

# COMPENSATION REPORT

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2018 (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 85.

## A The compensation system of Arbonia

### 1. Principles of the compensation system

The compensation system and the structure of the occupational pension scheme are based on the conviction that the success of a company depends to a considerable extent on the quality and dedication of

its personnel. Arbonia wants to leverage its compensation system and the total compensation paid on this basis to attract and retain people with the necessary skills and qualities and to motivate them to deliver a consistently high level of performance. The compensation system is designed to ensure that the interests of top managers are consistent with the interests of the Group and its shareholders.

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

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

1 The Chairman of the Board of Directors waives compensation for his activity on both committees (see 3.1).

2 One member of the Board of Directors is resident in the USA and receives his fee in cash only (see 3.4).

3 In his function as interim CEO, the Chairman and delegate of the Board of Directors receives fixed compensation containing both a cash element and an element in temporarily restricted shares (see 4.1).

4 In his function as interim CEO, the Chairman and delegate of the Board of Directors waives any variable compensation (see 4.2).

## 2. Organisation and competencies

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

Among other things, its duties include:

- Periodic review of the salary policy and the compensation system
- Annual review of the fixed compensation of the Board of Directors
- Annual review of the fixed and variable compensation of Group Management
- Assessment of the performance of the members of Group Management
- Identification of candidates for the Board of Directors and Group Management
- Determination of the principles for the management and development of the members of the Board of Directors and Group Management

The committee is made up of three members. Two members of the Nomination and Compensation Committee are non-executive and independent. Alexander von Witzleben, member of the Nomination and Compensation Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015. Every year, the members are individually elected by the General Meeting for one year. The CFO is normally invited to the meetings of the Nomination and Compensation Committee. Members of the Board of Directors not on the committee did not attend the committee meetings in the reporting year. An exception to this is the Chairman of the Audit Committee who participated in the entire recruitment procedure in the search for the new CFO during the reporting year (see page 65, 3.4.2.1). Members of the Board of Directors not on the committee received the meeting minutes and are kept informed by the Chair-

man 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 reporting year.

## 3. Compensation of the Board of Directors

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. At the General Meeting on 12 April 2019, a decision shall be made retrospectively on total compensation for the members of the Board of Directors for the year of office 2018/2019, which shall also end on the same day. On 12 April 2019, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 994 000 for the year of office 2018/2019.

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 2018/2019. The basic fee for the office of Chairman of the Board of Directors is CHF 240 000. The Vice-Chairman receives a fee of CHF 80 000, with the other members of the Board of Directors receiving a fee of CHF 60 000 each. In addition to this compensation, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20 000 for their activity 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 compensation for his activity on both committees and considers it to be included in his aforementioned fee of CHF 240 000.

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

### 3.2 Variable compensation

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

### 3.3 Allowances and in-kind benefits

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

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

### 3.4 Shares and options

At least 50% of the compensation paid to the members of the Board of Directors, including the compensation paid to committee members, is paid in the form of restricted Arbonia shares. The remaining 50% can either be paid out in cash or up to another 30% in restricted Arbonia shares. Members of the Board of Directors who are resident outside of Switzerland and the European Union receive their full Board of Directors fee in cash.

Making the Board of Directors take their fees in the form of restricted shares is designed to ensure that the incentive system is consistent with the long-term prosperity of the company, encourage a management philosophy which takes due account of risk, and reflect shareholder interests. According to the Board Member Share Plan approved by the Board of Directors, at least 50% of the net fees for the Board of Directors, i.e. the Board of Directors fees minus lump-sum allowances and withholding taxes, takes the form of restricted Arbonia shares. When members of the Board of Directors are domiciled in the European

Union, the Swiss withholding tax is treated as compensation paid in cash. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period for calculating the fair market value shall begin on the tenth trading day following the publication of the annual results. Shares allocated in this way are subject to a restriction period of four years, which can, however, be lifted for those leaving the Board of Directors.

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

### 3.5 Attendance fees

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

### 3.6 Loans and credit

According to Art. 26 of the Articles of Association ([www.arbonia.com/en/company/corporate-governance](http://www.arbonia.com/en/company/corporate-governance)), no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of 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 2018.

### 3.7 Compensation, loans and credit to related parties

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

### 3.8 Signing bonus and termination benefits

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

## 4. Compensation of Group Management

In 2016, the Board of Directors resolved to have votes on compensation carried out retrospectively in future. At the General Meeting on 12 April 2019, a decision shall be made retrospectively on total remuneration for the members of the Group Management for the 2018 financial year. On 12 April 2019, the Board of Directors shall submit an application for the retrospective approval of the Group Management's total compensation of CHF 4 984 000 for the 2018 financial year.

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

### 4.1 Fixed compensation

The compensation of the members of Group Management depends on the individual function as well as the qualification and experience of the person that assumes the function. In the reporting year, a role evaluation for management and key Group functions was conducted using the HAY assessment system. These functions have subsequently been assigned to one of the newly defined Arbonia job grades. The CEO's function and the functions of the Board of Directors were exempt from this evaluation. The Arbonia Group conducted a role evaluation for the first time in 2014. In this case too, the functions of CEO and the Board of Directors were exempt. Based on the job grades, the included functions were compared on a country-specific basis with comparable functions at international companies in the Hay databases to enable a fair, external wage comparison to be carried out. One of the Arbonia Group's aims for this project was to establish a fair compensation system in line with market requirements in order to retain members of the Management Board over the long term. 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 accounted for up to 55% of the fixed compensation for members of Group Management. In his function as interim CEO, the current Chairman of the Board of Directors and delegate of the Board of Directors waives any variable compensation.

According to the bonus regulations valid for the reporting year, the amount of the variable compensation depends on the achievement of financial targets. If a member of Group Management meets his targets in full, he receives a variable payment (nominal bonus) laid down in his individual agreement. The financial targets are assessed on the extent to which they have been met, with the relevant bonus component rising to 125% at most. If the targets for a bonus component of 125% are met, a pro rated share based on 150% of the nominal bonus is paid out. As a general rule, failure to meet at least 75% of a financial target will mean that none of the respective bonus component is paid. In the reporting year, quantitative targets relating to the organic growth, EBITDA margin, cash flow from operations, return on assets, company result and holding costs were determined for the members of Group Management.

In the reporting year, one member of the Group Management received 63% of the contractually agreed nominal bonus due to extraordinary performance and extraordinary overtime work, even though the divisional financial targets were not achieved to the same percentage.

### 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, 50% of the variable compensation was paid out in cash and 50% was paid out in the form of an allocation of shares under the share-based payment programme approved by the Board of Directors on 1 May 2014. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20% discount for the restriction period. The 20-day trading period for calculating the fair market value shall begin on the tenth trading day following the publication of the annual results. The restricted shares are subject to a four-year restriction period. The restriction period applies even if the employee leaves the company. The Board of Directors may, however, lift the restriction on the transfer of shares allocated under the share-based payment programme in certain cases, such as in the event of a change of control.

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

#### 4.5 Privileges

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

#### 4.6 Loans and credit

According to Art. 26 of the Articles of Association ([www.arbonia.com/en/company/corporate-governance](http://www.arbonia.com/en/company/corporate-governance)), no loans, credit or pension benefits outside the occupational pension scheme or collateral shall be granted to the members of Group Management. Exempt from this are advances of social security and tax charges for persons subject to withholding tax. The delegate of the Board of Directors and interim CEO exercised this exemption in the reporting year, with no advance payments outstanding as of 31 December 2018.

#### 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 also 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 2018, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 636 800 (as of 1 January 2018). The employer contribution is the same for all three available plans and amounts to 25% of the insured salary (as of 1 January 2018). 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 2018

### 5. Board of Directors

#### 5.1 Changes in the Board of Directors

At the end of the year of office 2017/2018, Dr Rudolf Huber decided not to stand for re-election to the Board of Directors. This reduced the size of the Board of Directors to seven 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.

Despite the described reduction in the size of the Board of Directors, the total fee of the Board of Directors increased slightly compared to the 2017 financial year. This can be attributed to the fact that in the reporting year, Peter E. Bodmer respectively the BEKA Group acted as broker on behalf of Arbonia on one occasion in relation to the sale of non-essential property and received CHF 115 000 (incl. allowances) in compensation for this work. The amount of the aforementioned compensation was directly dependent on the price achieved for the sale of the property. The Board of Directors approved this brokerage agreement, whereby Peter E. Bodmer withdrew from the resolution.

#### 5.2 Table

							2018
	Functions exercised in 2018	Fee in cash	Fee in shares	Pension expenses <sup>1</sup>	Other compensation <sup>2</sup>	Total	
		in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	
Alexander von Witzleben <sup>3</sup>	Chairman interim CEO Member of the AC Member of the NCC	120	148	15	15	298	
Peter Barandun	Vice-Chairman Chairman of the NCC	29	86	6	6	127	
Peter E. Bodmer <sup>4,5</sup>	Member Member of the AC	20	61	0	121	202	
Markus Oppliger	Member Chairman of the AC	39	49	5	6	99	
Heinz Haller	Member Member of the NCC	20	60	4	6	90	
Michael Pieper	Member	18	52	2	6	78	
Thomas Lozser	Member	59	0	4	12	75	
Rudolf Huber	Member until 20.04.2018	10	12	1	2	25	
<b>Total compensation to members of the Board of Directors</b>		<b>315</b>	<b>468</b>	<b>37</b>	<b>174</b>	<b>994</b>	

1 Employer contributions to social insurance policies

2 Lump-sum allowances

3 The compensation paid to Alexander von Witzleben in 2018 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 1 369 275 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 2018/2019 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

5 CHF 115 000 is included under "Other compensation" for the services of Peter E. Bodmer who acted as a broker in relation to the sale of land in Switzerland.



						2017
	Functions exercised in 2017	Fee in cash	Fee in shares	Pension ex- penses <sup>1</sup>	Other compensa- tion <sup>2</sup>	Total
		in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Alexander von Witzleben <sup>3</sup>	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 <sup>4</sup>	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 <sup>5</sup>	Member until 28.04.2017	9	11	1	2	23
<b>Total compensation to members of the Board of Directors</b>		<b>391</b>	<b>451</b>	<b>40</b>	<b>65</b>	<b>947</b>

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 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 28.4.17 performed various legal consulting services not related to his Board of Directors mandate for Arbonia at market conditions in the reporting year.

## 6. Group Management

### 6.1 Changes in Group Management

Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015.

As of 1 January 2018, the former Building Technology Division was split into the Heating, Ventilation and Air Conditioning Division and the Sanitary Equipment Division. In parallel with this decision to create the two new divisions, Ulrich Bornkessel was appointed Head of the new Heating, Ventilation and Air Condi-

tioning Division and therefore also became a member of Group Management. The size of Group Management has therefore increased from five to six since the previous year.

Despite the fact that Group Management has increased by one member, the total compensation for the members of Group Management has not significantly changed compared with the previous year. Although the annual salary increased, the lower level of variable compensation in the reporting year compared with the previous year meant that the total compensation remained approximately the same.

### 6.2 Table

	2018		2017	
	Group Management <sup>3</sup>	thereof to Alexander von Witzleben, interim CEO	Group Management <sup>3</sup>	thereof to Alexander von Witzleben, interim CEO
	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF	in 1 000 CHF
Annual salary (cash)	2 076	280	1 784	280
Annual salary (shares)	1 000	1 000	999	999
Variable compensation (bonus in cash)	410		530	
Variable compensation (bonus in shares)	512		700	
Fees	111			
Pension expenses <sup>1</sup>	757	83	689	83
Other compensation <sup>2</sup>	118	7	110	7
<b>Total</b>	<b>4 984</b>	<b>1 370</b>	<b>4 812</b>	<b>1 369</b>
Number of members	6		5	

<sup>1</sup> Employer contributions to social insurances, occupational pension schemes, accident and health insurance

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

<sup>3</sup> The compensation of Knut Bartsch is paid in euros. The underlying conversion rate is 1.15 for 2018 and 1.11 for 2017.



## Report of the Statutory Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 75 to 84) of Arbonia AG for the year ended 31 December 2018. 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 2018 of Arbonia AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Kurt Stocker  
Licensed Audit Expert  
Auditor in Charge

Oliver Eggenberger  
Licensed Audit Expert

St. Gallen, 19 February 2019