

# Compensation Report 2018

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# COMPENSATION REPORT

The Compensation Report provides an overview of the remuneration principles and compensation systems of the HUBER+SUHNER Group. It describes how compensation is determined and contains detailed information on the compensation of the Members of the Board of Directors and Executive Group Management in the fiscal year 2017 and 2018.

The Compensation Report fulfils the requirements of the Ordinance against Excessive Compensation in Listed Companies (OaEC), which has been in effect since January 2014. Furthermore, the Compensation Report fulfils the requirements of the Swiss Code of Obligations and the provisions set forth in the Directive on Information relating to Corporate Governance issued by SIX Swiss Exchange.

## 1 Guidelines and responsibilities

### Guidelines

The HUBER+SUHNER Group's success heavily depends on the quality and commitment of its employees. The compensation policy aims to attract skilled managers and employees and to gear their activities towards the company's goals and a long-term career with HUBER+SUHNER.

Payments are made according to the following principles:

- performance-based remuneration with market-competitive fixed and variable components;
- the variable component is based on predefined targets and maximum thresholds;
- contribution towards the sustainable success of the company;
- transparency and clarity

The principles governing the compensation of Members of the Board of Directors and Executive Group Management are laid down in the following Articles of Association: Article 23 (Compensation Approval); 24 (Compensation of the Board of Directors); 25 (Compensation of Executive Group Management); 26 (Principles of Success and Performance-related Compensation); 27 (Principles for Allocating Shares); 28 (Additional Amount), and 29 (Activities for Group Companies). For more details, please refer to

<http://www.hubersuhner.com/en/company/investors/corporate-governance>.

In accordance with Article 12(2) No. 1 OaEC, credit and loans, as well as benefits outside of the occupational pension scheme may only be granted if a provision to this end is included in the Articles of Association. During the year under review and as per its previous practice, HUBER+SUHNER did not add any such provision in its Articles of Association.

### Responsibilities

The Board of Directors is responsible for regulating general questions regarding compensation. The compensation models applicable to the Board of Directors and Executive Group Management are outlined in a compensation policy approved by the Board. The

Board of Directors is supported in its work by the Nomination and Compensation Committee. The committee reviews the principles and prepares all relevant decisions concerning compensation of members of both the Board of Directors and Executive Group Management. The composition, main tasks and working practices of the Nomination and Compensation Committee are laid down in the Corporate Governance Report on page 14.

## 2 Compensation system for the Board of Directors

### 2.1 Chairman of the Board of Directors

The compensation of the Chairman has changed since April 2017 and consists of the following three components:

- a) remuneration;
- b) long-term incentive (in the form of shares);
- c) pension and other social security benefits

#### a) Remuneration

The Chairman receives a fixed fee of CHF 240 000 per annum. This includes the remuneration for serving in Board Committees.

#### b) Long-term incentive (in the form of shares)

In addition, the Chairman annually receives a long-term incentive in the form of a fixed number of company shares (3 000), with a blocking period of at least three years. The share blocking periods are not rescinded on his retirement from the Board.

#### c) Pension and other social security benefits

The employer's obligatory contributions to social security and accident insurance schemes, and regulatory contributions to pensions from the compensations paid to the Chairman are borne by the company.

Remuneration payments and share allocations to the Chairman require the approval of the Annual General Meeting, as does all compensation for Board members. The basic remuneration is paid out on a monthly basis, but the shares are allocated only at the end of the Chairman's year in office. The total market value of the shares is accrued in accordance with the accrual principle in the financial statements of the given financial year.

For the principles governing the compensation of the Chairman of the Board during the period January 2017 to March 2017, please see the compensation report 2016, available at [www.hubersuhner.com/en/documents-repository/company/pdf/investors/financial-reports/annual-report-2016.aspx](http://www.hubersuhner.com/en/documents-repository/company/pdf/investors/financial-reports/annual-report-2016.aspx)

## 2.2 Other Board Members

Compensation for the other members of the Board of Directors consists of the following three components:

- a) remuneration;
- b) long-term incentive (in the form of shares);
- c) Social security benefits

### a) Remuneration

Each member of the Board receives an equal fixed basic fee of CHF 40 000 per annum. Additionally, members receive an extra allowance for taking on a post as Deputy Chairman (CHF 20 000) or for serving on the Nomination and Compensation Committee or Audit Committee (CHF 10 000). The responsibility and the increased workload of the various functions are therefore accounted for individually. Also, each Board member receives a lump sum expense allowance of CHF 10 000 regardless of their function.

### b) Long-term incentive (in the form of shares)

In addition, Board members each receive a long-term incentive annually in the form of a fixed number of company shares (Deputy Chairman: 2 000 shares; other members: 1 200 shares) with a blocking period of at least three years. The share blocking periods are not rescinded on retirement from the Board.

### c) Social security benefits

The obligatory contributions towards social security out of the remuneration paid to Board members are also covered by the company. However, no pension fund contributions are made.

Remuneration payments and share allocations require the approval of the Annual General Meeting, as does all compensation for Board members. The basic remuneration including a post-related allowance and lump sum expense allowance as well as the shares are paid out or allocated accordingly at the end of the year in office. In the event of early termination of office, the Board member concerned will receive pro rata compensation. The amount of the remuneration and market value of the shares are accrued in accordance with the accrual principle in the financial statements of the given financial year.

If company management is delegated to a Board member, this member will be compensated only for his work as CEO.

## 3 Compensation system for the Executive Group Management

The total compensation for a member of Executive Group Management (EGM) essentially reflects the responsibility assigned, qualifications, complexity of the task, achievement of goals, and local market conditions in the machinery, electrical and metal industry. International compensation analyses for selected management positions are conducted, as required, by a consulting company specialising in international salary benchmarks. These comparisons help to determine Executive Group Management salaries. The elements assessed are short-term incentives (basic salary and bonus), long-term incentives (shares) and complementary benefits (pension fund, other compensation). Switzerland-based, internationally operating industrial companies are used as the basis for determining the comparator groups. The criteria are annual net sales, size of workforce, industry (manufacturing related companies) and

structures with similar complexity (divisional structure, diversified product portfolio, international activity, etc.).

This consulting firm does not have any other roles at HUBER+SUHNER.

Remuneration for the members of Executive Group Management consists of the following components:

- a) fixed basic salary;
- b) variable performance components
  - b1) cash bonus
  - b2) long-term incentive (in the form of shares);
- c) pension and other social security benefits

### a) Fixed basic salary

Executive Group Management members receive a fixed basic salary which is paid monthly. This is determined individually and takes into account the role and responsibilities of the given Executive Group Management member. It also includes allowances such as child or education allowances, work anniversary compensation and other compensation in connection with relocation for the purposes of conducting business on behalf of HUBER+SUHNER outside the member's country of residence.

### b) Variable performance components

#### b1) Cash bonus

The Executive Group Management variable compensation system is based on the MbO (Management by Objective) process, which also applies to the entire Group. Performance-related compensation is defined based on a set target bonus (this corresponds to 100 % target achievement). The target bonus for Executive Group Management members, which is defined on an individual basis based on the ratio to the fixed basic salary, is between 40 % and 60 % for the CEO, and between 20 % and 50 % for all other Executive Group Management members.

The weighting of the variable compensation is set as follows:

Target category	Group financial targets	Individual targets	Leadership factor
CEO	60 %	20 %	20 %
Other EGM members	40 % - 50 %	30 % - 40 %	20 %

Every year, the Board sets in advance three weighted Group financial targets which are applicable for a one-year period. For the years 2018 and 2017 the Group financial targets were: net sales, EBIT-margin and inventory turn.

The individual targets are three to five division- or function-specific measurable management targets. These are set and weighted annually in a structured target-setting process by the Chairman of the Board for the CEO, and by the CEO for members of Executive Group Management.

A leadership factor (leadership, cooperation and conduct) is also included in the calculation of the cash bonus. The leadership performance review is conducted by the Chairman of the Board for the CEO, and by the CEO for members of Executive Group Management.

Failure to reach targets means that no bonus is paid out. Outperforming all targets may increase the bonus to a maximum of 150 % of the agreed target bonus.

Payment is made following approval by the Annual General Meeting. The amount of the bonus is accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

b2) Long-term incentive (in the form of shares)

As long-term compensation, members of Executive Group Management receive a variable number of HUBER+SUHNER shares each year. The annual number of target shares for the CEO is 4 000, and between 800 and 2 000 shares for other Executive Group Management members. The number of shares effectively allotted annually (number of target shares multiplied by a factor of between 0.5 and 1.5) is determined by the Board of Directors and is driven by the long-term business success, which is assessed based on the factors “market environment”, “strategy implementation” and “financial situation”. A blocking period of at least 3 years applies for the allocated shares. The share blocking periods are not rescinded on the resignation of the member concerned.

The shares are only effectively allocated following approval by the Annual General Meeting. The market value of the shares is accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

**c) Pension and other social security benefits**

The employer’s obligatory contributions to social security and accident insurance schemes, and regulatory contributions to pensions from the compensations paid to the members of Executive Group Management are borne by the company.

**Additional information**

The Executive Group Management members’ employment contracts provide for a notice period of 6 months; under certain circumstances, this may be extended to a maximum of 12 months by the employer. If the employment relationship is terminated by notice, the person entitled to compensation loses his eligibility for share allocation for the current financial year, except if otherwise allocated by the Board of Directors. All other entitlements remain in force on a pro rata basis.

Executive Group Management members receive an expense allowance for effective minor expenses as per the expenses policy approved by the appropriate tax authorities.

The Board of Directors can approve additional fixed compensation for Executive Group Management members who are appointed after the Annual General Meeting has approved fixed compensation. In this case, the total amount of approved fixed compensation for Executive Group Management members may be increased by a maximum of 20 % per new Executive Group Management member, and by 40 % if a new CEO is elected.

**4 Determining method**

At the request of the Nomination and Compensation Committee, the Board of Directors determines in February the compensation for both Board and Executive Group Management members. The compensation is subject to approval by the Annual General Meeting.

This relates to the amount of the fixed fee, post-related allowances and lump sum expense allowances for the members of the Board for the coming term of office, and the fixed number of shares for the current term of office. For Executive Group Management members, this is the amount of the basic salary for the period from 1 July to 30 June the following year, the target bonus amount and the number of target shares for the current financial year. In addition, the previous

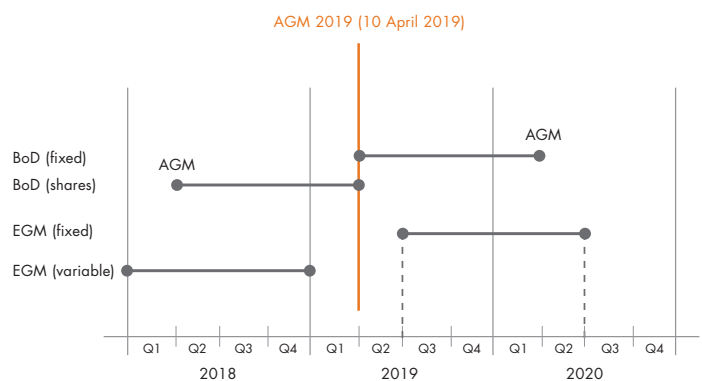
financial year’s target attainment (Group financial targets, individual targets, leadership factor as well as the share allocation factor) for Executive Group Management members is assessed and set by the Board of Directors, as requested by the Nomination and Compensation Committee.

All members are present when the Board of Directors determines compensation for Board members; there are no special rules of abstention. The CEO is present when determining compensation for Executive Group Management members, unless his own target attainment is under review or his compensation is under discussion.

The Annual General Meeting grants final approval of the maximum compensation for the Board of Directors (BoD) and Executive Group Management (EGM), as shown in the table below, as follows:

- total amount of fixed compensation to the Board of Directors for the one-year term from the current Annual General Meeting until the conclusion of the next Annual General Meeting (prospective);
- share-based compensation for the Board of Directors for the one-year term of office expiring at the Annual General Meeting (retrospective);
- total amount of fixed compensation to Executive Group Management for the period from 1 July to 30 June of the following year from the current Annual General Meeting onwards (prospective);
- total amount of variable compensation for Executive Group Management for the completed financial year (retrospective).

**Compensation vote at the 2019 AGM**



## 5 Compensation for the members of the Board of Directors and Executive Group Management for fiscal year 2018

### Board of Directors' compensation 2018

Members of the Board of Directors received TCHF 676 in fixed compensation for the year under review (previous year: TCHF 619). Share-based compensation amounting to TCHF 757 (previous year TCHF 640) was also awarded. This amount is based on the market value of a total of 11 000 shares (previous year: 10 750 shares) divided into 2 750 shares (previous year: 2 500 shares) at a share price of CHF 53.90 from 11 April 2018 (previous year: CHF 65.00) for the period from 1 January to 31 March 2018, and 8 250 shares (previous year: 8 250 shares) at a share price of CHF 65.50 from 28 December 2018 (previous year: CHF 50.85) for the period from 1 April 2018 to 31 December 2018. No compensation was paid to former Board members.

Total compensation for members of the Board of Directors for the reporting year amounted to TCHF 1 433 (previous year: TCHF 1 258). This rise of 14% on the previous year is due to the increased share price as well as the full year impact of the changed compensation structure for the Chairman of the Board and the appointment of a Deputy Chairman.

#### Compensation for the Board of Directors (BoD)

		Fixed compensation <sup>1)</sup>		Share-based compensation <sup>2)</sup>		Total compensation		Number of allotted shares	
		2018	2017	2018	2017	2018	2017	2018	2017
U. Kaufmann <sup>a)</sup>	Chairman	298	221	209	127	507	348	3 000	2 250
B. Kälin <sup>b)</sup>	Deputy Chairman	89	106	139	157	228	263	2 000	2 500
M. Büttler <sup>c)</sup>	Member	67	67	83	73	150	139	1 200	1 200
C. Fässler <sup>d)</sup>	Member	53	55	83	73	136	128	1 200	1 200
G. Müller	Member	53	53	83	73	136	125	1 200	1 200
R. Seiffert	Member	50	50	75	65	125	115	1 200	1 200
J. Walther <sup>e)</sup>	Member	67	67	83	73	150	139	1 200	1 200
<b>Total</b>		<b>676</b>	<b>619</b>	<b>757</b>	<b>640</b>	<b>1 433</b>	<b>1 258</b>	<b>11 000</b>	<b>10 750</b>

<sup>1)</sup> The Chairman receives a fixed contractual amount including social security/accident insurance scheme/pension fund contributions. All other members receive a basic remuneration, extra post-allowance (if applicable) including social security contributions and a lump sum expense allowance. A maximum fixed compensation has been approved in previous Annual General Meetings.

<sup>2)</sup> Share-based compensation is calculated at a share price of CHF 53.90 (for the part of the allocation approved by the Annual General Meeting 2018) (previous year 65.00) and at CHF 65.50 (as of year-end 2018) (previous year 50.85) for the outstanding amount including social security. Outstanding shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

<sup>a)</sup> Chairman and NCC Chairman (from 6 April 2017), before Delegate of the Board and CEO. The compensation for the period as CEO was part of the Executive Group Management compensation.

<sup>b)</sup> Deputy Chairman and NCC member (from 6 April 2017), before Chairman and NCC Chairman

<sup>c)</sup> AC Committee Chair

<sup>d)</sup> NCC member (until 5 April 2017)

<sup>e)</sup> AC member

No loans have been granted to current or former Board members. In addition, no compensation, loans or credit have been granted to related parties of the Board of Directors.

An overview of the shareholdings of members of the Board of Directors at HUBER+SUHNER AG can be found on page 57 of the 2018 Financial Report.

## Executive Group Management compensation 2018

The Executive Group Management members received fixed compensation of TCHF 3 292 for the year under review (previous year: TCHF 3 407). Subject to approval by the Annual General Meeting, Executive Group Management was awarded variable compensation of TCHF 2 641 (previous year: TCHF 1 790). This includes share-based compensation based on the market value totaling 18 950 shares (previous year: 18 825 shares) at a share price of CHF 65.50 on 28 December 2018 (previous year: CHF 50.85). No compensation was paid to former Executive Group Management members.

Total compensation for the Executive Group Management for the year under review was TCHF 5 933 (previous year: TCHF 5 197). This 14 % increase on previous year figures is due to higher variable compensation (higher bonus achievement and higher share price).

### Compensation for Executive Group Management

	Highest individual compensation <sup>1)</sup>		Total Executive Group Management <sup>2)</sup>	
	2018	2017	2018	2017
Basic salary <sup>3)</sup>	479	449	2 676	2 785
Contributions to social security and pension funds on fixed compensation	139	127	616	622
<b>Total fixed compensation</b>	<b>618</b>	<b>576</b>	<b>3 292</b>	<b>3 407</b>
Variable compensation	310	128	1 208	698
Share-based compensation <sup>4)</sup>	328	254	1 241	957
Contributions to social security on variable compensation	50	33	192	135
<b>Total variable compensation</b>	<b>688</b>	<b>415</b>	<b>2 641</b>	<b>1 790</b>
<b>Total compensation</b>	<b>1 306</b>	<b>991</b>	<b>5 933</b>	<b>5 197</b>
Number of allotted shares	5 000	5 000	18 950	18 825

<sup>1)</sup> U. Ryffel (CEO since 1 April 2017, former COO FO)

<sup>2)</sup> The Executive Group Management consists of 9 members in 2018 and 2017. In 2017 the compensation of U. Kaufmann as CEO until 31 March 2017 was part of the Executive Group Management compensation.

<sup>3)</sup> Including allowances

<sup>4)</sup> Based on the year-end share price of CHF 65.50 (previous year: CHF 50.85). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

No loans or credit have been granted to current or former Executive Group Management members. In addition, no compensation or loans have been granted to related parties of Executive Group Management.

An overview of the shareholdings of members of Executive Group Management at HUBER+SUHNER AG can be found on page 57 of the 2018 Financial Report.



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Zurich, 15 March 2019

## Report of the statutory auditor on the compensation report

We have audited the compensation report of HUBER+SUHNER AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 24 to 25 of the compensation report.



### 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. 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 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 for the year ended 31 December 2018 of HUBER+SUHNER AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd



Willy Hofstetter  
(Qualified  
Signature)

Licensed audit expert  
(Auditor in charge)



Marc Rügsegger  
(Qualified  
Signature)

Licensed audit expert