

# Compensation Report 2014

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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 which, up to now, were included in the Corporate Governance Report and in the HUBER+SUHNER Group Financial Statements.

## 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 and market-driven compensation
- Contribution towards the 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.

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 was 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 pages 7 and 8.

## 2 Compensation of the Board of Directors

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

- a) Remuneration
- b) Long-term incentive (in the form of shares)
- c) Social security benefits

### a) Remuneration

Each member of the Board of Directors receives equal fixed basic remuneration in cash. Additionally, members also receive an extra allowance for taking on a post as Chairman or Deputy Chairman of the Board of Directors and for sitting on the permanent committees (Nomination and Compensation Committee and Audit Committee). The responsibility and the increased workload of the various functions are therefore accounted for individually.

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

In addition, the members of the Board of Directors receive a long-term incentive annually in the form of a fixed number of company shares (Chairman 4000 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 members of the Board of Directors are also covered by the company. No contributions are made to the pension fund for the non-executive members of the Board of Directors.

Members of the Board of Directors receive lump-sum expenses to cover their actual expenses, which are, therefore, not part of compensation. Attendance allowances were abolished as of closing of the 2014 Annual General Meeting.

Payment of remuneration or the transfer of shares requires the approval of the Annual General Meeting. The basic remuneration including a post-related allowance (cash compensation) and the shares are paid out or transferred accordingly at the end of the year in office. In case of early termination of the annual post the member concerned receives pro rata compensation. The amount of the fee and market value of the shares are fully 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 for Executive Group Management

The total compensation for a member of Executive Group Management essentially reflects the responsibility assigned, qualifications, complexity of the task, achievement of goals and local market conditions in the machinery, electrical and metal industries.

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 base salary which is paid monthly in cash. 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, 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. Success and 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 % respectively for the remaining Executive Group Management members.

40 % (50 % for the CEO) of the bonus is contingent upon reaching the weighted Group financial targets determined annually by the Board of Directors (e.g. organic growth in net sales, EBIT-margin, a measurement parameter in the area of net working capital), and 60 % (50 % for the CEO) of the bonus is contingent upon reaching measurable individual divisional and management targets.

These individual targets are set and weighted annually in a structured target-setting process by the Chairman of the Board of Directors and the CEO and the members of Executive Group Management. Failure to reach targets means that no bonus is paid. Surpassing all targets may increase the bonus to a maximum of 1.5 times the target bonus.

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

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

Regulatory contributions to social security and accident insurance schemes, and 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. 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. 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

The compensation for the Board of Directors and its committees and the compensation of the CEO and other Executive Group Management members are determined annually by the full Board of Directors at the end of the financial year in February, subject to approval by the Annual General Meeting at the request of the Nomination and Compensation Committee.

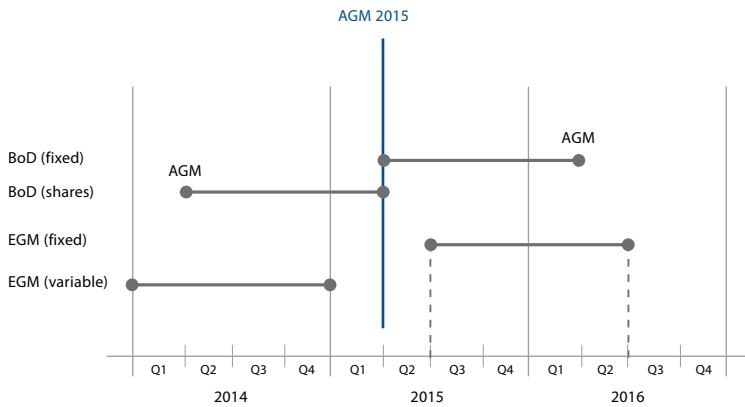
This relates to the amount of the basic fee and extra allowances for the members of the Board of Directors for the coming term of office, and the fixed number of shares for the current year. For the Executive Group Management members, this is the amount of the basic salary for the period from 1 July to 30 June of 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 (financial Group targets, individual division and management target, share allocation factor) for the Executive Group Management members is assessed and set by the entire Board of Directors at the request of 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 must be 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 (for the first time at the 2015 AGM) 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 2015 AGM



## 5 Sums paid in remuneration to members of Board of Directors and to members of Executive Group Management for 2014

### Board of Directors' compensation 2014

The members of the Board of Directors received TCHF 460 fixed compensation for the reporting year (previous year TCHF 498). Subject to approval by the Annual General Meeting, share-based compensation amounting to TCHF 597 (previous year TCHF 589) was also awarded. This amount is based on the market value of a total of 12 000 shares, divided into 3 000 shares at the share price of CHF 47.90 from 9 April 2014 (for the period from 1 January to 9 April 2014) and 9 000 shares at the share price of CHF 47.40 from 30 December 2014 (for the period from 10 April 2014 to 31 December 2014). 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 1 058. This is down 3 % on the previous year which is mainly due to the abolition of attendance fees since the Annual General Meeting 2014.

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 48 of the 2014 Financial Report.

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

in CHF 1000		Fixed compensation <sup>1)</sup>		Share-based compensation <sup>2)</sup>		Total compensation		Number of allotted shares	
		2014	2013	2014	2013	2014	2013	2014	2013
D. Syz <sup>a)</sup>	Chairman of BoD	35	136	48	188	82	324	1 000	4 000
E. Walser <sup>b)</sup>	Chairman/Deputy Chairman of BoD	120	86	166	94	286	180	3 500	2 000
B. Kälin <sup>c)</sup>	Deputy Chairman/Member of BoD	73	52	95	63	168	114	1 800	1 200
P. Altorfer <sup>d)</sup>	Member of BoD	59	62	63	63	122	125	1 200	1 200
M. Büttler <sup>e)</sup>	Member of BoD	43	–	47	–	90	–	900	–
A. Déteindre <sup>f)</sup>	Member of BoD	–	24	–	16	–	40	–	300
C. Fässler <sup>g)</sup>	Member of BoD	42	34	57	42	99	76	1 200	900
U. Kaufmann <sup>h)</sup>	Delegate of BoD/CEO	–	–	–	–	–	–	–	–
G. Müller	Member of BoD	48	52	63	63	111	114	1 200	1 200
R. Seiffert	Member of BoD	42	52	57	63	99	114	1 200	1 200
<b>Total</b>		<b>460</b>	<b>498</b>	<b>597</b>	<b>589</b>	<b>1 058</b>	<b>1 087</b>	<b>12 000</b>	<b>12 000</b>

<sup>1)</sup> Basic salary and extra allowances including social security contributions, attendance fees up to and including the 2014 AGM

<sup>2)</sup> Share-based compensation is calculated at the share price of CHF 47.90 (for the part of the actual allocation from 9 April 2014) (previous year CHF 46.85) and of CHF 47.40 (as of year-end 2014) (previous year CHF 46.90) 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 Chairman of the NCC until 9 April 2014

<sup>b)</sup> Deputy Chairman and Chairman of the AC and Member of the NCC until 9 April 2014; Chairman and Chairman of the NCC from 10 April 2014

<sup>c)</sup> Deputy Chairman and Member of the NCC from 10 April 2014

<sup>d)</sup> Member of the AC until 9 April 2014; AC Chairman from 10 April 2014

<sup>e)</sup> Member of the Board of Directors and Member of the AC from 10 April 2014

<sup>f)</sup> Member of the Board of Directors until 10 April 2013

<sup>g)</sup> Member of the Board of Directors from 11 April 2013

<sup>h)</sup> Member of the Board of Directors from 10 April 2014; if business management is delegated to a Board member, he is only compensated for his work as CEO.

### Executive Group Management compensation 2014

The Executive Group Management members received fixed compensation of TCHF 2 920 (previous year TCHF 2 853) for the reporting year. Executive Group Management was – subject to approval by the Annual General Meeting – also awarded variable compensation of TCHF 2 338 (previous year TCHF 1 654). This includes stock-based compensation based on the market value totalling 20 400 shares (previous year 13 600 shares) at a share price of CHF 47.40 (previous year CHF 46.90) on 30 December 2014. No compensation was paid to former Executive Group Management members.

The total compensation for the Executive Group Management for the reporting year was, therefore, TCHF 5 258 (previous year TCHF 4 507). Compared to the previous year this is equivalent to an increase of 17 %, which is mainly due to higher variable compensation.

#### Compensation for Executive Group Management

in CHF 1000	Highest individual compensation <sup>1)</sup>		Total Executive Group Management	
	2014	2013	2014	2013
Basic salary <sup>2)</sup>	593	584	2 337	2 269
Contributions to social security and pension funds on fixed compensation	175	179	583	584
<b>Total fixed compensation</b>	<b>768</b>	<b>763</b>	<b>2 920</b>	<b>2 853</b>
Variable compensation	448	310	1 215	916
Share-based compensation <sup>3)</sup>	284	188	967	638
Contributions to social security on variable compensation	45	27	156	100
<b>Total variable compensation</b>	<b>777</b>	<b>525</b>	<b>2 338</b>	<b>1 654</b>
<b>Total compensation</b>	<b>1 545</b>	<b>1 288</b>	<b>5 258</b>	<b>4 507</b>
Number of allotted shares	6 000	4 000	20 400	13 600

<sup>1)</sup> U. Kaufmann (CEO and delegate of the Board of Directors (since 10 April 2014))

<sup>2)</sup> Including extra allowances

<sup>3)</sup> Based on year-end share price of CHF 47.40 (previous year CHF 46.90). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

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 49 in the 2014 Financial Report.

## Report of the Statutory Auditors



### HUBER+SUHNER AG Herisau Report of the statutory auditor to the General Meeting on the compensation report 2014

We have audited pages 17 to 18 of the compensation report of HUBER+SUHNER AG for the year ended 31 December 2014.

#### 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 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 of HUBER+SUHNER AG for the year ended 31 December 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Christian Kessler  
Audit expert  
Auditor in charge

Diego J. Alvarez  
Audit expert

Winterthur, 23 February 2015