

# Compensation Report 2019

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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 the Executive Group Management in the fiscal years 2018 and 2019.

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 the 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 15.

## 2 Compensation system for the Board of Directors

### 2.1 Chairman of the Board of Directors

The compensation of the Chairman 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 amount 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. The Swiss system defines a portion of the pension and social security contribution to be paid by the employee. The employee's contribution to social security and pensions are deducted from the employees's gross salary.

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.

## 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, all Board members receive a lump sum expense allowance of CHF 10 000 regardless of their function.

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

In addition, each Board member receives annually a long-term incentive in the form of a fixed number of company shares (Deputy Chairman: 2 000 shares; other members: 1200 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.

## 3 Compensation system for the Executive Group Management

The total compensation for a member of the Executive Group Management (EGM) reflects the responsibility

assigned, qualifications, complexity of the task, achievement of goals and local market conditions in the machinery and electrical industry. International compensation analyses for selected management positions are conducted, as required, by Kienbaum Consultants International GmbH, a consulting company specializing in international salary benchmarking. These comparisons are executed every three to five years, the last time 2017, based on anonymised data, and help to determine Executive Group Management's salaries. The elements assessed are short-term incentives (basic salary and bonus), long-term incentives (shares) and complementary benefits (pension fund and other compensation).

In 2017, the comparison of Executive Group Management's salaries was made by Kienbaum Consultants International GmbH using three peer groups. The sample in the three peer groups consisted of (i) manufacturing industrial companies with registered seat in Switzerland (industrial companies in Switzerland) and similar size as HUBER+SUHNER (based on annual net sales and number of employees), (ii) direct competitors in the job market in the machinery and electrical industry with registered seat in Switzerland and (iii) companies from different industries active in foreign markets (registered seat or subsidiaries outside of Switzerland) and similar size as HUBER+SUHNER (based on annual net sales and number of employees).

In case of companies of bigger size than HUBER+SUHNER, the benchmarking consulting firm compares the salary of managers with comparable responsibility to the one of the HUBER+SUHNER manager whose salary is benchmarked. The benchmarking consulting firm has vast experience in determining which roles are comparable in companies of different sizes. The benchmarking consulting firm does not have any other roles or mandates 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 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 2019 and 2018 the Group financial targets were: net sales, EBIT-margin and inventory turn.

The individual targets are three to five 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 the 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 the 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 the 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 0.0 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".

- Market environment: The Board of Directors evaluates the market situation and assesses the progress of HUBER+SUHNER's market positioning in the strategically important target markets.
- Strategy implementation: The Board of Directors assesses progress in the implementation of key strategic initiatives both from a Group perspective and in terms of the individual contribution of the members of the Executive Group Management.
- Financial situation: The Board of Directors assesses the financial starting position and the financial perspective of the company.

A blocking period of at least three 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 the Executive Group Management are borne by the company. The Swiss system defines a portion of the pension and social security contribution to be paid by the employee. The employee's contribution to social security and pensions are deducted from the employees's gross salary.

### 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 appointed.

#### 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.

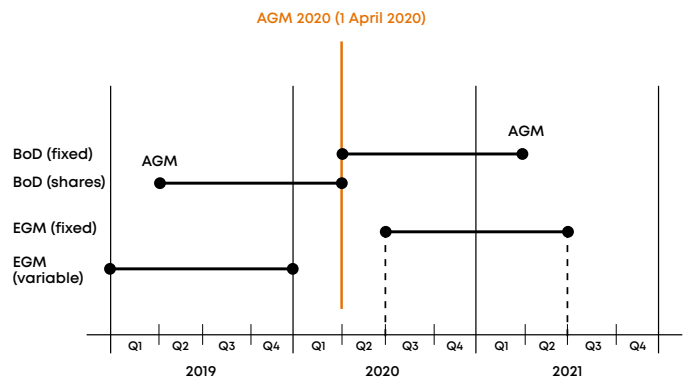
This relates to the amount of the fixed fee, post-related allowances and lump sum expense allowances for the members of the Board for the coming term of office and the fixed number of shares for the current term of office. For Executive Group Management members, this is the amount of the basic salary 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 proposed 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 the Executive Group Management (EGM), 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 the 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 the Executive Group Management for the completed financial year (retrospective).

#### Compensation vote at the 2020 AGM



## 5 Compensation for the members of the Board of Directors and Executive Group Management for fiscal year 2019

### Board of Directors' compensation 2019

Members of the Board of Directors received TCHF 675 in fixed compensation for the year under review (previous year: TCHF 676). Share-based compensation amounting to TCHF 920 (previous year TCHF 757) was also awarded. This amount is based on the market value of a total of 11 000 shares (previous year: 11 000 shares) divided into 2 750 shares (previous year: 2 750 shares) at a share price of CHF 76.50 from 10 April 2019 (previous year: CHF 53.90) for the period from 1 January to 31 March 2019 and 8 250 shares (previous year: 8 250 shares) at a share price of CHF 76.80 from 30 December 2019 (previous year: CHF 65.50) for the period from 1 April 2019 to 31 December 2019. No compensation was paid to former Board members.

Total compensation for members of the Board of Directors for the reporting year amounted to TCHF 1 596 (previous year: TCHF 1 433). This rise of 11% on the previous year is entirely due to the increased share price.

### Compensation for the Board of Directors

(BoD)		Fixed compensation <sup>1)</sup>		Share-based compensation <sup>2)</sup>		Total compensation		Number of allotted shares	
		2019	2018	2019	2018	2019	2018	2019	2018
U. Kaufmann	Chairman	298	298	256	209	554	507	3 000	3 000
B. Kälin <sup>a)</sup>	Deputy Chairman	89	89	171	139	260	228	2 000	2 000
M. Bütler <sup>b)</sup>	Member	67	67	102	83	169	150	1 200	1 200
C. Fässler	Member (until AGM 2019)	14	53	26	83	40	136	300	1 200
G. Müller	Member	53	53	102	83	155	136	1 200	1 200
R. Seiffert	Member	50	50	92	75	142	125	1 200	1 200
F. Studer <sup>c)</sup>	Member (from AGM 2019)	38	—	69	—	107	—	900	—
J. Walther <sup>d)</sup>	Member	67	67	102	83	169	150	1 200	1 200
<b>Total</b>		<b>675</b>	<b>676</b>	<b>920</b>	<b>757</b>	<b>1 596</b>	<b>1 433</b>	<b>11 000</b>	<b>11 000</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 76.50 (for the part of the allocation approved by the Annual General Meeting 2019) (previous year 53.90) and at CHF 76.80 (as of year-end 2019) (previous year 65.50) 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> Deputy Chairman and NCC member

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

<sup>c)</sup> Dr. Franz Studer is a member of the executive committee and Investment Director of EGS Beteiligungen AG, a significant shareholder of HUBER+SUHNER AG. His compensation, including cash payments and allocations of shares is made directly to his employer EGS Beteiligungen AG.

<sup>d)</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 61 of the 2019 Financial Report.

## Executive Group Management compensation 2019

The Executive Group Management members received fixed compensation of TCHF 3 390 for the year under review (previous year: TCHF 3 292). Subject to approval by the Annual General Meeting, Executive Group Management was awarded variable compensation of TCHF 2 259 (previous year: TCHF 2 641). This includes share-based compensation based on the market value totalling 16 200 shares (previous year: 18 950 shares) at a share price of CHF 76.80 on 30 December 2019 (previous year: CHF 65.50). No compensation was paid to former Executive Group Management members.

Total compensation for the Executive Group Management for the year under review was TCHF 5 649 (previous year: TCHF 5 933). The decrease of 5 % compared with previous year is due to lower variable compensation (lower bonus achievement).

### Compensation for Executive Group Management

	Highest individual compensation <sup>1)</sup>		Total Executive Group	
	2019	2018	2019	2018
Basic salary <sup>3)</sup>	524	479	2 706	2 676
Contributions to social security and pension funds on fixed compensation	156	139	684	616
<b>Total fixed compensation</b>	<b>680</b>	<b>618</b>	<b>3 390</b>	<b>3 292</b>
Variable compensation	216	310	855	1 208
Share-based compensation <sup>4)</sup>	307	328	1 244	1 241
Contributions to social security on variable compensation	44	50	160	192
<b>Total variable compensation</b>	<b>567</b>	<b>688</b>	<b>2 259</b>	<b>2 641</b>
<b>Total compensation</b>	<b>1 247</b>	<b>1 306</b>	<b>5 649</b>	<b>5 933</b>
<b>Number of allotted shares</b>	<b>4 000</b>	<b>5 000</b>	<b>16 200</b>	<b>18 950</b>

<sup>1)</sup> U. Ryffel, CEO

<sup>2)</sup> The Executive Group Management consists of 9 members in 2019 and 2018.

<sup>3)</sup> Including allowances

<sup>4)</sup> Based on the year-end share price of CHF 76.80 (previous year: CHF 65.50). 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 the Executive Group Management.

An overview of the shareholdings of members of Executive Group Management at HUBER+SUHNER AG can be found on page 61 of the 2019 Financial Report.



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Zurich, 4 March 2020

## 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 2019. 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 26 to 27 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 2019 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