

## Compensation Report 2015

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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 all 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 force since 1 January 2014. As a consequence thereof the Compensation Report also fulfills the requirements of the Swiss Code of Obligations and the information guideline on Corporate Governance of the 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 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 page 14.

## 2 Compensation of the Board of Directors

Compensation for non-executive members of the Board of Directors consists of the following fixed 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 an equal fixed basic remuneration. Additionally, members also receive an extra allowance for taking on a post as Chairman, if applicable as 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. In addition, from the serving period 2014/2015 attendance fees were abolished and replaced with lump sum expense allowances.

### 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 members of the Board of Directors.

Payment of remuneration or the transfer of shares requires the approval of the Annual General Meeting. The basic remuneration including a post-related allowance and lump sum expense allowance as well as 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 Board 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 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, 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 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 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.

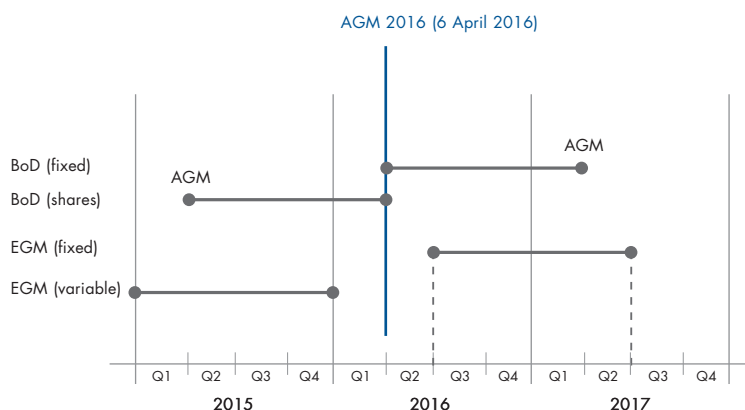
This relates to the amount of the basic fee, post-related allowances and lump sum expense allowances for the members of the Board of Directors for the coming term of office, and the fixed number of shares for the current year. For the Executive Group Management members, this is the amount of the basic 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 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 2016 AGM



## 5 Sums paid in remuneration to members of Board of Directors and to members of Executive Group Management for 2015

### Board of Directors' compensation 2015

The members of the Board of Directors received TCHF 423 fixed compensation for the reporting year (previous year TCHF 460). Subject to approval by the Annual General Meeting, share-based compensation amounting to TCHF 500 (previous year TCHF 597) was also awarded. This amount is based on the market value of a total of 10 000 shares (previous year 12 000 shares), divided into 2 500 shares (previous year 3 000 shares) at the share price of CHF 45.70 from 31 March 2015 (previous year CHF 47.90) for the period from 1 January to 31 March 2015 and 7 500 shares (previous year 9 000 shares) at the share price of CHF 46.35 from 30 December 2015 (previous year CHF 47.40) for the period from 1 April 2015 to 31 December 2015. 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 923 (previous year TCHF 1 058). This is down 13 % on the previous year. For the serving period 2015/2016 the Board of Directors waived 10% of the fixed compensation.

#### 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	
		2015	2014	2015	2014	2015	2014	2015	2014
B. Kälin <sup>a)</sup>	Chairman of BoD	145	73	204	95	350	168	4 000	1 800
P. Altorfer <sup>b)</sup>	Member of BoD	72	59	62	63	134	122	1 200	1 200
M. Büttler <sup>c)</sup>	Member of BoD	62	43	62	47	123	90	1 200	900
C. Fässler	Member of BoD	46	42	55	57	102	99	1 200	1 200
U. Kaufmann <sup>d)</sup>	Delegate of BoD/CEO	–	–	–	–	–	–	–	–
G. Müller	Member of BoD	51	48	62	63	113	111	1 200	1 200
R. Seiffert	Member of BoD	46	42	55	57	102	99	1 200	1 200
D. Syz <sup>e)</sup>	Former Chairman of BoD	–	35	–	48	–	82	–	1 000
E. Walser <sup>f)</sup>	Former Chairman/ Deputy Chairman of BoD	–	120	–	166	–	286	–	3 500
<b>Total</b>		<b>423</b>	<b>460</b>	<b>500</b>	<b>597</b>	<b>923</b>	<b>1 058</b>	<b>10 000</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; from 2015 onwards compensations include lump sum expense allowances.

<sup>2)</sup> Share-based compensation is calculated at the share price of CHF 45.70 (for the part of the actual allocation from 31 March 2015) (previous year CHF 47.90) and of CHF 46.35 (as of year-end 2015) (previous year CHF 47.40) 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 (from 2015, previously from 10 April 2014 Deputy Chairman) and Chairman of the NCC (from 26 January 2015, previously Member of the NCC)

<sup>b)</sup> Chairman of the AC (from 10 April 2014, previously Member of the AC) as well as Member of the NCC (from 26 January 2015)

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

<sup>d)</sup> If business management is delegated to a Board member, he is only compensated for his work as CEO.

<sup>e)</sup> Chairman of the Board of Directors and Chairman of the NCC until 9 April 2014.

<sup>f)</sup> Deputy Chairman and Chairman of the AC as well as Member of the NCC until 9 April 2014; Chairman and Chairman of the NCC from 10 April 2014 until 30 December 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 53 of the 2015 Financial Report.

### Executive Group Management compensation 2015

The Executive Group Management members received fixed compensation of TCHF 3 155 for the reporting year (previous year TCHF 2 920). Executive Group Management was – subject to approval by the Annual General Meeting – also awarded variable compensation of TCHF 1 418 (previous year TCHF 2 338). This includes stock-based compensation based on the market value totalling 16 994 shares (previous year 20 400 shares) at a share price of CHF 46.35 on 30 December 2015 (previous year CHF 47.40). 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 4 573 (previous year TCHF 5 258). Compared to the previous year this is equivalent to a decrease of 13 %, despite the increase in Executive Group Management from seven to eight members. The decrease in total compensation is mainly due to lower variable compensation, substantially caused by the 10 % target-salary reduction for Executive Group Management in 2015.

#### Compensation for Executive Group Management

in CHF 1000	Highest individual compensation <sup>1)</sup>		Total Executive Group Management	
	2015	2014	2015	2014
Basic salary <sup>2)</sup>	595	593	2 555	2 337
Contributions to social security and pension funds on fixed compensation	176	175	600	583
<b>Total fixed compensation</b>	<b>771</b>	<b>768</b>	<b>3 155</b>	<b>2 920</b>
Variable compensation	223	448	529	1 215
Share-based compensation <sup>3)</sup>	232	284	788	967
Contributions to social security on variable compensation	28	45	101	156
<b>Total variable compensation</b>	<b>483</b>	<b>777</b>	<b>1 418</b>	<b>2 338</b>
<b>Total compensation</b>	<b>1 254</b>	<b>1 545</b>	<b>4 573</b>	<b>5 258</b>
Number of allotted shares	5 000	6 000	16 994	20 400

<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 46.35 (previous year CHF 47.40). 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 54 in the 2015 Financial Report.

## Report of the Statutory Auditors



### HUBER+SUHNER AG Herisau Report of the statutory auditor to the General Meeting on the remuneration report 2015

We have audited the remuneration report of HUBER+SUHNER AG for the year ended 31 December 2015. 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 and 25 of the remuneration report.

#### Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration report of HUBER+SUHNER AG for the year ended 31 December 2015 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, 24 February 2016