

COMPENSATION REPORT

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2017 (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 77.

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 compensa-

tion 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 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. A total of 40% 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 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).

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

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 and in the by-laws 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 Chief Financial Officer is normally invited to the meetings of the Nomination and Compensation Committee. Members of the Board of Directors not on the committee did not attend committee meetings during the year under review but received the meeting minutes and 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 relating to the compensation process and compensation system. The

Nomination and Compensation Committee met three times during the year under review.

3. Compensation of the Board of Directors

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. At the General Meeting on 20 April 2018, a decision shall be made on total compensation for the members of the Board of Directors for the year of office 2017/2018, which shall also end on the same day. On 20 April 2018, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 947 000 for the year of office 2017/2018.

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

3.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. This remained unchanged for the year of office 2017/2018. 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 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).

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 to determine the Fair Market Value will begin no later than the tenth trading day after publication of the annual results. 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.

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, 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 December 2017.

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

At the General Meeting of 22 April 2016, the shareholders approved a maximum total of the fixed and variable compensation in the amount of CHF 4 600 000 for the members of the Group Management for the 2017 financial year. At the Extraordinary General Meeting held on 1 November 2016, the shareholders approved an increase of CHF 400 000 in the maximum total, amounting to a total of CHF 5 000 000. This increase was related firstly to the rising price of Arbonia shares, which form part of Group Management members' compensation; under the prospective voting system in place at the time, the rising prices had been anticipated one year in advance for the financial year 2017, thus making the change necessary. Secondly, the increase was also related to a change in Group Management, which resulted in a slight rise to the salary structure.

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. 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. In the year under review, the company began reassessing the Group Management and key functions within the Arbonia Group using the Hay Group Grading System.

The fixed compensation for the members of Group Management is paid out in cash, while the fixed com-

penetration 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 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 (nominal bonus) accounted for up to 120% 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. If a member of Group Management meets his targets in full, he receives a variable payment (nominal bonus) laid down in his or her individual agreement. The financial and personal goals 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% 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.

In the reporting year, one member of the Group Management received the contractually agreed nominal bonus due to extraordinary performance and extraordinary overtime work that was in line with the group result, even though the divisional financial targets were not fully met.

The personal targets can be fulfilled at a maximum of 100%, whilst such a target must be met with at least 40%, 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).

For the management and implementation of projects that are of key importance to the Arbonia Group and that require an above-average level of work, the company can enter into individual bonus agreements with certain employees in addition to the normal bonus programme. In the reporting year, one member of Group Management received variable compensation for the achievement of personal goals related to projects of central importance for the Arbonia Group and additional to the goals named in the bonus regulations. The Group Management member in question received this bonus in addition to the bonus paid out according to the bonus regulations; the additional bonus was paid out exclusively in Arbonia shares limited to four years and subject to the share-based payment programme (see 4.4).

4.3 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 6 600 a 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

During the reporting year, a maximum of 60% of the variable compensation was paid out in cash and a maximum of up to 70% 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 restriction period. The 20-day trading period to determine the Fair Market Value will begin no later than the tenth trading day after publication of the annual results. 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.

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, 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 2017.

4.7 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 six 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.

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 under the Arbonia pension scheme and 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 846 000 (as of 1 January 2017, 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 2017). 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 2017

5. Board of Directors

5.1 Changes in the Board of Directors

At the end of the year of office 2016/2017, Christian Stambäck decided not to stand for re-election to the Board of Directors. This reduced the size of the Board of Directors to eight members. There were no other changes in comparison to the previous year. This means that Alexander von Witzleben is the Chairman of the Board of Directors and Peter Barandun is Vice-Chairman. Alexander von Witzleben has been the delegate of the Board of Directors and interim CEO since 1 July 2015.

Compared to the 2016 financial year, the total fee of the Board of Directors increased slightly. This is due to the fact that since 13 December 2016, two new or additional members of the Board of Directors – Thomas Lozser and Dr. Rudolf Huber – have joined. While their fees only had a pro rata temporis and thereby marginal impact on the total compensation of the Board of Directors in the 2016 financial year, these fees were fully posted in the 2017 financial year.

5.2 Table

							2017
	Functions exercised in 2017	Fee in cash in 1000 CHF	Fee in shares in 1000 CHF	Pension expenses ¹ in 1000 CHF	Other compensa- tion ² in 1000 CHF	Total in 1000 CHF	
Alexander von Witzleben ³	Chairman Interim CEO Member of the AC Member of the NCC	120	150	14	15	299	
Peter Barandun	Vice-Chairman Chairman of the NCC	40	73	6	6	125	
Peter E. Bodmer ⁴	Member Member of the AC	31	47	0	6	84	
Markus Oppliger	Member Chairman of the AC	39	49	5	6	99	
Heinz Haller	Member Member of the NCC	28	51	4	6	89	
Michael Pieper	Member	24	44	2	6	76	
Thomas Lozser	Member	60	0	4	12	76	
Rudolf Huber	Member	40	26	4	6	76	
Christian Stambach ⁵	Member until 28.04.2017	9	11	1	2	23	
Total compensation to members of the Board of Directors		391	451	40	65	947	

1 Employer contributions to social insurance policies

2 Lump-sum allowances

3 The compensation paid to Alexander von Witzleben in 2017 in his capacity as Chairman of the Board of Directors is included in this table. The compensation for his services as interim CEO totalling CHF 1 369 119 is included in the compensation paid to Group Management in chapter 6.2.

4 The compensation for Peter E. Bodmer for the period of office 2017/2018 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

5 Christian Stambach is a partner of the law firm Bratschi AG (formerly Bratschi Wiederkehr&Buob AG), which until 28.04.2017 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 159/160.

						2016
	Functions exercised in 2016	Fee in cash	Fee in shares	Pension expenses ¹	Other compensa- tion ²	Total
		in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Alexander von Witzleben ³	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 insurance policies

2 Lump-sum allowances

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 services as interim CEO totalling CHF 733'873 is included in the compensation paid to Group Management in chapter 6.2.

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 reporting year. Concerning the fees for services of the law firm, see pages 159/160.

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.

6. Group Management

6.1 Changes in Group Management

There were no changes to Group Management between the reporting year and the previous year. This means that Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015. Group Management is made up of five members, including the chairman.

In the reporting year, the total compensation of the Group Management increased slightly compared with 2016. This is based on two factors. On the one hand, the Board of Directors decided to increase the cash portion of Alexander von Witzleben's fixed salary in his role as interim CEO and delegate of the Board of Directors to CHF 280 000. On the other hand, the value of the share package which was allocated to him increased to CHF 999 618 due to the increase in value of the shares.

6.2 Table

	2017		2016		
	Group Management ³	thereof Alexander von Witzleben, interim CEO	Group Management ³	thereof Alexander von Witzleben, interim CEO ⁴	thereof Felix Bodmer, CFO
	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF	in 1000 CHF
Annual salary (cash)	1 784	280	1 995	120	552
Annual salary (shares)	999	999	560	560	
Variable compensation (cash)	530		611		133
Variable compensation (shares)	700		381		111
Pension expenses ¹	689	83	713	47	157
Other compensation ²	110	7	160	7	28
Total	4 812	1 369	4 420	734	981
Number of members	5		6		

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 underlying conversion rate is 1.11 for 2017 and 1.09 for 2016.

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 Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 67–76) of Arbonia AG for the year ended 31 December 2017. 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 2017 of Arbonia AG complies with Swiss law and articles 14–16 of the Ordinance.

Other Matter

The compensation report of Arbonia AG for the year ended 31 December 2016 was audited by another auditor who expressed an unmodified opinion on this report on 17 February 2017.

KPMG AG

Kurt Stocker
Licensed Audit Expert
Auditor in Charge

Oliver Eggenberger
Licensed Audit Expert

St. Gallen, 19 February 2018

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