

Compensation Report

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2016 (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 75.

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 reporting year

	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 four 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 the basic salary depending on the financial and personal targets. One third of the variable compensation in shares restricted for four years ^{4,5)}
Pension scheme/ fringe benefits	Lump-sum allowances	Lump-sum allowances, company car regulation, retirement planning

1 The Chairman of the Board of Directors waives remuneration for his activity on both committees (see 2.1)

2 The two members of the Board of Directors who have only been members since 13 December 2016 shall receive their fees (on a pro rata basis) in cash only (see paragraph 2.4).

2 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 3.1).

4 In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 3.2).

5 A member of the Group Management receives half of the variable compensation in shares restricted for four years.

2 Compensation of the Board of Directors

At the ordinary General Meeting of 22 April 2016, the shareholders approved a maximum total sum amounting to CHF 960 000 of compensation for members of the Board of Directors for the 2016/2017 year of office. At the Extraordinary General Meeting held on 1 November 2016, the shareholders approved an increase of CHF 100 000 in the maximum total, amounting to a total of CHF 1 060 000. This increase is related to the takeover of Looser Holding AG by Arbonia AG and the election of two new members of the Board of Directors during the year, who took up office on 13 December 2016.

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

2.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. In the 2015/2016 year of office, the basic fee for the office of the Chairman of the Board of Directors was CHF 240 000. The basic fees of the other members of the Board of Directors remain unchanged. 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 remuneration, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20 000 for their activity on 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 remuneration 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 2013 and 2015 (in relation to the Chairman of the Board of Directors).

2.2 Variable compensation

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

2.3 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 of CHF 15 000 per annum, members of the Board of Directors who are resi-

dent in Switzerland receive a lump-sum allowance of CHF 6 000 per annum and members of the Board of Directors who are 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.

2.4 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. 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. Pursuant to the Board Member Share Plan, dated 24 November 2016, and 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 abroad, 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 vesting period. Shares allocated in this way are subject to a vesting period of four years, which can, however, be lifted for those leaving the Board of Directors.

The two new members of the Board of Directors, who were elected to the Board of Directors of Arbonia in the course of the takeover of Looser Holding AG, and who took up office on 13 December 2016, shall receive their fees (on a pro rata basis) entirely in cash.

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

2.5 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 Au-

dit Committee and the Nomination and Compensation Committee.

2.6 Loans and credit

According to Art. 26 of the Articles of Association, no loans, credit 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 31.12.2016.

2.7 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.

2.8 Signing bonus and termination benefits

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

3 Compensation of Group Management

At the ordinary General Meeting of 17 April 2015, the shareholders approved a maximum total of the fixed compensation in the amount of CHF 2 780 000 and a maximum total of the variable compensation in the amount of CHF 2 200 000 for the members of the Group Management for the 2016 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:

3.1 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. In the financial year 2014, the Group Management functions and about 350 other functions in the Arbonia Group were assessed with the help of the Hay Group Grading System.

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 inter-

im 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 was made up of a cash element amounting to CHF 120 000 as well as 60 000 in shares. The shares are subject to the provisions of the share-based payment programme (see 3.4) and are restricted for four years.

3.2 Variable compensation

In the reporting year, the variable compensation (nominal bonus) accounted for up to 80 % 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 and personal targets. In the event of 100 % target achievement, a member of Group Management receives the variable compensation (nominal bonus) laid down in the individual agreement. The financial and personal targets are rated according to their degree of achievement. In the case of financial targets, 150 % of the relevant bonus component can be achieved at most. Failure to meet at least 75 % in the case of a financial target will mean that none of the respective bonus component is paid. In the reporting year, quantitative targets relating to the EBIT margin/EBITDA margin, free cash flow/cash flow from operations, group result and growth were determined for the members of Group Management.

The personal targets can be fulfilled up to a maximum of 100 %; up to 40 % must be fulfilled in the case of a target of this kind, otherwise the corresponding bonus component is completely eliminated. The financial and personal targets are weighted at a ratio of 80 % (financial targets) to 20 % (personal targets).

3.3 Allowances and in-kind benefits

The members of Group Management receive lump-sum allowances amounting to CHF 21 600 p.a. The lump-sum allowances for the delegate of the Board of Directors and interim CEO are CHF 6600 p.a.

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.

3.4 Shares and options

During the reporting year, a maximum of 60 % was paid out in cash and a maximum of 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 volume-weighted average share price of 20 trading days, less a 20 % discount for the vesting period. The restricted shares are subject to a four-year vesting period. The vesting 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.

In accordance with the bonus regulations, a member of Group Management received the bonus in cash instead of in restricted shares due to his departure from Group Management in the reporting year.

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

3.5 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.

3.6 Loans and credit

According to Art. 26 of the Articles of Association, no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of the 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 31.12.2016.

3.7 Contract term

The contracts of the members of Group Management have, with one exception, been concluded for an unlimited term with a notice period of 6 months. A member of Group Management has a contract that has been concluded for an unlimited term and has a notice period of twelve months.

3.8 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.

3.9 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").

3.10 Pension benefits

Group Management members with Swiss employment contracts are insured under the Arbonia pension scheme (formerly AFG pension scheme) and under the Arbonia senior management pension scheme (formerly AFG 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 846 000 (as of 1 January 2016, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 648 600 (as of 1 January 2016). The employer contribution is the same for all three available plans and amounts to 27.3 % of the insured salary. The delegate of the Board of Directors and interim CEO is not 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 2016

Otherwise, there were no changes for the reporting year, i.e. Alexander von Witzleben is Chairman and Peter Barandun is Vice-Chairman of the Board of Directors. Alexander von Witzleben has been delegate of the Board of Directors and interim CEO since 1 July 2015.

4 Board of Directors

4.1 Changes in the Board of Directors

Dr Rudolf Huber and Thomas Lozser joined the Board of Directors during the year, i.e. on 13 December 2016. Their accession during the course of the year was part of the Looser Holding AG takeover by Arbonia.

Fees for the two members who joined during the course of the year shall be paid out on a pro rata basis and entirely in cash.

4.2 Table

						2016
	Functions exercised in 2016	Fee Cash	Fee Shares	Pension expenses ¹	Other Compensation ²	Total
		in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Alexander von Witzleben	Chairman Interim CEO Member of the AC Member of the NCC	120	148	14	15	297
Peter Barandun	Vice-Chairman Chairman of the NCC	20	99	6	6	131
Christian Stambach ⁴	Member	30	37	4	6	77
Peter E. Bodmer ⁵	Member Member of the AC	25	55	0	6	86
Markus Oppliger	Member Chairman of the AC	39	49	5	6	99
Heinz Haller	Member Member of the NCC	14	69	4	6	93
Michael Pieper	Member	12	59	2	6	79
Thomas Lozser	Member from 13.12.2016	3	0	0	0	3
Rudolf Huber	Member from 13.12.2016	3	0	0	0	3
Total compensation to members of the Board of Directors		266	516	35	51	868

1 Employer contributions to social insurances

2 Lump-sum allowances and services

3 The compensation paid to Alexander von Witzleben in 2016 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his service as interim CEO totalling CHF 733'873 is included in the compensation paid to Group Management in chapter 5.2.

4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for Arbonia at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 149/150.

5 The compensation for Peter E. Bodmer for the period of office 2016/2017 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

						2015
	Functions exercised in 2015	Fee Cash	Fee Shares	Pension expenses ¹	Other Compensation ²	Total
		in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Alexander von Witzleben	Chairman from 17.04.2015 Interim CEO from 01.07.2015 Member of the AC from 17.04.2015 Member of the NCC from 17.04.2015	80	107	10	10	207
Peter Barandun	Vice-Chairman from 17.04.2015 Chairman of the NCC Member of the AC until 17.04.2015	24	94	6	6	130
Christian Stambach ⁴	Vice-Chairman until 17.04.2015 Member	34	42	4	6	86
Peter E. Bodmer ⁵	Member Member of the AC	35	56	0	6	98
Markus Oppliger	Member Chairman of the AC	41	51	5	6	103
Heinz Haller	Member Member of the NCC	14	72	5	6	96
Michael Pieper	Member from 17.04.2015	9	43	3	4	58
Rudolf Graf	Chairman until 13.03.2015	46	58	11	5	120
Andreas Gühring	Member until 17.04.2015 Member of the NCC until 17.04.2015	8	18	1	4	30
Total compensation to members of the Board of Directors		290	540	45	53	929

1 Employer contributions to social insurances and to occupational pension schemes in the case of Rudolf Graf.

2 Lump-sum allowances and services

3 The compensation paid to Alexander von Witzleben in 2016 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his service as interim CEO totalling CHF 369 637 is included in the compensation paid to Group Management in chapter 5.2.

4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for Arbonia at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 149/150.

5 The compensation for Peter E. Bodmer for the period of office 2015/2016 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

5 Group Management

5.1 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. Harald Pichler, head of the Windows Division (formerly Building Envelope Division), has been a new member of Group Management since 1 February 2016, and Peter Spirig, Head of the Doors Division (formerly Building Security Division) has been a new member since 1 May 2016.

In the year under review, Group Management reduced the total amount of compensation slightly compared with 2015. This is attributable to the departure of the former CEO in 2015, or rather to the comparatively much lower salary paid to current interim CEO and delegate of the Board of Directors Alexander von Witzleben. The fact that the total amount of compensation was, however, only slightly below the previous year's level is attributable primarily to the resignation of a former member of Group Management and the accession of a new member. This led to a partly simultaneous payment of the respective compensation owed under the contracts.

5.2 Table

	2016			2015		
	Group Management ³	there of Alexander von Witzleben, interim CEO ⁴	there of Felix Bodmer, CFO	Group Management ³	there of Alexander von Witzleben, interim CEO ⁴	there of William J. Christensten, CEO
	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF	in TCHF
Annual salary (cash)	1 995	120	552	2 281	60	904
Annual salary (shares)	560	560		283	283	
Variable compensation (cash)	611		133	779		540
Variable compensation (shares)	381		111	135		
Pension expenses ¹	713	47	157	819	23	329
Other compensation ²	160	7	28	180	3	77
Total	4 420	734	981	4 477	369	1 850
Number of members	6			6		

1 Employer contributions to social insurances, occupational pension schemes, accident and health insurance

2 Comprises lump-sum allowances, private use of company car/car allowance and other services and in-kind benefits

3 The compensation of Knut Bartsch is paid in euros. The underlying translation rate 1.09 for 2016 and 1.07 for 2015.

4 Alexander von Witzleben's compensation as interim CEO has been disclosed for reasons of transparency, even though he was not the highest-earning member of Group Management in 2016

Report of the statutory auditors on the compensation report

To the General Meeting of Arbonia AG

We have audited pages 67–74 of the accompanying compensation report dated 17 February 2017 of Arbonia AG (formerly: AFG Arbonia-Forster-Holding AG) for the year ended 31 December 2016.

Board of Directors' responsibility

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 of Arbonia AG (formerly: AFG Arbonia-Forster-Holding AG) for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

St.Gallen, 17 February 2017



Beat Inauen
Audit expert
Auditor in charge

Martin Knöpfel
Audit expert