

# Compensation Report 2017

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# COMPENSATION REPORT

The Compensation Report contains information about the compensation principles, establishment procedures and compensation components for the Members of the Board of Directors and Executive Group Management. Furthermore the Compensation Report discloses the details of the compensations of the last two years.

The Compensation Report fulfills the requirements of the Ordinance against Excessive Compensation in Listed Companies (OaEC), which is in effect since January 2014. Furthermore the Compensation Report also fulfills 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 depends heavily 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 with market-competitive fixed and variable components
- Variable part is based on predefined targets and maximum thresholds
- Contribution towards the sustainable success of the company
- Transparency and clarity

The principles for the compensation of Members of the Board of Directors and Executive Group Management are laid down in Articles 23 (Compensation approval), 24 (Compensation of the Board of Directors), 25 (Compensation of the 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) of the Articles of Association (for details see <http://www.hubersuhner.com/en/company/investors/corporate-governance>).

The granting of credit and loans, as well as benefits outside of the occupational pension scheme is only allowed after adopting a relevant provision of the Articles of Association, in accordance with Article 12(2) No. 1 OaEC. No such Articles of Association-based provision were established in the last review of the Articles of Association, in compliance with the company's previous practice.

### Responsibilities

The Board of Directors is responsible for regulating general questions regarding compensation. The compensation models relevant for the Board of Directors and Executive Group Management are outlined in a compensation policy approved by the Board of Directors. 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 the members of 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 (since last Annual General Meeting) 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 TCHF 240 per annum.

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

In addition, the Chairman receives a long-term incentive annually in the form of a fixed number of company shares (3000 shares) with a blocking period of at least three years. The share blocking periods are not revoked on retirement from the Board of Directors.

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

The 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.

Payment of remuneration or the assignment of shares requires the approval of the Annual General Meeting as part of the total approved compensation for the Board of Directors. The basic remuneration is paid out on a monthly basis, but the shares are assigned only at the end of the year in office. The amount of the market value of the shares are accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

For the principles of the Chairman compensation during the period January 2016 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 of Directors

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

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

In addition, the other members of the Board of Directors receive a long-term incentive annually in the form of a fixed number of company shares (Deputy Chairman 2000 shares, other members 1200 shares) with a blocking period of at least three years. The share blocking periods are not revoked on retirement from the Board of Directors.

#### c) Social security benefits

The obligatory contributions towards social security out of the remuneration paid to the other members of the Board of Directors are also covered by the company. No contributions are made to the pension fund for the other members of the Board of Directors.

Payment of remuneration or the assignment of shares requires the approval of the Annual General Meeting as part of the total approved compensation for the Board of Directors. The basic remuneration including the post-related allowance and lump sum expense allowance as well as the shares are paid out or assigned at the end of the year in office. In case of early termination of the annual post the Board member concerned receives pro rata compensation. The amount of the fee and market value of the shares are accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

If company management is delegated to a Board member, this member is only compensated 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 the 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 individual member of the Executive Group Management's role and responsibility. It also includes allowances such as child or education allowances, work anniversary compensation and other compensation for relocation to carry out business activities outside the 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 that applies to the entire Group. Performance-related compensation is defined based on a set target bonus (this corresponds to a 100 % target achievement). The target bonus for the 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 the remaining 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%

Three weighted Group financial targets are set in advance for a one-year period annually by the Board of Directors. For the year 2017 and 2016 the Group financial targets have been: net sales, EBIT-margin and inventory turn.

The individual targets are 3 to 5 divisional or function specific measurable management targets. These individual targets are set and weighted annually in a structured target-setting process by the Chairman of the Board of Directors with the CEO and the CEO with the members of Executive Group Management.

Leadership, cooperation and conduct are also evaluated when determining the cash bonus as part of the leadership factor. Performance in this respect will be evaluated through the discretion of the direct line manager.

Failure to reach targets means that no bonus is paid. 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)

The members of Executive Group Management receive a variable number of HUBER+SUHNER shares each year as long-term compensation. The annual number of target shares for the CEO is 4000 shares, and between 800 and 2000 shares for other members of Executive Group Management. The number of shares effectively allotted annually (number of target shares multiplied by a factor 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 lock-in period of at least 3 years applies for the allotted shares. The share blocking periods are not repealed on resignation.

The shares are also only effectively assigned 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 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 agreements envisage a notice period of 6 months, which can be extended to a maximum of 12 months by the employer under special circumstances. If the employment relationship is terminated by notice, the person entitled to compensation loses his eligibility for allotment of shares for the current financial year, except if otherwise allotted 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 actual minor expenses – these are therefore not part of the compensation – 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 approval of fixed compensation by the Annual General Meeting. 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, or 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 the Board of Directors and the 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 of Directors for the coming term of office, and the fixed number of shares for the current term of office. For the Executive Group Management

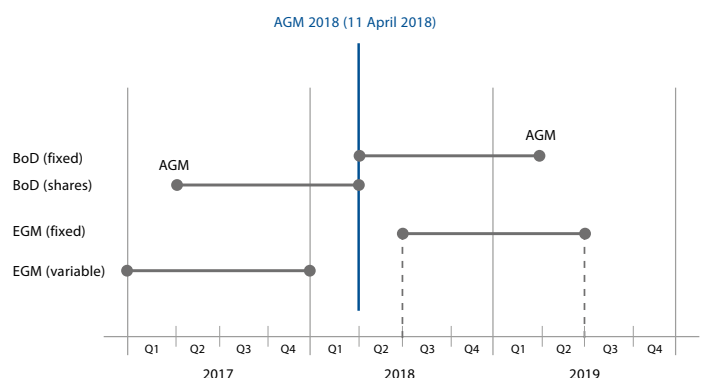
members, this is the amount of the basic salary for the period from 1 July to 30 June the following year, the target bonus amount and the number of target shares for the current financial year. In addition, the previous financial year’s target attainment (Group financial targets, individual targets, leadership factor as well as the share allocation factor) for the Executive Group Management members is assessed and set by the Board of Directors, 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 the compensation for the Executive Group Management members, unless his own target attainment is being assessed or compensation set.

The Annual General Meeting gives 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 2018 AGM**



## 5 Compensation for the members of the Board of Directors and Executive Group Management for fiscal year 2017

### Board of Directors' compensation 2017

The members of the Board of Directors received TCHF 619 fixed compensation for the reporting year (previous year TCHF 449). Subject to approval by the Annual General Meeting, share-based compensation amounting to TCHF 640 (previous year TCHF 597) was also awarded. This amount is based on the market value of a total of 10 750 shares (previous year 10 000 shares), divided into 2 500 shares (previous year 2 500 shares) at the share price of CHF 65.00 from 5 April 2017 (previous year CHF 48.55) for the period from 1 January to 31 March 2017 and 8 250 shares (previous year 7 500 shares) at the share price of CHF 50.85 from 29 December 2017 (previous year CHF 56.50) for the period from 1 April 2017 to 31 December 2017. No compensation was paid to former members of the Board of Directors.

The total compensation for the Board of Directors for the reporting year was therefore TCHF 1 258 (previous year TCHF 1 046). This is up 20 % on the previous year, which is mainly due to the changed compensation structure of the Chairman of the Board and the reoccupation of the Deputy Chairman post. For the serving period 2015/2016 the Board of Directors waived 10 % of the fixed compensation.

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

		Fixed compensation <sup>1)</sup>		Share-based compensation <sup>2)</sup>		Total compensation		Number of allotted shares	
		2017	2016	2017	2016	2017	2016	2017	2016
U. Kaufmann <sup>a)</sup>	Chairman	221	-	127	-	348	-	2 250	-
B. Kälin <sup>b)</sup>	Deputy Chairman	106	153	157	242	263	395	2 500	4 000
P. Altorfer <sup>c)</sup>	Member	-	18	-	16	-	34	-	300
M. Bütler <sup>d)</sup>	Member	67	65	73	73	139	138	1 200	1 200
C. Fässler <sup>e)</sup>	Member	55	61	73	71	128	132	1 200	1 200
G. Müller	Member	53	54	73	73	125	127	1 200	1 200
R. Seiffert	Member	50	49	65	65	115	114	1 200	1 200
J. Walther <sup>f)</sup>	Member	67	50	73	57	139	106	1 200	900
<b>Total</b>		<b>619</b>	<b>449</b>	<b>640</b>	<b>597</b>	<b>1 258</b>	<b>1 046</b>	<b>10 750</b>	<b>10 000</b>

<sup>1)</sup> The Chairman receives a fixed contractual amount including social security/accident insurance scheme/pension fund contribution. All other members receive a basic remuneration, extra post allowance (if applicable) including social security contributions and a lump sum expense allowance.

<sup>2)</sup> Share-based compensation is calculated at a share price of CHF 65.00 (for the part of the actual allocation from 5 April 2017) (previous year 48.55) and at CHF 50.85 (as of year-end 2017) (previous year 56.50) 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 is 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> Board member, AC Chairman and NCC member (each until 6 April 2016)

<sup>d)</sup> AC Chair (from 7 April 2016), before AC member

<sup>e)</sup> NCC member (from 7 April 2016 to 5 April 2017)

<sup>f)</sup> Board member and AC member (from 7 April 2016)

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

An overview of the shareholdings of the members of the Board of Directors at HUBER+SUHNER AG can be found on page 60 of the 2017 Financial Report.

### Executive Group Management compensation 2017

The Executive Group Management members received fixed compensation of TCHF 3 407 for the reporting year (previous year TCHF 3 237). Executive Group Management was – subject to approval by the Annual General Meeting – also awarded variable compensation of TCHF 1 790 (previous year TCHF 2 202). This includes share-based compensation based on the market value totalling 18 825 shares (previous year 17 450 shares) at a share price of CHF 50.85 on 29 December 2017 (previous year CHF 56.50). No compensation was paid to former Executive Group Management members.

The total compensation for the Executive Group Management for the reporting year was TCHF 5 197 (previous year TCHF 5 439). Compared to the previous year, this is equivalent to a decrease of 4 %, due to a lower variable compensation.

#### Compensation for Executive Group Management

	Highest individual compensation		Total Executive Group Management	
	2017 <sup>1)</sup>	2016 <sup>2)</sup>	2017	2016
Basic salary <sup>3)</sup>	449	595	2 785	2 637
Contributions to social security and pension funds on fixed compensation	127	177	622	600
<b>Total fixed compensation</b>	<b>576</b>	<b>772</b>	<b>3 407</b>	<b>3 237</b>
Variable compensation	128	400	698	1 067
Share-based compensation <sup>4)</sup>	254	283	957	986
Contributions to social security on variable compensation	33	41	135	149
<b>Total variable compensation</b>	<b>415</b>	<b>724</b>	<b>1 790</b>	<b>2 202</b>
<b>Total compensation <sup>5)</sup></b>	<b>991</b>	<b>1 496</b>	<b>5 197</b>	<b>5 439</b>
Number of allotted shares	5 000	5 000	18 825	17 450

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

<sup>2)</sup> U. Kaufmann (CEO and Delegate of the Board of Directors until 31 March 2017; since 6 April 2017 Chairman of the Board). In 2017 the compensation for the period as CEO is part of the total Executive Group Management compensation. The compensation for the period as Chairman of the Board in the same year is disclosed in the Board of Directors compensation.

<sup>3)</sup> Including allowances

<sup>4)</sup> Based on year-end share price of CHF 50.85 (previous year CHF 56.50). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

<sup>5)</sup> The total Executive Group Management consists of 9 members in 2017, respectively 8 members in 2016.

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

An overview of the shareholdings of Executive Group Management members at HUBER+SUHNER AG can be found on page 60 in the 2017 Financial Report.



## **Report of the statutory auditor to the General Meeting of HUBER + SUHNER AG**

### **Herisau**

We have audited the compensation report of HUBER + SUHNER AG for the year ended 31 December 2017. 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 against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of 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 of HUBER + SUHNER AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen  
Audit expert  
Auditor in charge

Oliver Illa  
Audit expert

St. Gallen, 8 March 2018

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PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, Postfach, CH-9001 St. Gallen, Switzerland  
Telefon: +41 58 792 72 00, Telefax: +41 58 792 72 10, [www.pwc.ch](http://www.pwc.ch)