

COMPENSATION REPORT

This compensation report explains the compensation system of AFG (chapter A) and its application in the reporting year 2015 (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 AFG. The audit confirmation is presented on pages 82/83.

A THE COMPENSATION SYSTEM OF AFG

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. AFG 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

	Fixed compensation	Variable compensation	Pension scheme/ fringe benefits
Board of Directors	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	None	Lump-sum allowances
Group Management	Basic salary including fringe benefits in cash ²⁾ on the basis of individual classification (function, experience, skills)	Compensation in % of the basic salary depending on the company's financial targets. ³⁾ One third of the variable compensation in shares restricted for four years ⁴⁾	Lump-sum allowances, company car regulation, retirement planning

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

2) In his function as interim CEO, the Chairman and delegate of the Board of Directors receives fixed compensation containing both a cash element and an element in temporarily restricted shares (see 3.1).

3) During the year under review, the company's financial targets were not the only reference point for determining the variable compensation, due to the specific circumstances (see 3.2).

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

2 COMPENSATION OF THE BOARD OF DIRECTORS

The shareholders agreed on the maximum total compensation sum for members of the Board of Directors for the first time at the ordinary General Meeting in 2015. The amount approved by the General Meeting for the 2015/2016 year of office is CHF 1 030 000.

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

2.1 Fixed compensation

The members of the Board of Directors receive fixed compensation for all of their work for the Board of Directors. In the 2014/2015 year of office, the basic fee for the office of Chairman of the Board of Directors was CHF 300 000. The current Chairman of the Board of Directors waived CHF 60 000 of his fee upon assuming his office on 17 April 2015. This means that the fee for the office of Chairman of the Board of Directors, including the fee for his activity as a member of both committees, amounts to a total of CHF 240 000 for the 2015/2016 year of office. The basic fees of the other members of the Board of Directors remain unchanged. The Vice-Chairman receives a fee of CHF 80 000, with the other members of the Board of Directors receiving a fee of CHF 60 000 each. In addition to this remuneration, the Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee each receives CHF 20 000 for their activity on the respective committee. Every other committee member is entitled to CHF 10 000 per year of office. The Chairman of the Board of Directors waives remuneration for his activity on both committees and considers it to be included in his aforementioned fee of CHF 240 000.

The fees paid to members of the Board of Directors are reviewed periodically and were last adjusted in 2013 and 2015 (in relation to the Chairman of the Board of Directors).

The former Chairman of the Board of Directors, who left the Board of Directors on 12 March 2015, received his fee for the entire 2014/2015 year of office, which ended with the ordinary General Meeting on 17 April 2015. As he led all meetings of the Board of Directors that took place during the year of office concerned, was involved in preparations for the General Meeting on 17 April 2015 up to the point of his departure, and remained available up to this date to provide the company with informa-

tion and perform handover tasks so that the transition to his successor could take place as smoothly as possible, he was entitled to full payment of his fee for the 2014/2015 year of office.

2.2 Variable compensation

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

2.3 Allowances and in-kind benefits

The members of the Board of Directors are paid lump-sum allowances. The Chairman of the Board of Directors receives a lump-sum allowance of CHF 15 000 a year; the other members of the Board of Directors receive lump-sum allowances amounting to CHF 6 000 a year. These allowances cover minor expenses and travel costs within Switzerland. Costs of travels abroad and overnight stays are borne by the company. The allowances are included in the presented other compensation of the term of office. The members of the Board of Directors do not receive any in-kind benefits.

2.4 Shares and options

At least 50 % of the compensation paid to the members of the Board of Directors, including the compensation paid to committee members, is paid in the form of restricted AFG shares. The remaining 50 % can either be paid out in cash or up to another 30 % in restricted AFG shares. Making the Board of Directors take their fees in the form of restricted shares is designed to ensure that the incentive system is consistent with the long-term prosperity of the company, encourage a management philosophy which takes due account of risk, and reflect shareholder interests. According to the Board Member Share Plan approved by the Board of Directors on 1 April 2014, 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 AFG shares. When members of the Board of Directors are domiciled abroad, the Swiss withholding tax is treated as compensation paid in cash. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20 % discount for the vesting period. Shares allocated in this way are subject to a vesting period of four years, which can, however, be lifted for those leaving the Board of Directors.

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

2.5 Attendance fees

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

2.6 Loans and credit

During the year under review, no loans or credit were granted to members of the Board of Directors. In future, however, advances against social insurance and tax levies are to become available to members of the Board of Directors and Group Management who are subject to withholding tax. It will be proposed to the General Meeting on 22 April 2016 an amendment to the Articles of Association in this respect.

2.7 Compensation, loans and credit to related parties

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

2.8 Signing bonus and termination benefits

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

3 COMPENSATION OF GROUP MANAGEMENT

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

3.1 Fixed compensation

The compensation of the members of Group Management depends on the individual function as well as the qualification and experience of the person that assumes the function. In the financial year 2014, the Group Management functions and about 350 other functions in the AFG Group were assessed with the help of the Hay Group Grading System.

The fixed compensation for the members of Group Management is paid out in cash, while the fixed compensation for the delegate of the Board of Directors and interim CEO is paid out in cash and in shares. In the year under review, the fixed compensation paid to the delegate of the Board of Directors and interim CEO for the time between his appointment on 1

July 2015 and 31 December 2015 was made up of a cash element amounting to CHF 60 000 as well as 30 000 in shares. This corresponds to half of his fixed annual salary as delegate of the Board of Directors and interim CEO. The shares are subject to the provisions of the share-based payment programme (see 3.4) and are restricted for four years.

When the former CEO departed on 30 June 2015, the fixed compensation due was paid as a one-off payment in accordance with the employment contract and taking into account the notice period of 12 months.

3.2 Variable compensation

In the year under review, the variable compensation accounted for up to 50 % of the fixed compensation for members of Group Management; it accounted for around 100 % in the case of the former CEO. 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.

The amount of the variable compensation depends on the achievement of targets. According to the bonus regulations applicable in the year under review, the targets to be determined by the Board of Directors include quantitative specifications. In the event of 100 % target achievement, a member of Group Management receives the variable compensation (nominal bonus) laid down in the individual agreement. Quantitative targets are assessed according to the level of target achievement, with the relevant bonus component rising to 150 % at most. Failure to meet at least 40 % of a quantitative target will mean that none of the respective bonus component is paid.

In the year under review, quantitative targets relating to growth, the EBIT margin, free cash flow and ROCE were determined for the members of Group Management. Based on extraordinary challenges in the 2015 financial year and the significant time that the members of Group Management were required to devote to the many ongoing projects concerning implementation of the corporate strategy, the Board of Directors decided, at the request of the Nomination and Compensation Committee, to partially waive the applicability of the bonus regulations for the year under review and consider not only quantitative targets, but also personal engagement and achievement of project targets when determining the variable compensation.

When the former CEO departed on 30 June 2015, his entitlement was paid as a one-off payment in relation to the variable compensation, taking into account the notice period of 12 months. This one-off payment therefore contained the bonus for 2015 and the bonus for 2016 pro rata temporis.

3.3 Allowances and in-kind benefits

The members of Group Management receive lump-sum allowances amounting to CHF 21 600 a year. 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.

3.4 Shares and options

During the year under review, two thirds of the variable component was paid out in cash and one third in the form of an allocation of shares under the share-based payment programme approved by the Board of Directors on 1 May 2014. The number of shares is calculated based on the volume-weighted average share price of 20 trading days, less a 20 % discount for the vesting period. The restricted shares are subject to a four-year vesting period. The vesting period applies even if the employee leaves the company. The Board of Directors may, however, lift the restriction on the transfer of shares allocated under the share-based payment programme in certain cases, such as in the event of a change of control.

In accordance with the bonus regulations, due to their departure during the year under review, the former CEO and another member of Group Management who departed from Group Management received the bonus in cash instead of in restricted shares.

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

3.5 Privileges

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

3.6 Loans and credit

During the year under review, no loans or credit were granted to members of Group Management. Reference is made to 2.6.

3.7 Contract term

The contracts of the members of Group Management have been concluded for an unlimited term with a notice period of six months. The employment contract of the former CEO was concluded for an indefinite term with a notice period of twelve months. A member of Group Management who joined in 2016 has a contract that has been concluded for an unlimited term and also has a notice period of twelve months.

3.8 Compensation, loans and credit to related parties

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

3.9 Signing bonus, termination benefits and change-of-control clauses

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

3.10 Pension benefits

Group Management members with Swiss employment contracts are insured under the AFG pension scheme and the AFG senior management pension scheme. The AFG 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 2015, 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 2015). 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 AFG senior management pension scheme. Knut Bartsch, 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 2015

4 BOARD OF DIRECTORS

4.1 Changes in the Board of Directors

In the year under review, Rudolf Graf and Andreas Gühring left the Board of Directors, and Michael Pieper and Alexander von Witzleben joined the Board of Directors. Alexander von Witzleben was elected Chairman of the Board of Directors and, as delegate of the Board of Directors, assumed the function of CEO on an interim basis on 1 July 2015. Peter Barandun is now the Vice-Chairman of the Board of Directors.

4.2 Table

2015						2015
Functions exercised in 2015		Fee Cash	Fee Shares	Pension expenses ¹	Other compensation ²	Total
in CHF 1000						
Alexander von Witzleben ³	Chairman from 17.04.2015 Interim CEO from 01.07.2015 Member of the AC from 17.04.2015 Member of the NCC from 17.04.2015	80	107	10	10	207
Peter Barandun	Vice-Chairman from 17.04.2015 Chairman of the NCC Member of the AC until 17.04.2015	24	94	6	6	130
Christian Stambach ⁴	Vice-Chairman until 17.04.2015 Member	34	42	4	6	86
Peter E. Bodmer ⁵	Member Member of the AC	35	56	0	6	98
Markus Oppliger	Member Chairman of the AC	41	51	5	6	103
Heinz Haller	Member Member of the NCC	14	72	5	6	96
Michael Pieper	Member from 17.04.2015	9	43	3	4	58
Rudolf Graf	Chairman until 13.03.2015	46	58	11	5	120
Andreas Gühring	Member until 17.04.2015 Member of the NCC until 17.04.2015	8	18	1	4	30
Total compensation to members of the Board of Directors		290	540	45	53	929

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

2 Lump-sum allowances

3 The compensation paid to Alexander von Witzleben in 2015 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 369637 is included in the compensation paid to Group Management in chapter 5.2.

4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for AFG at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 169/170.

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

2014					2014
Functions exercised in 2014					Total
in CHF 1000					
	Fee Cash	Fee Shares	Pension expenses ¹	Other compensation ²	
Rudolf Graf ³	123	227	19	7	376
Christian Stambach ⁴	33	62	5	6	106
Edgar Oehler	24		1	2	27
Andreas Gühring	27	62	5	11	105
Peter E. Bodmer ⁵	71	58	2	6	137
Markus Oppliger ⁶	40	50	5	22	117
Peter Barandun	22	51	3	4	80
Heinz Haller	10	48	3	4	65
Total compensation to members of the Board of Directors	350	558	43	62	1 013

1 Employer contributions to social insurances

2 Lump-sum allowances and services

3 The compensation paid to Rudolf Graf in 2014 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 1 140 840 is included in the compensation paid to Group Management in chapter 5.2.

4 Christian Stambach is a partner of the law firm Bratschi Wiederkehr & Buob AG, which performed various legal consulting services not related to his Board of Directors mandate for AFG at market conditions in the year under review. Concerning the fees for services of the law firm, see pages 169/170.

5 The compensation for Peter E. Bodmer for the period of office 2014/2015 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

6 Includes CHF 16 000 under "Other compensation" for services performed by Oppliger Management Consulting by order of the Board of Directors in connection with the coordination, processing and creation of the additional notes to the annual report 2013.

The most significant change as compared with 2014 is based on the fact that the new Chairman of the Board of Directors has reduced the basic fee for his function from CHF 300 000 a year to CHF 240 000 a year. This amount also includes the fee for his activity as a member of the Nomination and Compensation Committee and the Audit Committee. During the year under review – as compared with 2014 – there was also no fee for the Chairman of the Strategy Committee or compensation for services relating to the additional notes to the annual report 2013.

5 GROUP MANAGEMENT

5.1 Changes in Group Management

William J. Christensen, the former CEO, departed from Group Management as of 30 June 2015. On 1 July 2015, Alexander von Witzleben assumed the function of interim CEO as delegate of the Board of Directors. Roman Hänggi, former Head of the Building Envelope Division, departed from Group Management on 30 September 2015. His employment contract ended on 31 January 2016.

5.2 Table

	Group Management ³ 2015	thereof to Alexander Witzleben, interim CEO ⁴ 2015	thereof to William J. Christensen, CEO 2015	Group Management 2014	thereof to Daniel Frutig, CEO 2014
in CHF 1 000					
Annual salary (cash)	2 281	60	904	2 987	650
Annual salary (shares)	283	283			
Variable compensation (bonus in cash)	779		540	851	400
Variable compensation (bonus in shares)	135			144	
Fees				45	
Pension expenses ¹	819	23	329	971	267
Other compensation ²	180	3	77	279	119
Total	4 477	369	1 850	5 277	1 436
Number of members	6			8	

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 translation rate is 1.07.

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 2015.

The most significant change in the year under review as compared with 2014 is based on the fact that Rudolf Graf departed from Group Management on 30 November 2014.

As Alexander von Witzleben is fulfilling a double role as Chairman of the Board of Directors and interim CEO, this has significantly reduced the compensation for these two roles as a result. Compared to the conditions which prevailed at the beginning of the year under review, where the posts of Chairman of the Board of Directors and CEO were held by two different people, compensation fell by around CHF 800 000.

REPORT OF THE STATUTORY AUDITORS ON THE COMPENSATION REPORT

TO THE GENERAL MEETING AFG ARBONIA-FORSTER-HOLDING AG, ARBON

St. Gallen, 17 February 2016

We have audited pages 77–81 of the accompanying compensation report dated 17 February 2016 of AFG Arbonia-Forster-Holding AG for the year ended 31 December 2015.

Board of Directors' responsibility

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

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

Opinion

In our opinion, the compensation report of AFG Arbonia-Forster-Holding AG for the year ended 31 December 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Beat Inauen
Audit expert
Auditor in charge



Martin Knöpfel
Audit expert