

Compensation Report

This compensation report explains the compensation system of Arbonia (chapter A) and its application in the reporting year 2020 (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 115.

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 ¹ At least 50% of the fee in shares restricted for 4 years ²	Basic salary including fringe benefits in cash ³ on the basis of individual classification (function, experience, skills)
Variable compensation	None	Compensation in % of basic salary depending on the financial targets A total of 50% of the variable compensation in shares restricted for 4 years ⁴
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) and in the by-laws (<https://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. The members of the Board of Directors not on the committee did not attend the committee meetings in the reporting year. Members of the Board of Directors not on the committee are kept informed by the Chairman of the Nomination and Compensation Committee in the subsequent meeting of the full Board of Directors following each committee meeting about any significant decisions and measures, especially relating to the compensation process and compensation system. The Nomination and Compensation Committee met five 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 the future. At the General Meeting on 23 April 2021, a decision shall be made retrospectively on the total compensation for the members of the Board of Directors for the year of office 2020/2021, which shall also end

on the same day. On 23 April 2021, the Board of Directors shall submit an application for the retrospective approval of the Board of Directors' total compensation of CHF 950 000 for the year of office 2020/2021.

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

3.1. Fixed compensation

The members of the Board of Directors receive a fixed compensation for all of their work for the Board of Directors. This remained unchanged in the year of office 2020/2021. 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 in 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 no later than 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), no loans, credits 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 2020.

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 the future. At the General Meeting on 23 April 2021, a decision shall be made retrospectively on the total compensation for the members of Group Management for the 2020 financial year. On 23 April 2021, the Board of Directors will submit an application for the retrospective approval of the Group Management's total compensation of CHF 6 070 000 for the 2020 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. 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 reporting year, the fixed compensation paid out to the delegate of the Board of Directors and interim CEO 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 193.74% 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 EBITDA margin, the free cash flow (without divestments), the operative cash flow (without investments/divestments), the group result, the holding costs, the return on capital employed, and the growth were determined for the members of Group Management.

In the reporting year, two members of Group Management each received or will receive a special bonus, based on Art. 24 Para. 2 of the Articles of Association (www.arbonia.com/en/company/corporate-governance). Both members performed extraordinary additional work in the scope of the strategic realignment of the Arbonia Group, which went far beyond what would normally be expected.

4.3. Allowances and in-kind benefits

Some members of Group Management receive lump-sum allowances of CHF 21 600 per year. The lump-sum allowances of the delegate of the Board of Directors and interim CEO are CHF 6 600 per 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

The two special bonuses mentioned in section 4.2, the variable compensation of a member of Group Management who stepped down in the reporting year, as well as – by exception – the variable compensation of two other members of Group Management were paid out in cash in the reporting year 2020 or will be paid out in cash in the reporting year 2021. During the reporting year, 50% of the variable compensation of the other members of Group Management 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 volumeweighted 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 no later than 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), 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 2020.

4.7. Contract term

The contracts of the members of Group Management have been concluded for an unlimited term and with a notice period of six 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 according to the Arbonia pension scheme regulations and according to 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 853 200 (as of 1 January 2020, corresponds to ten times the upper limit amount specified by the OPA), and the insured salary including bonus element is limited to CHF 642 560 (as of 1 January 2020). The employer contribution is the same for all three available plans and amounts to 25% of the insured salary (according to the regulations, in force since 01.01 2019). The delegate of the Board of Directors and interim CEO is 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 2020

5. Board of Directors

5.1. Changes in the Board of Directors

Compared to the previous year, there were no changes to the Board of Directors, which continues to consist of eight members. Alexander von Witzleben is Chairman and Peter Barandun is Vice Chairman of the Board of Directors. Alexander von Witzleben has been the delegate of the Board of Directors and interim CEO since 1 July 2015.

Compared to the 2019 financial year, the total fee of the Board of Directors has remained unchanged in the reporting year.

5.2. Table

in 1 000 CHF						2020
	Functions exercised in 2020	Fee in cash	Fee in shares	Pension expenses ¹	Other compensation ²	Total
Alexander von Witzleben ³	Chairman Interim CEO Member of the AC ⁴ Member of the NCC ⁵	120	150	15	15	300
Peter Barandun ⁶	Vice-Chairman Chairman of the NCC	20	100		6	126
Peter E. Bodmer ⁷	Member Member of the AC	14	70		6	90
Markus Oppliger	Member Chairman of the AC	40	50	5	6	101
Heinz Haller	Member Chairman of the AC	14	70	4	6	94
Michael Pieper	Member	12	60	3	6	81
Thomas Lozser	Member	60		4	6	70
Carsten Voigtländer	Member	30	37	3	12	82
Total compensation to members of the Board of Directors		310	537	34	63	944

¹ Employer contributions to social insurance policies

² Lump-sum allowances

³ The compensation for Alexander von Witzleben in 2020 as Chairman of the Board of Directors is included in this table. The compensation as interim CEO of a total of CHF 1'167'760 is included in the compensation of Group Management in chapter 6.2.

⁴ AC = audit committee

⁵ NCC = Nomination and Compensation Committee

⁶ The compensation for Peter Barandun for the period of office 2020/2021 is paid to Peter Barandun AG, which is responsible for the deduction and payment of social contributions.

⁷ The compensation for Peter E. Bodmer for the period of office 2020/2021 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

in 1 000 CHF						2019
	Functions exercised in 2019	Fee in cash	Fee in shares	Pension expenses ¹	Other compensation ²	Total
Alexander von Witzleben ³	Chairman Interim CEO Member of the AC ⁴ Member of the NCC ⁵	120	150	15	15	300
Peter Barandun	Vice-Chairman Chairman of the NCC	20	100	6	6	132
Peter E. Bodmer ⁶	Member Member of the AC	14	70		6	90
Markus Oppliger	Member Chairman of the AC	40	50	5	6	101
Heinz Haller	Member Chairman of the AC	14	70	5	6	95
Michael Pieper	Member	12	60	2	6	80
Thomas Lozser	Member	60		4	12	76
Carsten Voigtländer	Member as of 12 April 2019	20	25	2	8	55
Total compensation to members of the Board of Directors		300	525	39	65	929

¹ Employer contributions to social insurance policies

² Lump-sum allowances

³ The compensation for Alexander von Witzleben in 2019 as Chairman of the Board of Directors is included in this table. The compensation as interim CEO of a total of CHF 1 122 278 is included in the compensation of Group Management in chapter 6.2.

⁴ AC = audit committee

⁵ NCC = Nomination and Compensation Committee

⁶ The compensation for Peter E. Bodmer for the period of office 2019/2020 is paid to Beka-Küsnacht AG, which is responsible for the deduction and payment of social contributions.

6. Group Management

6.1. Changes in Group Management

Alexander von Witzleben has been delegate of the Board of Directors and interim CEO of Group Management since 1 July 2015. In the reporting year, two previous members resigned from Group Management and two new members joined Group Management as their successors.

The total compensation of Group Management has increased compared to the previous year. One reason for this increase is the aforementioned fact that two members left Group Management in the middle of the reporting year and their successors also joined Group

Management mid-year. This has resulted in a partial overlap of the compensation of the departing and new members of Group Management in the reporting year, which affects the amount of the total compensation. In addition, the total compensation of Group Management increased due to the two special bonuses mentioned in Section 4.2 paid based on Article 24 Para. 2 of the Articles of Association.

6.2. Table

in 1 000 CHF	2020			2019		
	Group- Manage- ment ³	thereof to Harald Pichler	thereof to Alexander von Witzleben, interim CEO	Group- Manage- ment ³	thereof to Harald Pichler	thereof to Alexander von Witzleben, interim CEO
Annual salary (cash)	2 352	446	280	2 293	450	280
Annual salary (shares)	740		740	699		699
Variable compensation (bonus in cash)	1 441	864		713	253	
Variable compensation (bonus in shares)	461			742	253	
Pension expenses ¹	949	208	141	891	186	136
Other compensation ²	127	29	7	130	28	7
Total	6 070	1 547	1 168	5 468	1 170	1 122
Number of members	8 ⁴			7 ⁵		

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 exchange rate used is 1.07 for 2020 and 1.11 for 2019.

⁴ Includes former Head of Doors Division until 31 August 2020 and new Head of Doors Division as of 1 July 2020, includes former Head of Windows Division until 31 December 2020 and new Head of Windows Division as of 1 July 2020

⁵ Includes former CFO until 30 June 2019 and new CFO as of 1 April 2019



Report of the Statutory Auditor

To the General Meeting of Arbonia AG, Arbon

We have audited the compensation report (pages 107 to 114) of Arbonia AG for the year ended 31 December 2020. 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 2020 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, 22 February 2021

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