

CORPORATE GOVERNANCE

This report complies with the Corporate Governance Directive (CGD) of SIX Exchange Regulation of 1 September 2014. Unless otherwise indicated, the disclosures apply as of 31 December 2015.

1 GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

BOARD OF DIRECTORS

Alexander von Witzleben
Chairman of the Board of Directors

Peter Barandun
Vice-Chairman

Christian Stambach

Peter E. Bodmer

Markus Oppliger

Heinz Haller

Michael Pieper

GROUP MANAGEMENT

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

Felix Bodmer
Chief Financial Officer

Knut Bartsch
Head of the Building Technology Division

Dr. Roman Hänggi (until 30 September 2015)
Harald Pichler (from 1 February 2016)
Head of the Building Envelope Division

Dr. Christoph Schönenberger
Head of the Building Security Division

DIVISION STRUCTURE

BUILDING TECHNOLOGY

Knut Bartsch

Kermi
Heating Technology and
Sanitary Equipment

Arbonia
Heating Technology

Prolux
Heating Technology

Sabiana
Air-Conditioning and
Ventilation Technology

BUILDING ENVELOPE

Dr. Roman Hänggi
(until 30 September 2015)
Harald Pichler
(from 1 February 2016)

EgoKiefer
Windows and Doors

WERTBAU
Windows and Doors

Slovaktual
Windows and Doors

Dobroplast
Windows and Doors

BUILDING SECURITY

Dr. Christoph Schönenberger

Forster
Profile Systems

Bloxer
Profile Systems

RWD Schlatter
Special Doors

1.1.1 *Operational Group structure*

The operational Group structure of AFG as of 31 December 2015 comprises (1) the Building Technology Division with the Heating Technology Business Unit, the Sanitary Equipment Business Unit and the Air-Conditioning and Ventilation Technology Business Unit, (2) the Building Envelope Division with the Windows Business Unit and (3) the Building Security Division with the Profile Systems Business Unit and the Special Doors Business Unit. Together with the Finance/Controlling/Reporting area, the three divisions form the Group's operational structure as of 31 December 2015.

The AFG Group Management comprises the interim CEO, the CFO and the heads of the three divisions Building Technology, Building Envelope and Building Security. 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 can be found on pages 17–41.

1.1.2 *Scope of consolidation*

The scope of consolidation of AFG Arbonia-Forster-Holding AG, headquartered in Arbon TG ("AFG" or the "company") comprises the Group companies listed in the financial report on pages 171 (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. AFG shares are listed at the SIX Swiss Exchange in Zurich under securities number ISIN CH0110240600. Information about market capitalisation can be found in the additional disclosures for investors on page 186. Other than AFG, 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

	31/12/2015		31/12/2014
	Voting and capital shares	Shareholding notification	Voting and capital shares
in %			
Artemis Beteiligungen I AG	27.52	28.1.2015	21.90
Credit Suisse Funds AG	3.24	7.11.2015	
Lombard Odier Asset Management (Switzerland) SA	<3.0	4.6.2015	3.93
UBS Fund Management (Switzerland) AG	<3.0	13.3.2015	3.02

On 28 January 2015, Artemis Beteiligungen I AG, which is controlled by Michael Pieper, reported a shareholding of 25.39 % of the voting rights. As of 31 December 2015, the shareholding of Artemis Beteiligungen I AG amounts to 27.52 %.

On 7 November 2015, Credit Suisse Funds AG reported a shareholding of 3.24 %.

On 13 March 2015, UBS Fund Management (Switzerland) AG reported that it had fallen below the threshold of 3 %. On 4 June 2015, Lombard Odier Asset Management (Switzerland) SA also reported that it had fallen below the threshold of 3 %.

AFG 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 AFG and other companies.

2 CAPITAL STRUCTURE

2.1 Capital

The ordinary capital of AFG is CHF 187 139 925, the conditional capital is CHF 11 883 660.60 and the authorised capital is also CHF 11 883 660.60.

The ordinary capital is detailed in point 47 of the notes to the consolidated financial statements on page 157.

	31/12/2015			31/12/2014		
	Number	Nominal value	Share capital	Number	Nominal value	Share capital
Registered shares	44 557 125	4.20	187 139 925	18 225 603	4.20	76 547 532.60

2.2 Authorised and conditional capital

Authorised capital

The General Meeting of 25 April 2014 authorised the Board of Directors to increase the share capital by a maximum of CHF 15 309 504 at any time before 25 April 2016 by issuing a maximum of 3 645 120 registered shares of a par value of CHF 4.20 each, which shall be fully paid up. On 19 November 2015, the Board of Directors resolved to increase the ordinary share capital, including authorised capital, by CHF 3 425 843.40 by issuing 815 677 fully paid up registered shares. The authorised capital is therefore reduced to CHF 11 883 660.60. As the authorised and conditional capital are available on an alternative instead of a cumulative basis, the conditional capital decreases by the same amount to CHF 11 883 660.60.

Conditional capital

The share capital may be increased by a maximum of CHF 11 883 660.60 by issuing a maximum of 2 829 443 registered shares of a par value of CHF 4.20 each, which shall be fully paid up. 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 AFG or one of its subsidiaries.

The group of beneficiaries and the terms and conditions for issuing authorised and conditional capital, which is available on an alternative instead of a cumulative basis, are described in Art. 3a and Art. 3b of the AFG Articles of Association (www.afg.ch/en/company/corporate-governance).

2.3 **Changes in capital**

In the past three years, share capital has increased twice as a result of an ordinary capital increase and an authorised capital increase. On 11 September 2015, the extraordinary General Meeting authorised an increase in the ordinary share capital by issuing 25 515 845 new registered shares of a par value of CHF 4.20 per share, from CHF 76 547 532.60 to CHF 183 714 081.60. On 19 November 2015, the Board of Directors resolved to increase the ordinary share capital, including authorised share capital, by CHF 3 425 843.40 by issuing 815 677 new registered shares of a par value of CHF 4.20 each. As of 31 December 2015, the share capital of AFG is CHF 187 139 925; this is fully paid up and divided into 44 557 125 registered shares of a par value of CHF 4.20 each.

2.4 **Shares and participation certificates**

The company has issued 44 557 125 registered shares at a par 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 year under review.

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, 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 AFG.

3 BOARD OF DIRECTORS

The Board of Directors of AFG consists of experts who cover the key subject areas of AFG as a building supplier. The Board of Directors attaches due importance to the diversity of the body, reflecting one of AFG'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**

On 31 December 2015, the Board of Directors consisted of the following members:



Alexander von Witzleben (1963, German citizen, resident in Weimar (D)), degree in business management, from 17 April 2015 to 30 June 2015 non-executive Chairman of the Board of Directors and since 1 July 2015 executive Chairman and delegate of the Board of Directors. 1990–1993 Audit Assistant/Head of Audit 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 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. Since 20 May 2015, Alexander von Witzleben has been a member of the Board of Directors of Artemis Holding AG, which has a shareholding of 27.52 % in AFG and a shareholding of 50.1 % in Feintool

Holding AG, Lyss. Since 1 July 2015, Alexander von Witzleben has been part of the executive management of AFG on an interim basis. Aside from this, he has no material business relationships with AFG or its subsidiaries.



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 of 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 Electrolux Switzerland/Chairman of the Board of Directors of Electrolux AG, Zurich. Peter Barandun has never been part of the executive management of AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.



Christian Stambach (1970, Swiss citizen, resident in Thal SG), lic. iur., attorney-at-law, non-executive member of the Board of Directors since 17 April 2015 (2009–2011 non-executive member of the Board of Directors); 2011–2015 non-executive Vice-Chairman of the Board of Directors). 2000–2002 attorney at Bär & Karrer, Zurich; 2002–2003 Group Vice-President, Chief Risk Officer and Chief Legal Counsel, General Secretary, Member of Group Management of Centerpulse Ltd; 2004–2006 Group General Counsel at Adecco SA; partner of the law firm Bratschi Wiederkehr & Buob AG, St. Gallen, since 2004. Christian Stambach has never been part of the executive management of AFG or its subsidiaries. In connection with the activity of the law firm Bratschi Wiederkehr & Buob AG on behalf of AFG and its subsidiaries, material business relationships exist with the company (see pages 169/170).



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 of GKN Sinter Metals GmbH; 1998–2005 COO and CFO of Maag Holding AG; 2005–2012 member of the Group Management of the Implenia Group; since 2011 various management and consulting mandates as Chairman and CEO of the BEKA Group. Peter E. Bodmer has never been part of the executive management of AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.



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 AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.



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-Staufner 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 AFG or its subsidiaries. He has no material business relationships with AFG or its subsidiaries.



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 AFG or its subsidiaries. Michael Pieper controls the largest shareholder in AFG (see 1.2) and, through companies under his ownership, has material business relationships with a subsidiary of AFG (see pages 169/170).

3.2 Other activities and vested interests

Alexander von Witzleben, member of the Advisory Board of KAEFER Isoliertechnik GmbH & Co. KG, Bremen (D); Chairman of the Supervisory Board of PVA TePla AG, Wettenberg (D); Chairman of the Supervisory Board of VERBIO Vereinigte BioEnergie AG, Leipzig (D); member of the Supervisory Board of Siegwerk 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, Chairman of the Board of Directors of Electrolux Holding AG, Zurich ZH; Vice-Chairman of FEA (Swiss Association of Domestic and Industrial Electrical Appliances), Zurich ZH; member of the Board of Swiss Ski, Muri near Bern BE; member of the Board of Directors of Mobimo Holding AG, Lucerne LU.

Christian Stambach, member of the Board of Directors of ABD Holding AG, Rorschacherberg SG; member of the Board of Directors of Les Couleurs Suisse AG, Kloten ZH; member of the Foundation Board of the Sport-Up Foundation, Lausanne VD; member of the Board of Directors of Soplar SA, Altstätten SG; member of the Board of Directors of Namics AG, St. Gallen SG; member of various other boards of directors in Switzerland; active in an advisory capacity as a lawyer for various Swiss and foreign companies.

Peter E. Bodmer, Vice-Chairman of the Board of Directors of Peach Property Group AG, Zurich ZH; member of the Board of Directors of HL Holzwerkstoffe AG, Laufenburg AG; member of the Board of Directors of Brüttsch/Rüeggger Holding AG, Urdorf ZH; member of the Board of Directors of Vitallife International AG, Baar ZG; Vice-President of Helvetica Property Investors AG, Zurich ZH; delegate of the government council of the canton of Zurich for strategic development planning of the university hospital of Zurich and general coordination of the university district; member of the Board of the Foundation of the innovation park in Dübendorf; active as an advisor for various companies.

Markus Oppliger, Chairman of the Board of Directors of Siga Ausstellung AG, Mels SG; member of the Board of Directors of Pizolbahnen AG, Bad Ragaz SG; active as an advisor for various companies.

Heinz Haller, Chairman of the Board of DowAksa Advanced Composites Holdings B.V., Amsterdam, Netherlands; member of the Board of BioAmber Inc., Montreal, Canada; member of the Board of Directors of South Pole Holding AG, Zurich ZH.

Michael Pieper, Vice-President of the Board of Directors of Franke Holding AG, Aarburg AG; member of the Board of Directors of Berenberg Bank (Schweiz) AG, Zurich ZH; member of the Board of Directors of Hero AG, Lenzburg AG; Vice-President of the Board of Directors of Forbo Holding AG, Baar ZG; Vice-President of the Board of Directors of Adval Tech Holding AG, Niederwangen BE; member of the Board of Directors of Rieter Holding AG, Winterthur ZH; member of the Board of Directors of Autoneum Holding AG, Winterthur ZH.

3.3 **Number of permissible mandates pursuant to Art. 12 (1) section 1 of the Ordinance against Excessive Compensation**

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 function 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.afg.ch/en/company/corporate-governance).

3.4 **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 ordinary General Meeting for a term of office of one year. The members of the Board of Directors may be re-elected.

The Articles of Association of AFG provide for an age limit, according to which persons who have reached the age of 70 cannot be elected or re-elected as members of the Board of Directors.

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	2016
Peter Barandun, Vice-Chairman	1964	2014	2016
Christian Stambach	1970	2009	2016
Peter E. Bodmer	1964	2013	2016
Markus Oppliger	1959	2013	2016
Heinz Haller	1955	2014	2016
Michael Pieper	1946	2015	2016

3.5 Internal organisation

3.5.1 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. During the year under review, the Board of Directors was also supported by a Special Committee as part of the ordinary capital increase.

3.5.2 Committees of the Board of Directors

The duties, responsibilities and working procedures of the committees are laid down in the by-laws (www.afg.ch/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.

3.5.2.1 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. All three members were non-executive and independent at the time of their election to the Audit Committee. Alexander von Witzleben, member of the Audit Committee, was appointed delegate of the Board of Directors and interim CEO on 1 July 2015, and has been an executive member of the Board of Directors since then. 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 3.7). 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 Audit Committee consists of the following members:

- Markus Oppliger, Chairman
- Alexander von Witzleben
- Peter E. Bodmer

The Audit Committee met four times during the year under review. The CEO, interim CEO and CFO were present at each meeting. The external and internal auditors were present at 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.

The Head of Internal Audit took on a new role within the Group during the year under review. As a result, the Board of Directors reorganised Internal Audit at the request of the Audit Committee. From 1 January 2016, Internal Audit will report to the Head of Group Controlling, with the direct reporting line to the Chairman of the Audit Committee remaining. Head of Treasury will be responsible for Risk Management.

3.5.2.2 *Nomination and Compensation Committee*

The members of the Compensation Committee were elected by the General Meeting on 17 April 2015. The members of the Compensation Committee also take care of the duties of the Nomination Committee. The Nomination and Compensation Committee consisted of three independent members at the time of election. 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, and has been an executive member of the Board of Directors since then.

The Nomination and Compensation Committee is convened by the Chairperson of the committee as often as business requires, but at least three times a year. The Nomination and Compensation Committee gives the Board of Directors recommendations regarding the Group's salary policy and compensation system. For the attention of the General Meeting, it submits requests to the Board of Directors concerning the total amount of the maximum compensation of the members of the Board of Directors, the maximum fixed and variable compensation of the members of Group Management and concerning the determination of the salary of the individual members of Group Management within the limits of the maximum total amount approved by the General Meeting. Moreover, the Nomination and Compensation Committee approves bonus programmes and employee participation schemes as well as pension fund solutions and benefit plans in principle. 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 needed selection procedures. During the year under review, the Nomination and Compensation Committee was concerned with the succession plan for the CEO, who stepped down on 30 June 2015. The Chairman of the Nomination and Compensation Committee also provided support for the process of recruiting the new Head of the Building Envelope Division, who took up his position at the start of February 2016.

The Nomination and Compensation Committee also determines the principles of 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 five times during the year under review. The CEO or interim CEO attended all meetings and the CFO attended one meeting. 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 and a half hours on average.

3.5.2.3 *Special Committee*

During the year under review, the Board of Directors decided to form a Special Committee to conduct preparation work for and monitor the ordinary capital increase.

The Special Committee consisted of three members, namely:

- Alexander von Witzleben, Chairman
- Michael Pieper
- Christian Stambach

The Special Committee met twice, with each meeting lasting three quarters of an hour on average. The Special Committee had no compensation and was disbanded after the capital increase was complete.

3.5.3 *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. In the year under review, the Board of Directors held six ordinary and three extraordinary meetings. A circular resolution was also passed as part of the ordinary capital increase. In the year under review, the Board of Directors performed most of its duties directly. Ordinary meetings of the Board of Directors usually last one day, and extraordinary meetings usually last one hour. In the year under review, the CEO or interim CEO and the CFO attended all ordinary meetings and one extraordinary meeting. All members of Group Management attended three ordinary meetings and individual members of Group Management attended other meetings. Managers as well as representatives of Internal Audit are usually 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. Following their appointment, the members of the Board of Directors who were newly elected in the 2015 financial year were informed about the business operations of AFG by means of a comprehensive introduction programme.

3.6 **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 issue 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, property 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 and 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.

3.7 Information and control instruments vis-a-vis 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 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. 3.5.2.1). 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 identifies business and operational risks in all three divisions and in Corporate Functions and incorporates the findings of this risk analysis into the audits to be conducted. In dialogue with the external auditors, it exchanges information on risks and coordinates all assur-

ance-related activities throughout the Group. These activities are summarised in an annual audit plan that 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. During the year under review, Internal Audit provided the members of the Board of Directors with eight audit reports. 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 year under review. The external auditors also have access to all audit reports and the reports from the ongoing monitoring of risks and measures. In addition, Internal Audit informed the Audit Committee and the Board of Directors on the status of the internal control system and risk management in two Assurance Memoranda.

4 Group Management

4.1 Members of Group Management

On 31 December 2015, 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.



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.



Knut Bartsch (1968, German citizen), Dipl.-Wirtsch.-Ing., Head of the Building Technology Division since 2015; 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 Group Management since 2015.



Dr. Christoph Schönenberger (1968, Swiss citizen), Ph.D in law, attorney-at-law, LL.M., Head of the Building Security Division and Head of the Profile Systems Business Unit since 2012; 2000–2004 lawyer in Legal Services at UBS AG, Zurich; 2004–2007 lawyer and partner, Probst Rechtsanwälte, Winterthur; 2007–2012 Head of Corporate Services (Secretary General, Legal, Corporate Communications, Human Resources) at AFG.

On 30 September 2015, Dr. Roman Hänggi stepped down as Head of the Building Envelope Division and retired as a member of Group Management. His employment contract ended on 31 January 2016.

On 1 February 2016, Harald Pichler took up the position of Head of the Building Envelope Division and has been part of Group Management since this point.

4.2 Other activities and vested interests

Alexander von Witzleben, (see 3.2)

Felix Bodmer, since June 2012 member of the Board of Directors at the Bernet-Wirona Group, St. Gallen.

Knut Bartsch, member of the CCI plenary meeting and member of the Presidential Council of the Chamber of Commerce and Industry for Lower Bavaria since 2013; member of the Supervisory Board of SorTech AG, Halle an der Saale (D), since 2014.

4.3 Number of permissible mandates pursuant to Art. 12 (1) section 1 of the Ordinance against Excessive Compensation

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.afg.ch/en/company/corporate-governance).

4.4 Management contracts

AFG 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 69–81.

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 and/or personal targets. 100 % of the 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 max-

imum of 150 % of the fixed compensation. More details on performance-related remuneration can be found in Art. 24 of the Articles of Association (www.afg.ch/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.afg.ch/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.afg.ch/en/company/corporate-governance).

5.3 **Loans, credit and pension benefits**

According to Art. 26 of the Articles of Association, AFG 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 collateral. 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 taking place on 22 April 2016 that the Articles of Association are amended accordingly (see compensation report, page 73, 2.6).

5.4 **Rules concerning voting at the General Meeting on compensation**

The General Meeting votes at yearly intervals on the maximum compensation of the Board of Directors for the period until the next ordinary General Meeting and on the maximum fixed and variable compensation of Group Management for the next financial year. 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 votes can be found in Art. 23 of the Articles of Association (www.afg.ch/en/company/corporate-governance).

6 SHAREHOLDERS' PARTICIPATION

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.

6.2 Statutory quorums

Under Article 13 (9) and (10) of the Articles of Association, the conversion of registered shares to bearer shares and the cancellation or change of the age limit for members of the Board of Directors are subject to resolution of 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.

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 1000000 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) of the FinfraG) or opting-up clause (Art. 135 (1) of the FinfraG).

7.2 Change-of-control clauses

AFG 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 Group Management and the Board of Directors 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

PricewaterhouseCoopers AG, St. Gallen, has served as statutory auditor since the financial year 2006. It audits the annual financial statements and the consolidated financial statements of AFG.

8.1.2 Assumption of office of the lead auditor

Beat Inauen has held the position of lead auditor since 2013.

8.2 Auditing fees

In 2015, the auditors billed a total of CHF 913 000 (previous year: CHF 1 004 000) for auditing the financial statements and consolidated financial statements of AFG as well as the annual financial statements of the Group companies. Of this amount, the statutory auditor PricewaterhouseCoopers AG accounted for CHF 674 000 (previous year: CHF 696 000).

8.3 **Additional fees**

In 2015, the statutory auditor PricewaterhouseCoopers AG and other auditors of Group companies billed CHF 348 000 (previous year: CHF 346 000) for additional services, CHF 281 000 of which (previous year: CHF 278 000) was attributable to PricewaterhouseCoopers AG. Of the additional services performed by PricewaterhouseCoopers AG in 2015, CHF 212 000 was for work in conjunction with the capital increase in September and December and CHF 69 000 for tax advice.

8.4 **Informational instruments pertaining to the external audit**

The external auditors attended three meetings of the Audit Committee in the year under review. 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 year under review, the Audit Committee oversaw the activities of the external auditors by having the reports on the annual financial statements, consolidated financial statements and management letter explained directly by the auditors (see 3.5.2.1). The external auditors and Internal Audit also regularly discuss the methodology and further development of the internal control system (ICS). Three such meetings were held in the year under review. The internal and external auditors closely cooperate in the assessment of the substance of the ICS under Art. 728 a 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

AFG 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, AFG provides information about business performance, organisation and strategy. The compensation report from page 69 is an integral part of the annual report. AFG'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 year under review, AFG published 12 press releases. In addition to this, AFG gives comprehensive reports on its business at its annual financial media and analysts' conference and at the General Meeting. AFG also fosters dialogue with investors and the media at special events and roadshows.

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The timetable indicating the dates of publication of the revenue and half-yearly figures, the financial media and analysts' conference, and the General Meeting can be found on page 187 of the annual report and on the AFG website www.afg.ch/en/servicenavigation/calendar/financial-calendar.html.