptions used were as follows:

Weighted average		**2020**	**2019**
Discount rate at 31/12		0.5%	0.4%
Future salary increases		1.3%	1.1%
Future pension increases		0.5%	0.3%
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, whereby only the continuing operations have been taken into account for 2020:

Impact on employee benefit obligations	**Change in assumption**	**2020**	**2019**
Discount rate	– 0.25%	7 309	14 354
	+ 0.25%	– 6 808	– 13 385
Salary increases	– 0.25%	– 749	– 1 418
	+ 0.25%	749	1 431
Life expectancy	+ 1 year	5 044	10 469
	– 1 year	– 5 047	– 10 552
Service cost 2021 with discount rate	+ 0.25%	– 354	– 646

The weighted average duration of employee benefit obligations is 16.7 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:

in 1 000 CHF	quoted	unquoted	31/12/2020 Total	quoted	unquoted	31/12/2019 Total
Cash and cash equivalents		4 490	4 490		25 883	25 883
Equity instruments	38 277		38 277	95 980		95 980
Debt instruments	20 583		20 583	58 505		58 505
Real estate	6 703	49 091	55 794	6 388	134 534	140 922
Others	8 510	5 104	13 614	24 629	5 475	30 104
Total plan assets	**74 073**	**58 685**	**132 758**	**185 502**	**165 892**	**351 394**

The category "Others" contains assets from full insurance contracts that have been terminated some years ago and are therefore expiring.

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

in 1 000 CHF	up to 1 year	between 1 and 2 years	between 2 and 5 years	next 5 years
Benefit payments	1 443	1 554	5 122	10 350

Expected contributions to pension plans for the year 2021 amount to CHF 7.0 million for the continuing operations (2020: CHF 11.9 million for all operations), of which CHF 4.7 million (2020: CHF 7.3 million for all operations) are attributable to the employer.

48. Share capital

The capital structure is as follows:

			31/12/2020			31/12/2019
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 amounts to CHF 0.47, divided into CHF 0.22 for the 2019 financial year and CHF 0.25 for the 2020 financial year.

On 24 April 2020, 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 29 148 000 through the issue of a maximum of 6 940 000 fully paid registered shares with a par value of CHF 4.20 each until 24 April 2022 (authorised capital increase). To increase the share capital by a maximum amount of CHF 29 148 000 by issuing a maximum of 6 940 000 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 29 148 000.

Earnings per share	2020	2019
Group earnings from continuing operations after non-controlling interests (in 1 000 CHF)	29 730	22 538
Group earnings from discontinued operations after non-controlling interests (in 1 000 CHF)	15 184	3 669
Group earnings for the year (in 1 000 CHF)	44 914	26 207
Outstanding shares (average)	69 473 243	69 473 243
Less treasury shares (average)	– 313 454	– 638 438
Average number of shares outstanding for the calculation	**69 159 789**	**68 834 805**

There were no dilutive effects impacting the calculation.

49. Treasury shares

			2020			2019
	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**	**532 380**	**4 426**	**8.31**	**854 054**	**7 101**
Transfer for share based payments	8.31	– 355 294	– 2 952	8.31	– 321 674	– 2 674
Purchase	9.33	105 300	983			
Balance at 31/12	**8.70**	**282 386**	**2 456**	**8.31**	**532 380**	**4 426**

50. Other comprehensive income and other reserves

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

			31/12/2020			31/12/2019
in 1 000 CHF	Other reserves	Retained earnings	Total other comprehensive income	Other reserves	Retained earnings	Total other comprehensive income
Remeasurements of employee benefit obligations		– 2 106	– 2 106		– 7 440	– 7 440
Deferred tax effect		956	956		2 494	2 494
Total items that will not be reclassified to income statement		**– 1 150**	**– 1 150**		**– 4 947**	**– 4 947**
Currency translation differences	– 25 523		– 25 523	– 24 966		– 24 966
Cumulative currency translation differences transferred to the income statement				111		111
Total items that may be subsequently reclassified to income statement	**– 25 523**		**– 25 523**	**– 24 855**		**– 24 855**
Other comprehensive income after taxes	**– 25 523**	**– 1 150**	**– 26 673**	**– 24 855**	**– 4 947**	**– 29 802**

Other reserves

in 1 000 CHF	Currency translation	Total
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**
Currency translation differences	– 25 523	– 25 523
Balance at 31/12/2020	**– 108 710**	**– 108 710**

51. Financial results

in 1 000 CHF	2020	2019 restated [1]
Financial income		
Bank and other interest	167	446
Interest on net pension surplus	31	152
Total interest income	**198**	**598**
Impact of exchange rate fluctuations		453
Gains derivative financial instruments	256	1
Foreign currency exchange gain from sale/liquidation of subsidiaries		112
Other financial income	15	
Total other financial income	**271**	**566**
Total financial income	**469**	**1 164**
Financial expenses		
Bank and other interest	221	672
Interest on leases	1 101	1 210
Interest on non-current financial debts and syndicated loan	3 017	1 263
Interest on net employee benefit obligations	743	1 032
Compounding of liabilities	829	865
Total interest expenses	**5 911**	**5 042**
Impact of exchange rate fluctuations	3 695	
Losses derivative financial instruments	8	31
Minority share from associated companies	480	
Impairment on loans/ financial assets		31
Bank charges and other financial expenses	3 307	2 032
Total other financial expenses	**7 490**	**2 094**
Total financial expenses	**13 401**	**7 136**
Total net financial results	**– 12 932**	**– 5 972**

[1] see note 36

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

in 1 000 CHF	2020	2019 restated [1]
Total interest income from financial assets measured at amortised cost (FA AC)	167	446
Total interest expenses from financial liabilities measured at amortised cost (FL AC)	5 168	4 010
Net gain/loss from financial assets/ liabilities measured at fair value through profit or loss (FA/ FL FVTPL)	248	– 30
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)	3 301	2 020

[1] see note 36

52. Income taxes

in 1 000 CHF	2020	2019 restated [1]
Current income taxes	17 526	14 911
Changes in deferred income taxes	– 6 316	– 3 350
Total	**11 210**	**11 561**

[1] see note 36

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:

in 1 000 CHF	2020	2019 restated [1]
Earnings before income tax	**40 940**	**34 099**
Weighted average tax rate in %	26.3	27.0
Expected tax expense	**10 773**	**9 220**
Income tax reconciliation		
Effect of utilisation of previously unrecognised tax losses	– 619	– 104
Effect of not capitalised losses for the year	1 622	1 989
Effect of non-tax-deductible expenses and non-taxable income	139	737
Effect of income and expenses taxed at special rates	197	– 39
Effect of tax charges related to prior years	– 241	544
Effect of tax rate changes	– 473	– 723
Change in unrecognised deferred tax assets	– 129	– 52
Other items	– 59	– 11
Effective tax expense	**11 210**	**11 561**
Effective tax rate in %	27.4	33.9

[1] see note 36

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 of the continuing operations decreased slightly compared to previous year. Compared to 2019, there were no significant changes in local tax rates with the exception of the tax reform in Switzerland.

Swiss Tax Reform
The Swiss public voted on 19 May 2019 to adopt the Federal Act on Tax Reform. The Federal Act entered into force on 1 January 2020. The cantons implemented the reform autonomously according to their needs. In the canton of St. Gallen, the cantonal tax submission had already been passed during 2019 and the reduction in income tax rate was already taken into account in 2019 for the Arbonia companies domiciled in the canton of St. Gallen. The effects were insignificant and related to discontinued operations. In the canton of Thurgau, the cantonal tax submission was accepted in the public voting of 9 February 2020. The amended cantonal tax law came into force retroactively as of 1 January 2020 and included a reduction in income tax rates. Based on this change, the deferred tax positions of the Arbonia companies domiciled in the canton of Thurgau were revalued in the reporting period. The reduction of the affected net deferred tax liabilities resulted in a deferred tax income of CHF 0.5 million.

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's continuing operations as of the balance sheet date accounted for a share of 32.9% (2019: 31.3% for all operations) of existing trade receivables. The 10 largest customers of continuing operations generated 27.1% (2019: 18.4% for all operations) 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 49%/24%/8% of total liquid funds as of the balance sheet date (2019: 61%/9%/7%).

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:

in 1 000 CHF	31/12/2020	31/12/2019
Cash and cash equivalents	52 107	58 354
+ undrawn credit facilities	260 627	332 093
Total available liquidity	**312 734**	**390 447**

The new syndicated loan taken out in the reporting year includes the leverage ratio as the only covenant. The syndicated loan concluded in 2016 and prematurely replaced in the reporting year also contained the minimum net worth and the interest coverage ratio as additional covenants. If such covenants are not complied with, the banks may demand immediate redemption of their share. In 2020 and 2019, Arbonia complied with all covenants. Due to restrictions on the leverage ratio, the unused credit limits could not be fully drawn until the new syndicated loan was taken out.

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, CZK and RUB.

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 (2019: 5%), a 5% increase (decrease) of the CZK against the CHF (2019: 5%), a 5% increase (decrease) of the PLN against the CHF (2019: 5%) or a 5% increase (decrease) of the RUB against the CHF would have the following effects on Arbonia's Group earnings as of the balance sheet date:

in 1 000 CHF				31/12/2020
	EUR/CHF	CZK/CHF	PLN/CHF	RUB/CHF
Reasonably possible change	5.0%	5.0%	5.0%	5.0%
Impact of an increase on group earnings	– 439	467	138	299
Impact of a decrease on group earnings	439	– 467	– 138	– 299

in 1 000 CHF			31/12/2019
	EUR/CHF	CZK/CHF	PLN/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

(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 (2019: 50 basis points) or by 50 basis points for EUR interest rates (2019: 50 basis points) would have the effects set forth below on Group earnings of Arbonia:

in 1 000 CHF		31/12/2020
	CHF interest rate	EUR interest rate
Reasonably possible change in basis points	50	50
Variable interest-bearing financial instruments		
Impact of an increase on group earnings	70	129
Impact of a decrease on group earnings	– 70	– 129
Interest rate swaps		
Impact of an increase on group earnings		180
Impact of a decrease on group earnings		– 180

in 1 000 CHF		31/12/2019
	CHF interest rate	EUR interest rate
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

(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 59.0% as of the balance sheet date (2019: 56.9%). The increase in the equity ratio compared to the previous year is due to the high group result. The currency translation differences of the stronger CHF, especially against the Eastern European currencies, 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.

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:

in 1 000 CHF	31/12/2020	31/12/2019
Liabilities		
Interest rate swaps without hedges	1 485	1 565
Forward foreign exchange contracts without hedges		189

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 per 31 December 2019, EUR was hedged against CHF and CZK against EUR.

55. Additional information on the cash flow statements

in 1 000 CHF	2020	2019
Changes in non-cash transactions		
Additional/reversed provisions	13 698	15 655
Changes in capitalised pension surplus/employee benefit obligations	1 358	31
Share based payments	2 709	2 854
Impairment on financial assets	69	34
Minority share from associated companies	379	– 149
Other non-cash effects	1 423	– 5 185
Total changes in non-cash transactions	**19 636**	**13 240**
Changes in working capital		
Changes in accounts receivable	4 711	7 990
Changes in inventories	4 659	– 5 862
Changes in contract assets project business	– 1 038	2 366
Changes in other working capital items	– 1 532	4 979
Total changes in working capital	**6 800**	**9 473**
Changes in liabilities		
Changes in accounts payable	– 10 672	4 375
Changes in contract liabilities	1 787	1 818
Used provisions	– 12 910	– 22 832
Changes in other current liabilities	11 091	– 2 215
Total changes in liabilities	**– 10 704**	**– 18 854**

in 1 000 CHF	Current and non-current financial debts
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**
Foreign exchange differences	– 53
Change in scope of consolidation	97
Proceeds from financial debts	45 062
Repayments of financial debts	– 80 461
Non-cash foreign exchange effects	– 546
Reclassification to liabilities associated with assets held for sale	– 433
Balance at 31/12/2020	**140 169**

in 1 000 CHF	Lease liabilities
Balance at 31/12/2018	**13 157**
Additional leases due to first time adoption of IFRS 16	54 980
Foreign exchange differences	– 1 035
Lease additions	9 274
Lease liability payments	– 14 436
Lease disposals and remeasurements	504
Balance at 31/12/2019	**62 444**
Foreign exchange differences	– 137
Lease additions	8 905
Lease liability payments	– 14 990
Lease disposals and remeasurements	2 439
Reclassification to liabilities associated with assets held for sale	– 19 337
Balance at 31/12/2020	**39 324**

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% (2019: 50%) and the other employees between 20% and 35% (2019: 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 2020, Group Management and certain other employees received for their work in the year 2019 a total of 222 640 (2019: 101 296 shares) allotted shares at a fair value of CHF 1.6 million (2019: CHF 1.1 million) and CHF 7.40 per share respectively (2019: CHF 10.55). The CEO received a larger portion of his base compensation for his employment 2020 in shares. He was allocated 60 000 shares (2019: 60 000) at a fair value of CHF 0.7 million (2019: CHF 0.7 million) and CHF 12.34 per share respectively (2019: CHF 11.66). The members of the Board of Directors received for their work from 13 April 2019 up to the Annual General Meeting on 24 April 2020 a total of 72 654 shares (2019: 47 379 shares) at a fair value of CHF 0.5 million (2019: CHF 0.5 million) and CHF 7.40 per share respectively (2019: CHF 10.55).

Personnel expenses in 2020 for share based payments totalled CHF 2.3 million (2019: CHF 2.9 million).

57. Related party transactions

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

in 1 000 CHF	2020	2019
Salaries and other short-term employee benefits	4 292	3 501
Share based payments	1 740	1 966
Pension and social security contributions	982	930
Total	**7 014**	**6 397**

The detailed disclosures regarding executive remuneration required by Swiss law are included in the compensation report on pages 112 to 114.

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

in 1 000 CHF	Purchase of services	Sale of goods	Purchase of goods	Balance on receivables	Balance on liabilities
			2020		31/12/2020
Other related parties	28	5 817	73	871	22
Total	**28**	**5 817**	**73**	**871**	**22**

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

Goods sold in 2020 and 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. 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 2020 are disclosed in the notes to the 2020 financial statements of Arbonia AG on page 201.

58. Contingencies

There were no contingencies.

59. Events after the balance sheet date

On 4 January 2021, a contract was signed between Arbonia and the Danish DOVISTA Group for the sale of the windows business. The closing of the transaction is expected in the second quarter of 2021 (see note 36).

No other events occurred between the balance sheet date and the date of this report which could have a significant influence on the 2020 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	CZK	100%	▲				
Arbonia Riesa GmbH	Riesa, DE	0.614	EUR	100%	■				
Kermi GmbH	Plattling, DE	15.339	EUR	100%	▲	▲			
Vasco Group GmbH	Dortmund, DE	0.077	EUR	100%	■				
Tecnologia de Aislamientos y climatizacion, S.L.	Algete, ES	0.481	EUR	100%	■				
Arbonia France Sàrl	Hagenbach, FR	0.600	EUR	100%	■				
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%		▲			

▲ Production / Sales
■ Trade
● Services / Finances

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%			▲		
Dobroplast Fabryka Okien Sp.z o.o.	Zambrow, PL	53.355	PLN	100%			▲		
Slovaktual s.r.o.	Pravenec, SK	0.500	EUR	100%			▲		
webcom Management Holding GmbH	Bad Liebenstein, DE	0.100	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%					
Corporate 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 2020 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 122 to 188) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have ful-filled 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.

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Valuation of goodwill

Key Audit Matter

As at 31 December 2020, the carrying amount of the balance sheet line item "Goodwill" amounts to CHF 177.6 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 134
— Note 20 „Impairment of assets", page 134
— Note 30 „Significant accounting judgments, estimates and assumptions", paragraphs „Estimated impairment of goodwill" and „Intangible assets acquired in a business combination", page 139
— Note 40 „Intangible assets", page 158

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, actions taken to eliminate threats or safeguards applied.

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, 22 February 2021

Financial Statements Arbonia AG

Income Statement

in 1 000 CHF	Note	2020	in %	2019	in %
Dividend income		20 550		30 000	
Financial income	2.7	13 310		12 687	
Other operating income		2		8	
Total income		**33 862**	**100.0**	**42 695**	**100.0**
Financial expenses	2.8	– 14 106	– 41.7	– 13 131	– 30.8
Personnel expenses		– 1 407	– 4.2	– 960	– 2.2
Other operating expenses	2.9	– 5 427	– 16.0	– 4 803	– 11.2
Total expenses		**– 20 941**	**– 61.8**	**– 18 894**	**– 44.3**
Net profit		**12 921**	**38.2**	**23 801**	**55.7**

The notes on pages 198 to 201 are an integral part of these financial statements.

Balance sheet

in 1 000 CHF	Note	31/12/2020	in %	31/12/2019	in %
Assets					
Cash and cash equivalents		38 228		35 628	
Other receivables					
Third parties		203		129	
Shareholdings		279 616		273 379	
Deferred expenses				27	
Current assets		**318 047**	**23.5**	**309 163**	**22.9**
Loans to shareholdings		244 952		250 171	
Investments	2.1	788 812		788 812	
Non-current assets		**1 033 764**	**76.5**	**1 038 984**	**77.1**
Total assets		**1 351 811**	**100.0**	**1 348 146**	**100.0**

in 1 000 CHF	Note	31/12/2020	in %	31/12/2019	in %
Liabilities and shareholders' equity					
Accounts payable					
Third parties		123		58	
Shareholdings		950		17	
Interest bearing liabilities	2.2				
Bank loans				30 000	
Shareholdings		179 534		157 115	
Other liabilities					
Third parties		41		214	
Shareholdings				20	
Accruals and deferred income		2 390		2 320	
Current liabilities		**183 038**	**13.5**	**189 745**	**14.1**
Interest bearing liabilities	2.3				
Promissory note loan		142 272		146 975	
Non-current liabilities		**142 272**	**10.5**	**146 975**	**10.9**
Total liabilities		**325 310**	**24.1**	**336 720**	**25.0**
Share capital	2.4	291 788		291 788	
Legal capital reserves					
Capital contribution reserve	2.5	469 402		469 402	
Other capital reserves		42 812		42 812	
Voluntary reserves					
Free reserves		14 328		17 266	
Retained earnings		199 259		175 458	
Net profit		12 921		23 801	
Treasury shares	2.6	– 4 009		– 9 102	
Shareholders' equity		**1 026 501**	**75.9**	**1 011 426**	**75.0**
Total liabilities and shareholders' equity		**1 351 811**	**100.0**	**1 348 146**	**100.0**

The notes on pages 198 to 201 are an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1. General information

These financial statements 2020 were prepared under the provisions of the Swiss accounting law (32nd title of the Swiss Code of Obligations).

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

1.2. Other current receivables

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

1.3. Financial assets

Financial assets consist of short-term loans to third parties and long-term loans to shareholdings and are valued at cost reduced by required impairments. Loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (imparity principle).

1.4. Treasury shares

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

1.5. Share based payments

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

1.6. Interest bearing liabilities

Interest bearing liabilities are accounted for at nominal value. Long-term loans denominated in foreign currencies are converted at the current closing rate. Unrealised exchange losses are recorded immediately whereas unrealised exchange gains are not recorded (imparity principle).

2. Information and notes to the financial statements

2.1. Investments

Company	31/12/2020		31/12/2019	
	Share capital in 1 000 CHF	Capital and voting interest in %	Share capital in 1 000 CHF	Capital and voting interest in %
Arbonia Schweiz AG, Arbon	1 000	100.00%	1 000	100.00%
AFG International AG, Arbon	1 000	100.00%	1 000	100.00%
Arbonia Management AG, Arbon	250	100.00%	250	100.00%
Arbonia Services AG, Arbon	250	100.00%	250	100.00%

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

2.2. Current interest bearing liabilities

in 1 000 CHF	31/12/2020	31/12/2019
Bank loans – syndicated loan		30 000
Loans to shareholdings	179 534	157 115
Total	**179 534**	**187 115**

On 3 November 2020, Arbonia entered into a syndicated loan for CHF 250 million. This loan, arranged with a consortium of domestic and foreign banks, has a term of five years, with the option to extend the agreement twice for one year each. With the taking out of this new syndicated loan, the syndicated loan concluded on 14 September 2016 for CHF 350 million with a term until 14 September 2021 was replaced prematurely.

2.3. Non-current interest bearing liabilities

in 1 000 CHF	31/12/2020	31/12/2019
Promissory note loan	142 272	146 975
Total	**142 272**	**146 975**

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. In November 2020, Arbonia repaid EUR 4 million of the five-year tranche prematurely.

Maturity structure

in 1 000 CHF	31/12/2020	31/12/2019
Within 5 years	130 514	70 548
Over 5 years	11 758	76 427
Total	**142 272**	**146 975**

2.4. Share capital

Refer to note 48 in the notes to the consolidated financial statements of Arbonia Group.

2.5. Capital contribution reserve

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

The distribution from capital contribution reserve is fiscally treated like a redemption of share capital. The Swiss Federal Tax Administration (FTA) has confirmed the disclosed capital contribution reserve (balance as of 31 December 2019) as capital contribution within the meaning of article 5 para. 1bis VStG.

2.6. Treasury shares

	2020			2019		
	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	**17**	**532 380**	**9 102**	**17**	**854 054**	**14 601**
Purchase	9	105 300	983			
Transfer for share based payments	9	– 355 294	– 3 137	11	– 321 674	– 3 629
Gain (+) / loss (–)			– 2 938			– 1 870
Balance at 31/12	**14**	**282 386**	**4 009**	**17**	**532 380**	**9 102**

2.7. Financial income

Financial income totals CHF 13.3 million (2019: CHF 12.7 million) and consists mainly of interest income on loans to shareholdings and foreign currency exchange gains.

2.8. Financial expenses

Financial expenses totals CHF 14.1 million (2019: CHF 13.1 million) and consists mainly of bank interest and foreign currency exchange losses.

2.9. Other operating expenses

in 1 000 CHF	2020	2019
Administrative costs	5 046	4 584
Consultancy and audit fees	239	184
Other operating expenses	142	35
Total	**5 427**	**4 803**

3. Other disclosures

3.1. Guarantees, warranty obligations and collateral in favour of third parties

The following guarantees were issued for the companies listed below:

		31/12/2020	31/12/2019
UBS AG			
in favour of AFG Immobilien AG	in 1 000 CHF	3 455	3 455
in favour of RWD Schlatter AG	in 1 000 CHF	465	
in favour of EgoKiefer AG	in 1 000 CHF	340	
in favour of Prolux Solutions AG	in 1 000 CHF	26	25
St. Galler Kantonalbank			
in favour of EgoKiefer AG	in 1 000 CHF		340
Credit Suisse			
in favour of EgoKiefer AG	in 1 000 CHF	87	
UniCredit Bank			
in favour of Kermi GmbH	in 1 000 EUR	625	659
in favour of Wertbau GmbH	in 1 000 EUR	1 869	1 755
in favour of Kermi sp. z o.o.	in 1 000 EUR	112	

3.2. Contingent liabilities

A joint and several liability exists towards the affiliated subsidiaries under the cash pooling agreement with UniCredit Bank AG and since 2020 with UBS Switzerland AG.

3.3. Major shareholders

	31/12/2020	31/12/2019
	Voting and capital interest	Voting and capital interest
Artemis Beteiligungen I AG	22.09%	22.07%

3.4. Headcount in full-time equivalents

Arbonia AG does not employ any staff.

3.5. Disclosure of shareholding

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

	31/12/2020	31/12/2019
	Number of registered shares	Number of registered shares
Alexander von Witzleben (Chairman of the BoD and Group Management)	441 139	359 864
Peter Barandun (Member of the BoD)	56 405	36 888
Peter E. Bodmer (Member of the BoD)	31 436	21 974
Markus Oppliger (Member of the BoD)	31 943	25 184
Heinz Haller (Member of the BoD)	120 000	106 633
Michael Pieper (Member of the BoD)	15 343 312	15 335 202
Thomas Lozser (Member of the BoD)	366 074	366 074
Carsten Voigtländer (Member of the BoD)	5 069	
Daniel Wüest (Group Management)	31 549	10 000
Knut Bartsch (Group Management)	69 495	54 713
Ulrich Bornkessel (Group Management)	42 581	20 659
Claudius Moor (Group Management from 01/07/2020)	8 971	
Nicolas Casanovas (Group Management from 01/07/2020)	5 829	
Harald Pichler (Group Management until 30/06/2020)		35 224
Peter Spirig (Group Management until 30/06/2020)		15 301
Total	**16 553 803**	**16 387 716**

Proposal of the Board of Directors

The Board of Directors will propose at the Annual General Meeting of the shareholders on 23 April 2021 the following:

Appropriation of Retained Earnings

in 1 000 CHF	2020	2019
Retained earnings carried forward from previous year	199 259	175 458
Net profit for the year	12 921	23 801
Retained earnings	**212 180**	**199 259**
Distribution of a dividend [1] for the financial year 2019	– 7 642	
Distribution of a dividend [1] for the financial year 2020	– 8 684	
Retained earnings carried forward	**195 854**	**199 259**

Appropriation of capital contribution reserve

in 1 000 CHF	2020	2019
Carry forward from previous year	469 402	469 402
Withholding tax free distribution [1] for the financial year 2019	– 7 642	
Withholding tax free distribution [1] for the financial year 2020	– 8 684	
Capital contribution reserve carried forward	**453 076**	**469 402**

[1] No distribution for treasury shares at the time of payment.

KPMG

Statutory Auditor's Report

To the General Meeting of Arbonia AG, Arbon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Arbonia AG, which comprise the balance sheet as at 31 December 2020, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 196 to 201) for the year ended 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

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

Valuation of investments and loans due from shareholdings

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

KPMG

Valuation of investments and loans due from shareholdings

Key Audit Matter

The financial statements of Arbonia AG as at 31 December 2020 include investments amounting to CHF 788.8 million and loans due from shareholdings (included in the balance sheet items "Other receivables shareholdings" as well as "Loans to shareholdings") amounting to CHF 524.6 million. The company reviews the individual investments and loans due from shareholdings for impairment annually.

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

Our response

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

Amongst others, we performed the following audit procedures:

- Comparing the carrying amounts of the investments with the equity of the relevant companies, in some cases considering the pro-rata net assets of indirect investments or relying on management's impairment reviews that had already been assessed during the group audit;
- Assessing the recoverability of loans due from shareholdings by analyzing the equity position of the borrower.

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

- Note 1.2 „Other current receivables“, page 198
- Note 1.3 „Financial assets/non-current loans“, page 198
- Note 2.1 „Investments“, page 199

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

KPMG

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 22 February 2021

KPMG AG, Bogenstrasse 7, PO Box 1142, CH-9001 St. Gallen

Alternative Performance Measures

Arbonia uses alternative performance measures (APM) as guidance measures for both internal reporting to management and external reporting to stakeholders. The APM used by Arbonia have not been prepared in accordance with IFRS accounting policies and are discussed in detail below. The APM serve as supplementary information components and should therefore always be read and interpreted in conjunction with the consolidated financial statements prepared in accordance with IFRS. The APM used by Arbonia do not necessarily agree with the same or similar titled measures of other or comparable companies.

EBITDA without one-time effects/adjusted
The elimination of one-time effects provides an adjusted and thus better comparable presentation of the operating result over time. Discontinued operations as defined by IFRS 5 are not included. The following one-time effects are eliminated by Arbonia:
– Costs resulting from creation of provisions or income resulting from reversal of provisions for restructurings and reorganisation as well as closure costs
– Ramp-up costs for new production sites
– Consultancy and integration costs from acquisitions
– Consultancy costs from disposal of subsidiaries
– Gains and losses from sale of properties and associated companies
– Real estate development costs
– Costs in connection with personnel changes / leave of absence in Group and Division management

EBITA without one-time effects/adjusted
– Impairments
– Reversal of impairments

EBIT without one-time effects/adjusted
– Impairments on intangible assets from acquisitions

Group result before income tax without one-time effects/adjusted
– Costs for debt refinancing
– Impairments and reversal of impairments on loans granted

Group result after taxes without one-time effects/adjusted
– Tax effect on one-time effects
– Tax consequences from disposal of subsidiaries

Reconciliation Group and Divisions from IFRS-result to result without one-time effects / Adjusted

in 1 000 CHF								2020
		IFRS	%	Gain from sale of properties	Costs for restructurings and reorganisation	Tax effects on one-time effects	without one-time effects/ adjusted	%
HVAC	**EBITDA**	**59 182**	**11.2**		**426**		**59 608**	**11.3**
	EBITA	**33 253**	**6.3**				**33 679**	**6.4**
	EBIT	**29 607**	**5.6**				**30 033**	**5.7**
Sanitary Equipment	**EBITDA**	**16 992**	**11.7**				**16 992**	**11.7**
	EBITA	**12 820**	**8.8**				**12 820**	**8.8**
	EBIT	**11 023**	**7.6**				**11 023**	**7.6**
Doors	**EBITDA**	**49 149**	**13.5**				**49 149**	**13.5**
	EBITA	**33 588**	**9.2**				**33 588**	**9.2**
	EBIT	**24 115**	**6.6**				**24 115**	**6.6**
Corporate Services	**EBITDA**	**– 9 031**		**– 2 248**			**– 11 279**	
	EBITA	**– 10 874**					**– 13 122**	
	EBIT	**– 10 874**					**– 13 122**	
Group	**Net revenues**	**1 038 421**	**100.0**				**1 038 421**	**100.0**
	Other operating income	14 807	1.4	– 2 098			12 709	1.2
	Capitalised own services	6 369	0.6				6 369	0.6
	Changes in inventories of semi-finished and finished goods	3 333	0.3				3 333	0.3
	Cost of material and goods	– 454 017	– 43.7				– 454 017	– 43.7
	Personnel expenses	– 345 604	– 33.3		353		– 345 251	– 33.2
	Other operating expenses	– 147 017	– 14.2	– 150	72		– 147 095	– 14.2
	EBITDA	**116 292**	**11.2**				**114 470**	**11.0**
	Depreciation, amortisation and impairments	– 47 505	– 4.6				– 47 505	– 4.6
	EBITA	**68 787**	**6.6**				**66 965**	**6.4**
	Amortisation of intangible assets from acquisitions	– 14 915	– 1.4				– 14 915	– 1.4
	EBIT	**53 872**	**5.2**				**52 050**	**5.0**
	Financial income	469	0.0				469	0.0
	Financial expenses	– 13 401	– 1.3				– 13 401	– 1.3
	Group result before income tax	**40 940**	**3.9**				**39 118**	**3.8**
	Income tax expense	– 11 210	– 1.1			213	– 10 997	– 1.1
	Group result from continuing operations	**29 730**	**2.9**				**28 121**	**2.7**

Presentation of the respective one-time effects on the immediate result line without disclosure of the impact on the subsequent line items.

Reconciliation Group and Divisions from IFRS-result to result without one-time effects / Adjusted

in 1 000 CHF												2019
		IFRS	**%**	**Gain from sale of properties**	**Costs for restructurings and reorganisation**	**Ramp-up costs for new production sites**	**Consultancy and integration costs from acquisitions**	**Impairments on machinery and right-of-use assets**	**Various**	**Tax effects on one-time effects**	**without one-time effects/ adjusted**	**%**
HVAC	**EBITDA**	**51 565**	**9.3**		**4 658**	**2 359**	**428**				**59 010**	**10.6**
	EBITA	**26 514**	**4.8**					**1 973**			**35 932**	**6.5**
	EBIT	**22 720**	**4.1**								**32 138**	**5.8**
Sanitary Equipment	**EBITDA**	**14 669**	**10.2**		**471**						**15 140**	**10.5**
	EBITA	**10 823**	**7.5**								**11 294**	**7.9**
	EBIT	**9 025**	**6.3**								**9 496**	**6.6**
Doors	**EBITDA**	**43 954**	**12.2**								**43 954**	**12.2**
	EBITA	**29 377**	**8.2**					**100**			**29 477**	**8.2**
	EBIT	**19 476**	**5.4**								**19 576**	**5.4**
Corporate Services	**EBITDA**	**– 9 490**		**– 1 070**					**156**		**– 10 404**	
	EBITA	**– 11 149**									**– 12 063**	
	EBIT	**– 11 149**									**– 12 063**	
Group	**Net revenues**	**1 057 832**	**100.0**								**1 057 832**	**100.0**
	Other operating income	17 062	1.6	– 1 070							15 992	1.5
	Capitalised own services	7 422	0.7			– 560					6 862	0.6
	Changes in inventories of semi-finished and finished goods	2 248	0.2			– 199					2 049	0.2
	Cost of material and goods	– 475 227	– 44.9		35	1 300					– 473 892	– 44.8
	Personnel expenses	– 351 978	– 33.3		4 531	1 096	322				– 346 029	– 32.7
	Other operating expenses	– 156 661	– 14.8		563	722	106		156		– 155 114	– 14.7
	EBITDA	**100 698**	**9.5**								**107 700**	**10.2**
	Depreciation, amortisation and impairments	– 45 133	– 4.3					2 073			– 43 060	– 4.1
	EBITA	**55 565**	**5.3**								**64 640**	**6.1**
	Amortisation of intangible assets from acquisitions	– 15 494	– 1.5								– 15 494	– 1.5
	EBIT	**40 071**	**3.8**								**49 146**	**4.6**
	Financial income	1 164	0.1								1 164	0.1
	Financial expenses	– 7 136	– 0.7								– 7 136	– 0.7
	Group result before income tax	**34 099**	**3.2**								**43 174**	**4.1**
	Income tax expense	– 11 561	– 1.1							– 1 519	– 13 080	– 1.2
	Group result from continuing operations	**22 538**	**2.1**								**30 094**	**2.8**

Presentation of the respective one-time effects on the immediate result line without disclosure of the impact on the subsequent line items.

Acquisition and currency adjusted growth (organic growth)
Acquisition and currency adjusted growth excludes effects from acquisitions and disposals of companies and currency effects.
In the acquisition adjusted growth, revenues of the acquired companies are eliminated in the year of acquisition. For companies acquired in the previous year, revenues of the current year are included for the same period as in the previous year. Discontinued operations within the meaning of IFRS 5 are eliminated.
In the currency adjusted growth, revenues of the current year in the functional currency of the respective company are translated at the average exchange rates of the same previous year period.

Net debt
Current and non-current financial debts plus current and non-current lease liabilities (including IFRS 16 "Leases") minus cash and cash equivalents

Adjusted net debt
Current and non-current financial debts plus current and non-current lease liabilities (excluding IFRS 16 "Leases" but including existing finance lease contracts under IAS 17 "Leases") minus cash and cash equivalents

Leverage ratio
Net debt divided by EBITDA

Adjusted leverage ratio
Adjusted net debt divided by EBITDA (excluding EBITDA-impact of IFRS 16 "Leases" but including EBITDA-impact of existing finance lease contracts under IAS 17 "Leases")

Free cash flow
Cash flow from operating and investing activities

Operational free cash flow
Cash flow from operating and investing activities without expansion capital expenditures

Capital expenditures
Maintenance and expansion capital expenditures

Supplementary Information for Investors

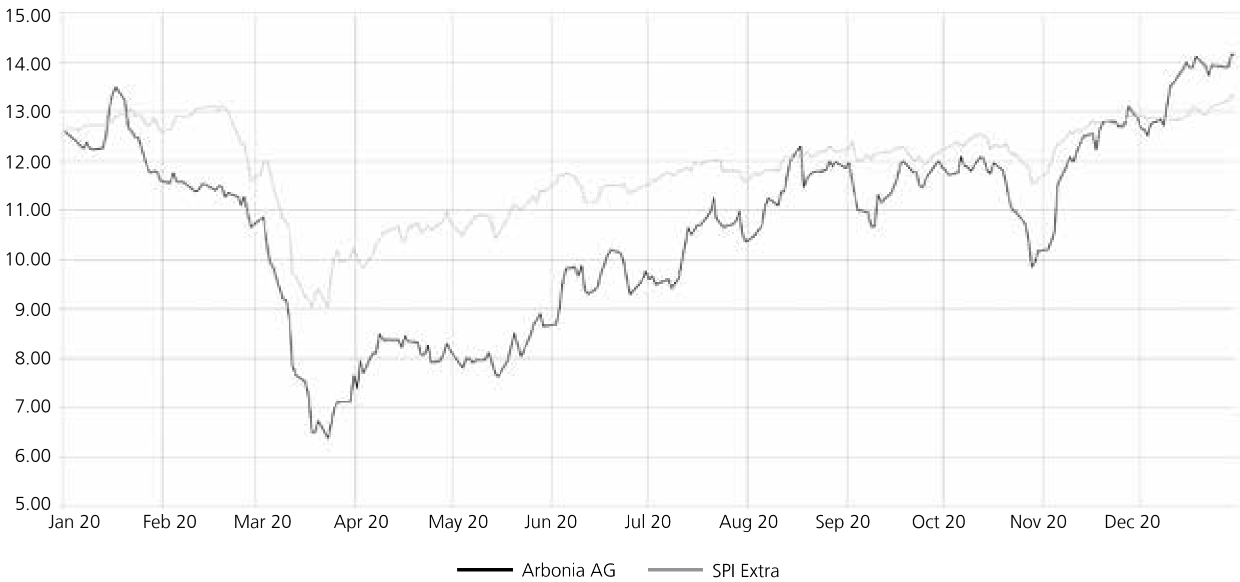
	2020	2019	2018	2017	2016
Number of shares					
Registered par value CHF 4.20	69 473 243	69 473 243	69 473 243	69 473 243	68 485 790
Registered par value CHF 4.20 average number	69 473 243	69 473 243	69 473 243	69 061 804	47 448 515
Stock market prices in CHF					
Highest	14.2	13.5	18.3	19.1	17.0
Lowest	5.8	10.0	10.5	15.1	8.8
31/12	14.2	12.6	10.8	16.3	16.4
Stock market capitalisation in CHF million (31/12)	**986.5**	**875.4**	**750.3**	**1 128.9**	**1 123.2**
Per share data					
Gross dividend in CHF [1]	0.47	0.00	0.20	0.00	0.00
Pay-out ratio (in % of Group earnings)	72.4	0.0	29.9	0.0	0.0
Group earnings in CHF	0.7	0.4	0.7	0.7	0.2
Cash flow from operating activities in CHF	2.0	1.6	1.0	1.0	0.7
Shareholders' equity in CHF	12.9	12.6	12.8	12.4	10.5
Price/earnings ratio (highest)	22.0	35.7	27.6	28.4	106.1
Price/earnings ratio (lowest)	8.9	26.5	15.8	22.4	54.6
Price/earnings ratio (31/12)	22.0	33.4	16.3	24.2	102.3
Price/cash flow ratio (highest)	7.0	8.4	18.3	19.1	25.2
Price/cash flow ratio (lowest)	2.8	6.2	10.4	15.1	13.0
Price/cash flow ratio (31/12)	7.0	7.8	10.8	16.3	24.3

[1] 2021 proposal to the Annual General Meeting

Capital market review

The year 2020 started with rising share prices – in the confidence that COVID-19 would only lead to widespread lockdowns in China. However, with the spread of the virus in Europe, the stock markets experienced a sharp correction and the SPI Extra fell by over 30% within a few weeks. In this period, companies with a high market-capitalisation fared better than smaller companies, which are presumed to be more dependent on the economic cycle. As most of the containment measures for the first wave were withdrawn and the support measures for national economies went into effect, the stock markets also recovered steadily. Share prices suffered another short-term setback at the end of October due to a new tightening of measures to contain the second wave before two long-term drivers of share prices, namely low interest rates and the prospect of vaccines, ensured a recovery. As a result, the SPI Extra ended the year with a performance of 5.5%.

Arbonia shares corrected sharply during the first wave of the pandemic, due to a suspected disproportionate impact on the construction industry, and fell to a low of CHF 6.38 on 23 March 2020 (–49.4% compared to the beginning of the year). Not least due to the positive profit warning in July 2020, which showed the minor impact of the pandemic on Arbonia and better results as well, the share price was able to recover almost completely by the time the half-year results were announced in August 2020. The share price of Arbonia then suffered another setback due to the second wave of the pandemic but was able to recover again within a short time. The share price continued to rise until the end of the year, was boosted again by the second positive profit warning and ended the year at a price of CHF 14.16. Compared to the beginning of the year, the share price thus increased by 12.4%, which meant a significantly better performance than the SPI Extra. Compared to the all-year low, the growth even amounted to 121.9%.



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Listed shares:	69 473 243	**Nominal value:**	CHF 4.20

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Glossary

Artemis Beteiligungen I AG Affiliated company that is controlled by Michael Pieper and has been the main shareholder in Arbonia AG since December 2014.

BIM (Building Information Modeling) Describes a method of networked planning, execution and management of buildings and other constructions with the help of software. All relevant building data is digitally modelled, combined and recorded. The structure is also geometrically visualised as a virtual model.

Blind frame It is fixed in front of the wall opening and covers the wall. In contrast to the block frame and closed frame, the blind frame does not interfere with the reveal.

Block frame Is inserted and fixed in the door reveal. This reduces the passage width. Unlike the closed frame, there is no visible shoulder between the wall and the frame because it does not enclose the wall opening.

Cash flow Positive or negative surplus cash arising from commercial activity, measured over a certain period. Cash flow can be used to evaluate how financially strong a company is.

Cash flow from operating activities / Operating cash flow / Describes the liquid funds generated by the business activity in a given period. The operating cash flow includes the net income for the year, changes in depreciation, amortization, provisions and current assets.

Computerized Numerical Control (CNC) Refers to an electronic process for controlling machine tools which, through the use of control technology, are capable of automatically producing workpieces with high precision, even for complex shapes.

Consolidation The process of combining the individual annual account items of all the companies belonging to a group, in order to form a consolidated financial statement.

Controlled residential ventilation A mechanical form of ventilation, used for ventilating residences with heat recovery. An integrated heat exchanger is used to transfer heat energy from the exhaust air to the outside air supply. Residential ventilation ensures that air is replaced in the building at a defined rate, creating a hygienic means of air exchange.

Door rebate A distinction is made between rebated and unrebated doors for interior doors. This refers to the type of edge geometry: With a rebated door, i.e. a door leaf with an L-shaped edge, the door leaf does not lie flush in the frame, but lies lightly on the frame. These doors have the advantage that they cover the gap between the frame and the door leaf and thus close more tightly. There are also blunt or unrebated door leaves. The edge of the door leaf is straight, without rebate; door leaf and frame are on the same level.

EBIT Earnings Before Interests and Taxes: a company's operating results before interest and taxes are taken into account.

EBIT margin Indicates EBIT in relation to revenue.

EBITDA Earnings Before Interests and Taxes, Depreciations and Amortization: a company's operating results before interest, taxes, depreciation and amortization are taken into account. EBITDA is one of the most meaningful figures in evaluating a company's earning power.

EBITDA margin Indicates EBITDA in relation to revenue.

Equity ratio Indicates the shareholders' equity in relation to total capital. It is used to assess a company's financial capacity and stability. If the equity ratio is high, you can assume that the company is less dependent on third-party funds.

Fan coil Depending on the temperature of the flow water for a connected water heater/chiller, fan coils are able to heat, cool and dehumidify a room, and are able to provide ventilation and the option of filtering indoor air in fan-only operation. This results in maximum comfort with optimum room air quality. A fan radiator is able to heat (but not cool) a room by means of convection when the fan is switched off.

Forend sash The sash of a double-leaf window without a fixed mullion that usually remains closed and serves as a stop for the other sash.

Free cash flow The operating cash flow minus cash flow from investing activities; illustrates how much cash remains free for shareholder dividends and/or any repayment of debt financing that may be required.

Free float The portion of the total number of a company's shares that is not in fixed ownership. Small portions owned by private investors are also included in the free float, even though they are essentially in fixed ownership.

Goodwill In accounting, goodwill represents an intangible asset within the company that arises through the acquisition of other companies or parts of companies in return for payment.

Heat pump Draws its heat energy from the air, groundwater or soil, and uses this extremely efficiently to generate the heat required for heating drinking water and rooms. Compared to heat pumps, no other kind of heat generator is a more environmentally sustainable solution or is more fit for the future.

IAS 16 (International Accounting Standard 16) Governs the accounting for property, plant and equipment of an entity. The assets must be held by the company for the production of products or services, for rental or for administrative purposes. The assets must continue to be used for more than one year.

IFRS 16 (International Financial Reporting Standard 16) IFRS 16 is an accounting standard issued by the International Accounting Standards Board that requires listed companies that prepare their accounts in accordance with IFRS to include in their balance sheets all leases with a term of more than one year.

Installation depth Indicates the thickness of the window frame profile. It depends, among other things, on the number of air chambers in the window frame, but also on the thickness of the glazing that can be inserted into the frame.

Insulating glass/Multi-pane insulating glass (MIG) Also known as insulated glazing or double/triple glazing, is a construction element made up of at least two panes of glass and is used for windows or other glass features. The area between the panes is hollow and sealed against gas and moisture. This helps to keep noise out and heat in.

Laminated safety glass Consists of two or more glass panes joined together with highly tear-resistant, tough-elastic intermediate layers. In the event of mechanical overloading by impact and shock, the glass breaks, but the fragments adhere to the uninjured intermediate layer. This reduces the risk of injury and the glazing retains a residual stability.

Management system Includes all employees covered by an occupational health and safety management system based on legal requirements and/or recognised standards and guidelines.

Manufacturing Execution System Describes a level of a multi-level production management system that operates close to the process. The German term Produktionsleitsystem (production control system) is often used synonymously. Compared to similarly effective systems for production planning, the so-called ERP systems (Enterprise Resource Planning), the MES is characterised by the direct connection to the distributed systems of process automation and enables the management, guidance, control or monitoring of production in real time. This includes classic data collection and processing such as shop floor data collection (SFDC), machine data collection (MDC) and personnel data collection, but also all other processes that have a real-time effect on the manufacturing/production process.

Market capitalisation A company's stock market value. It is calculated using the number of shares x the current share price.

Net indebtedness The total that remains when cash and cash equivalents are deducted from non-current liabilities. This indicates how much cash would be available for repaying loans if the cash and cash equivalents were already used up and the company had to liquidate its current assets.

PIM (Product Information Management) The provision of product information for use in different output media or distribution channels as well as for different locations. The prerequisite for this is the media-neutral administration, maintenance and modification of the product information in a central system in order to be able to supply each channel with consistent, accurate information without a large expenditure of resources.

Reveal In building construction, refers to the vertical cut surfaces that occur in the masonry when openings for windows or doors are constructed in it. The door reveal is therefore the masonry surface that faces the door opening laterally, to the left and right.

Softforming In this process, a profile is milled onto an already coated panel, which is later coated with a special edge banding machine. This creates a joint at the point where the panel coating meets the edge. This contrasts with the postforming process, in which the profile is coated with the same coating as the panel after the milling process, so that no joint is created.

Stratified buffer storage Ensures that heat generation and heat consumption are decoupled. This means that heat can be generated independently of the time of consumption. The heat pump does not have to restart every time the radiator is turned on, for example. The stratified buffer tank therefore stores the heat energy generated by the heat pump and transfers it to the heating system and to the domestic hot water.

Surface heating A catch-all term covering various types of heating and cooling, and denotes a process in which heat is emitted or absorbed via the surfaces of the components in a building.

Thick edge A two-millimetre-thick edge band, exactly matching the colour of the door, is applied to the door rebate using a hot-air process. This guarantees high impact and shock resistance as well as a longer service life.

History

In **1874**, Franz Josef Forster opened a coppersmith's shop producing hot-water bottles, cookware and other receptacles. The company changed its name to Hermann Forster AG in 1922. By this time, it was manufacturing steel tubes.

In **1904**, Karl Schnitzler set up a factory to make heat exchangers under the Arbonia brand.

In **1954**, Arbonia AG was established.

In **1973**, the majority of the shares in Hermann Forster AG were transferred to Arbonia AG, which had been wholly owned by Jakob Züllig since 1959. The Arbonia-Forster Group comprised Hermann Forster AG (steel tubes technology, kitchens and refrigeration equipment), Arbonia AG (radiators and heaters), Asta AG (road transport) and Buhler-Regina AG (embroidery supplies).

In **1987**, AFG Arbonia-Forster-Holding AG was registered with the commercial register with CHF 30 million in share capital. A year later, the company was listed on the stock exchange.

In **1999**, Jakob Züllig, majority shareholder and Chairman of the Board of Directors, died. Prolux Heizkörper AG was bought in the same year.

In **2001**, AFG took over the German company Kermi GmbH, which provided a major boost for its radiator and shower stall business.

In **2003**, the Züllig estate sold its majority interest to Dr Edgar Oehler, the new CEO and Chairman of the Board of Directors.

In **2004**, there were three acquisitions: Bruno Piatti AG, Dietlikon ZH (CH); EgoKiefer AG, Altstätten SG (CH); and Spedition Gächter GmbH, Stachen-Arbon TG (CH).

In **2005**, there followed a further acquisition: in September, AFG acquired Miele Kitchens, based in Warendorf (D), from the German company Miele & Cie. KG, based in Gütersloh (D).

In **2006**, the Group acquired Schmidlin ASCO Swiss AG, Zwingen BL. The company specialises in underfloor convectors which, alongside their conventional heating function, can also be used for cooling.

In **2007**, AFG acquired STI Surface Technologies International Holding AG, Steinach SG (CH) and RWD Schlatter AG, Roggwil SG (CH). In September, AFG acquired the British company Aqualux Products Holdings Ltd.

In **2008**, AFG took over Slovaktual s.r.o., Slovakia's leading windows manufacturer. In October, AFG set up a new Asia Pacific regional branch with headquarters in Shanghai (CN).

In **2009**, AFG presented its new Warendorf brand of kitchens. This represents the successor to the Miele Kitchens (Miele Die Küche) brand.

In **2010**, shareholders at AFG's ordinary General Meeting approved the abolition of the hitherto unequal weighting of registered shares and bearer shares, introducing a single class of registered shares.

In **2011**, Edgar Oehler was succeeded as Chairman of the Board of Directors by Paul Witschi on 29 April and as CEO by Daniel Frutig on 1 June.

In **2012**, AFG sold its transport and logistics business Asta, its British subsidiary Aqualux and the German company Warendorf. With the acquisition of the Polish window manufacturer Dobroplast, it focused on expanding one of its core business areas.

In **2013**, AFG intensified its focus on its core business based on building envelope and interior. It sold off Forster Refrigeration Technology as well as Forster Precision Steel Tubes.

In **2014**, the AFG kitchen business and the STI Group were sold. AFG acquired Sabiana, a market leader in commercial heating, ventilation and air-conditioning. Artemis Beteiligungen I AG, led by Michael Pieper, became AFG's new main shareholder.

In **2015**, the General Meeting elected Alexander von Witzleben as the new Chairman of the Board of Directors. In July, he also assumed the role of interim CEO. In August, the Board of Directors decided to relocate the production plants to other European countries as a result of significant pressure from competition. The Eastern German window manufacturer Wertbau GmbH was also acquired in August. As part of a capital increase carried out with the aim of strengthening the Group's financial standing, Artemis Beteiligungen I AG reaffirmed its commitment to the Group and, by the end of the year, had increased its stake to just under 28%.

In **2016**, AFG acquired the Koralle Group, a specialist in sanitary facilities. The move marks an expansion of the Building Technology Division's product range and will help it enhance its position in the core markets of Switzerland, Germany and Austria with a lasting effect. In September, AFG announced the takeover of the Looser Group, which is also active in the building supply business and consists of two main arms: doors (Prüm, Garant and Invado) and industrial services (Condecta). This transaction represents an important step in AFG's efforts to achieve its strategic goal of becoming a leading European building supplier. As part of this transaction, AFG Arbonia-Forster-Holding AG was renamed Arbonia AG.

In **2017**, Arbonia's takeover of the Looser Group can come to a successful conclusion. Looser's Coatings business is sold in full in the first half of the year. In November, Arbonia is also selling Looser's Condecta Group. With the sale of the Profile Systems Business Unit llin December, Arbonia will continue to focus on its three core areas of building technology, windows and doors. Following the split of the Building Technology Division in January 2018, this will become four core areas: HVAC, sanitary equipment, windows and doors.

In **2018**, Arbonia is taking an active part in the European market consolidation process in the area of design and steel panel radiators by acquiring the Belgian company Vasco Group for its heating, ventilation and air-conditioning technology division. The acquisition will expand its geographical footprint and strengthen the division's range of products.

2019 stands for the Arbonia Group's commitment to development and optimization of its business models. The restructuring phase begun in 2015 is completed this year. In January, the company founds ARBONIA DIGITAL. This independently operating subsidiary pursues the goal of working together with the divisions to create digital solutions, services and business models that focus on customers and their needs. Also in January, the Doors Division, together with the Berlin-based PropTech company KIWI GmbH, presents a fully integrated, digital access solution for residential entrance doors for the first time at the BAU trade fair in Munich. In October, Arbonia opens its new production site for panel radiators in Russia, which will enable the HVAC Division to achieve further growth in Eastern European markets, especially in Russia.

2020 was a successful year for Arbonia, although it was challenging due to the COVID 19 pandemic. Arbonia continued to focus on the relevant drivers of energy efficiency, urbanisation, digitalisation and automation. It continued to push ahead with the expansion and modernisation of its production capacities in all divisions and at all locations. At the beginning of January 2021, Arbonia announced that it would sell the Windows Division and accelerate the development and strengthening of the remaining divisions, both organically and through targeted acquisitions.

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Publication of first semester results for 2021 financial year

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