

CORPORATE GOVERNANCE

This report complies with the Corporate Governance Directive (CGD) of the SIX Exchange Regulation dated 20 March 2018. Unless otherwise indicated, the disclosures apply as of 31 December 2018.

1. Group structure and shareholder base

1.1 Group structure

Board of Directors

Alexander von Witzleben
Chairman of the Board of Directors

Peter Barandun
Vice-Chairman

Peter E. Bodmer

Markus Oppliger

Heinz Haller

Michael Pieper

Thomas Lozser

Group Management

Alexander von Witzleben
Delegate of the Board of Directors and interim CEO

Felix Bodmer
CFO

Ulrich Bornkessel
Head of Heating, Ventilation and Air Conditioning Division

Knut Bartsch
Head of Sanitary Equipment Division

Harald Pichler
Head of the Windows Division

Peter Spirig
Head of the Doors Division

At the General Meeting on 12 April 2019, the Board of Directors of Arbonia AG will propose electing Dr Carsten Voigtländer as a new member of the Board of Directors.

At the General Meeting on 12 April 2019, Felix Bodmer will step down from his role as Chief Financial Officer (CFO) and in doing so cease to be a member of Group Management. On that date, the new CFO and new member of Group Management will be Daniel Wüest.

1.1.1 Operational Group structure

As of 31 December 2018, the operational group structure at Arbonia AG comprises the Heating, Ventilation and Air Conditioning Division, (2) the Sanitary Equipment Division, (3) the Windows Division, and (4) the Doors Division (see divisional structure page 16–17). Together with the Finance/Controlling/Reporting area, the four divisions form the Group's operational structure as of 31 December 2018.

As of 31 December 2018, Arbonia Group Management comprises the interim CEO, the CFO and the heads of the four divisions (1) Heating, Ventilation and Air Conditioning, (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 this divisional structure. Descriptions of the divisions as of 31 December 2018 can be found on pages 16 – 49.

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 169 (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 191. 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

	31/12/2018		31/12/2017
	Voting and capital shares	Shareholding notification	Voting and capital shares
	In %		In %
Artemis Beteiligungen I AG	22.07	2016-12-17	21.53
Looser family shareholders	14.53	2017-09-19	14.53
Vontobel Fonds Services AG	<3.0	2018-03-13	3.01

On 17 December 2016, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 20.02%. As of 31 December 2018, the shareholding of Artemis Beteiligungen I AG amounts to 22.07%.

The former family shareholders of the then Looser Holding AG (hereinafter "family shareholders"), which was taken over by Arbonia in 2016 as part of a share purchase agreement and public purchase and exchange offer and which has been under 100% ownership by Arbonia since 2017, reported on 22 September 2016 that they were forming a group with a 22.41% share of voting rights. The circumstances disclosed in the announcement (lock-up agreement and acting in concert) were related to the share purchase agreement signed by the family shareholders on 14 September 2016 (the "share purchase agreement") for the acquisition of the Looser Group by Arbonia. On 20 December 2016, the family shareholders reported a shareholding of 14.88%. On 19 September 2017, the family shareholders reported the cancellation of the lock-up obligation and a 14.53% share of voting rights. All remaining obligations resulting from the share purchase agreement are still in place. The family shareholders are required to involve Arbonia in the sale of packages of over 300 000 Arbonia shares by the 2019 General Meeting, both to a suitable extent and according to certain pre-requisites. Depending on the extent of their total shareholding, the family shareholders are also entitled to put forward a certain number of candidates for election to the Arbonia Board of Directors until the 2019 Annual General Meeting but no later. For as long as the family shareholders are entered into the company's share register and recorded as holding at least 10% of voting rights, they are able to put

forward two candidates for election to the Board of Directors. If the family shareholders are recorded in the Arbonia share register as holding between 5% and 10% of voting rights, their allotted number of candidates falls to one person.

On 13 March 2018, Vontobel Fonds Services AG reported that it had fallen below the threshold of 3%.

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 2018, the ordinary capital of Arbonia is CHF 291 787 620.60, the conditional capital is CHF 57 960 000.00 and the authorised capital is also CHF 57 960 000.00.

The ordinary capital is detailed in point 47 of the notes on the consolidated financial statements on page 155.

	Quantity	Nominal value	Share capital
Registered shares 31/12/2017	69 473 243	4.20	291 787 620.60
Registered shares 31/12/2018	69 473 243	4.20	291 787 620.60

2.2 Authorised and conditional capital Authorised capital

The General Meeting on 20 April 2018 authorised the Board of Directors to increase the share capital by a maximum of CHF 57 960 000 by issuing a maximum of 13 800 000 fully paid-up registered shares of a par value of CHF 4.20 each at any time until 20 April 2020.

No changes related to the authorised capital took place in 2018 (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 may be increased by a maximum of CHF 57 960 000.00 by issuing a maximum of 13 800 000 fully paid-up registered shares of a par 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 and terms and conditions

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 past three years (2016–2018), share capital has increased five times as a result of using authorised capital. Three of these capital increases occurred based on Art. 3a of the Articles of Association (www.arbonia.com/en/company/corporate-governance). Two of these capital increases occurred based on the former Art. 3c of the Articles of Association. This article and the authorised capital it covers were introduced/created in light of the merger with the Looser Group. Upon the complete takeover of the Looser Group in 2017, the remaining authorised capital in Art. 3c of the Articles of Association became obsolete and that article was cancelled at the General Meeting on 20 April 2018 without being replaced.

On 22 April 2016, the Board of Directors resolved to increase the ordinary share capital, including author-

ised capital, by CHF 3 841 609.80 by issuing 914 669 registered shares of a nominal value of CHF 4.20 each. On 14 September 2016, the Board of Directors resolved to increase the ordinary share capital, including authorised share capital, by CHF 11 088 000 by issuing 2 640 000 new registered shares of a nominal value of CHF 4.20 each. On 12 December 2016, the ordinary share capital – including authorised capital – that was created with a view to the takeover of the Looser Group was increased by CHF 85 570 783.20 by issuing 20 373 996 new registered shares of a nominal value of CHF 4.20 per share in accordance with the former Article 3c of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

On 28 June 2017, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 2 520 000 by issuing 600 000 fully paid-up registered shares. Also on 28 June 2017, the Board of Directors resolved to increase the ordinary share capital – including authorised capital – that was created with a view to the takeover of the Looser Group by CHF 1 627 302.60 by issuing 387 453 new registered shares of a nominal value of CHF 4.20 per share in accordance with Article 3c of the Articles of Association (www.arbonia.com/en/company/corporate-governance).

As of 31 December 2018, Arbonia's share capital amounts to CHF 291 787 620.60. The share capital is fully paid-up and divided into 69 473 243 registered shares of a nominal value of CHF 4.20 each.

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 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 2018, 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 22.07% in Arbonia and a shareholding of 50.32% in Feintool 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, Wetttenberg (D); Chairman of the Supervisory Board of VERBIO Vereinigte BioEnergie AG, Leipzig (D); member of the Supervisory Board of Siegwirk 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 of 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 Mobimo Holding AG, Lucerne LU.

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 Implen Group; since 2011 various management and consulting mandates as Chairman and CEO of the BEKA Group. Bodmer has never been part of the executive management of Arbonia or its subsidiaries. In the reporting year, Peter E. Bodmer respectively the BEKA Group acted as broker on behalf of Arbonia in relation to the sale of premises not necessary to business operations and was compensated accordingly (see page 82). Other than this individual, completed assignment, Peter E. Bodmer 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 Brüttsch/Rüeggger Holding AG, Urdorf ZH; Vice-President of Helvetica Property Investors AG, Zurich ZH; member of the Board of Directors of INOVETICA Holding AG, Baar ZG; delegate of the Government Council of the Canton of Zurich responsible for the strategic development planning of Zurich university hospital and general coordination of the university district; delegate of the Foundation Board of Zurich innovation park, Zurich ZH; member of the Foundation Board of Profond Pension Fund, Zurich ZH; member of the Foundation Board at Wilhelm Schulthess-Stiftung, Zurich ZH; member of the Board of Directors of Klinik Schloss Mammern AG, Mammern 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 SAK Holding AG, St. Gallen SG; member of the Board of Directors of St. Gallisch-Appenzellische Kraftwerke AG, St. Gallen SG; 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 leading positions in The Dow Chemical Company, Horgen/Frankfurt (D) / Midland MI (USA); 1994–1999 Managing Director of Plüss-Stauber 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); Executive Vice-President of The Dow Chemical Company, President Dow Europe, Middle East, Africa & India (EMEA) since 2012. 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: Chairman of the Board of DowAksa Advanced Composites Holdings B.V., Amsterdam (NL); 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, Zurich ZH.

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 subsidiaries of Arbonia (see pages 167/168).

Other activities and vested interests: Vice-President of the Board of Directors of Franke Holding AG, Aarburg AG; member of the Board of Directors of BERGOS BERENBERG AG, Zurich ZH; Vice-President 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.

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); member of the Board of Directors at Industrielack Holding AG, Wangen SZ and Industrielack AG, Wangen SZ.

At the Annual General Meeting on 12 April 2019, the Board of Directors of Arbonia will propose electing Dr Carsten Voigtländer as a new member of the Board of Directors.

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	2019
Peter Barandun, Vice-Chairman	1964	2014	2019
Peter E. Bodmer	1964	2013	2019
Markus Oppliger	1959	2013	2019
Heinz Haller	1955	2014	2019
Michael Pieper	1946	2015	2019
Thomas Lozser	1961	13.12.2016*	2019

* The election took place on 1 November 2016 and the appointment began 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 are independent, with one of these two members having worked for Arbonia under a one-time brokerage agreement during the reporting year (see Section 3.1 or page 61). 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 three times during the reporting year. The interim CEO, the CFO, the external auditors and Internal Audit were present at all three of the meetings. At the subsequent meeting of the full Board of Directors, the Chairperson reports on the meetings of the Audit Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors. The meetings of the Audit Committee lasted two 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 Chairman of the Audit Committee participated in the recruitment procedures of the Nomination and Compensation Committee in the search for the new CFO.

3.4.2.2 *Nomination and Compensation Committee*

The members of the Compensation Committee were elected by the General Meeting on 20 April 2018. 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, but at 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. In the reporting year, the Nomination and Compensation Committee was highly occupied with recruiting the new CFO and conducted comprehensive selection procedures. The Nomination and Compensation Committee was also occupied with the nomination of the new member of the Board of Directors proposed for election at the General Meeting on 12 April 2019. In the reporting year, the Nomination and Compensation Committee also dealt with the role evaluation which was conducted for management and key Group functions using the HAY assessment system and the subsequent assignment of these functions to the newly defined Arbonia job grades.

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.

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 three times during the reporting year, one of which was a telephone conference. The interim CEO and CFO attended all three meetings. At the subsequent meeting of the full Board of Directors, the Chairman reports on the meetings of the Nomination and Compensation Committee, and the meeting minutes are sent to the meeting participants and all members of the Board of Directors.

The meetings of the Nomination and Compensation Committee lasted one hour 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 meetings, one of which was a one-hour telephone conference. In the reporting year, the Board of Directors performed its duties directly. Ordinary meetings of the Board of Directors usually last one day, and extraordinary meetings usually last one hour, though none of these took place in the reporting year. The interim CEO and CFO attended all meetings in the reporting year. All members of Group Management also took part in all meetings, with the exception of the aforementioned telephone conference; only the interim CEO and CFO attended this meeting on Group Management's behalf. Managers as well as representatives of Internal Audit 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 business units;
- 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 (available at 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

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 summarises the audits it is to carry out in an annual audit plan. This audit plan also incorporates the risks identified by Corporate Treasury as part of the risk management process it performs 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. The Internal Audit provided the members of the Board of Directors with 13 audit reports during the reporting year. 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 ICS.

Furthermore, the Audit Committee and Board of Directors receive information concerning the results of the annual risk management process conducted by Corporate Treasury.

4. Group Management

4.1 Members of Group Management

As of 31 December 2018, 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)

Felix Bodmer

1955, Swiss citizen, lic. oec. HSG, Chief Financial Officer (CFO) since 2003; 1986–1992 various positions at Hilti Group in finance and controlling, most recently Head of Finance at a German subsidiary; 1993–2000 ABB/Alstom, Commercial Director/CFO of group companies, most recently CFO/Head of Shared Services at Alstom Power (Schweiz) AG; 2000–2003 CFO of Steiner Group.

Other activities and vested interests: Member of the Board of Directors of the Bernet-Wirona Group, St. Gallen, since June 2012.

At the General Meeting on 12 April 2019, Felix Bodmer will step down from his role as Chief Financial Officer. On that date, the new Chief Financial Officer will be Daniel Wüest.



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.



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 and member of the Presidential Council of the Chamber of Commerce and Industry for Lower Bavaria since 2013.

Harald Pichler

1968, Austrian citizen, MBE Mechanical Engineering, Head of the Windows Division since 2016; 1995–1996 Henrik af Hellström Consulting, Senior Project Manager; 1997–2003 ATOMIC Austria GmbH, various positions, most recently Director Operations; 2004–2010 Kronoflooring GmbH/Kronospan GmbH, CEO/Managing Director; 2010–2015 WERU GmbH, CEO/Chairman of the Management Board; 2014–2015 UNILUX GmbH (following takeover by WERU GmbH), Managing Director.

Other activities and vested interests: Harald Pichler has no other material activities or vested interests.



Peter Spirig



1973, Swiss citizen, Master's in Civil Engineering, ETH Zurich, MBA, INSEAD Fontainebleau, Head of the Doors Division since 2016; 1999–2000 Ernst Basler+Partner AG, project manager; 2002–2004 Holcim Group, Assistant to Executive Committee Member; 2004–2009 Holcim (Lanka) Ltd, Chief Executive Officer; 2009–2013 Franke Foodservice Systems Asia, President; 2013–2016 Franke Group, member of the Group Management and President of Franke Asia.

Other activities and vested interests: Peter Spirig has no other material activities or vested interests.

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 75–84.

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. 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 rights

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 the Board of Directors and Group Management 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 annual financial statements and the 2018 consolidated financial statements 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 2018, the various auditors billed a total of CHF 1 230 000 (previous year: CHF 817 000) for auditing the financial statements and consolidated financial statements of Arbonia and the financial statements of the Group companies. Of this amount, the statutory auditor KPMG AG accounted for CHF 1 068 000 (previous year: CHF 642 000) in 2018.

8.3 Additional fees

In 2018, the statutory auditor KPMG AG and other auditors of Group companies billed CHF 548 000 (previous year: CHF 445 000) for additional services, CHF 508 000 of which (previous year: CHF 334 000) was attributable to KPMG AG. Of the additional services performed by KPMG AG in 2018, CHF 204 000 was for tax advice, CHF 170 000 for process optimisations, CHF 73 000 for auditing the internal control system and CHF 61 000 was for other services.

8.4 Informational instruments pertaining to the external audit

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 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 auditors by having the reports on the annual financial statements, consolidated financial statements and comprehensive report explained directly by the auditors (see 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 auditors, 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. The Annual Report's integral components are the Management Report from page 3 and the Compensation Report from page 75. 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. In the reporting year, Arbonia published 10 press releases. In addition to this, Arbonia gives comprehensive reports on its operating activities at its annual financial media and analyst conference and at the General Meeting. Arbonia also fosters dialogue with investors and the media at special events and roadshows.

Arbonia's contact details are as follows:

Arbonia AG
Amriswilerstrasse 50, 9320 Arbon, Switzerland
T +41 71 447 41 41, F +41 71 447 45 88
holding@arbonia.com

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 <https://www.arbonia.com/en/media/press-releases>.

The calendar of events is provided on page 197 of the Annual Report and at www.arbonia.com/en/investors.