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## COMPENSATION REPORT 2016



# COMPENSATION REPORT

## 1. BASIS

This Compensation Report describes the policies and system in place for the compensation of the Board of Directors and the Executive Board of Burckhardt Compression and it contains information on their annual compensation. This report was prepared in accordance with the provisions of the Swiss federal Ordinance Against Excessive Compensation in Listed Companies (OAEC), the Directive on Information relating to Corporate Governance (DCG) issued by the SIX Swiss Exchange, and the Bylaws of Burckhardt Compression Holding AG.

## 2. COMPENSATION POLICY

Burckhardt Compression has established a transparent and long-term-oriented compensation system. The objectives pursued with this system are to ensure that the compensation of the Board of Directors and the company executives is market competitive and to achieve a good balance between the interests of the shareholders, the directors and executive management. Market-competitive pay is a basic prerequisite for attracting well qualified directors and executives and ensuring that they remain with the company for the long run.

## 3. ORGANIZATION, DUTIES AND POWERS

The Nomination and Compensation Committee (NCC) is comprised of at least two members of the Board of Directors. The members of the NCC are elected individually and annually by the Annual General Meeting and their term of office shall expire at the end of the next Annual General Meeting. The Annual General Meeting of July 1, 2016 elected Hans Hess and Dr. Stephan Bross to the Nomination and Compensation Committee. The Board of Directors appointed Hans Hess Chairman of the Nomination and Compensation Committee.

The NCC meets at least twice a year. The CEO and the CHRO attend these meetings in an advisory capacity, except during deliberation of meeting topics that pertain to themselves. The Nomination and Compensation Committee held three meetings during the year under review.

The duties and powers of the NCC are set forth in the Bylaws and in the Organizational Regulations of the Company. The NCC supports the Board of Directors in the performance of its duties pertaining to the compensation and personnel policies of the company and the entire Group as prescribed by law or the company's Bylaws. The most important duties and powers of the NCC with regard to compensation are noted in the table below.

The Annual General Meeting of Burckhardt Compression Holding AG casts the following votes in relation to the compensation of the Board of Directors and Executive Board:

- a prospective and individual vote on the maximum aggregate amount of fixed compensation for the Board of Directors and the Executive Board for the annual reporting period following the Annual General Meeting
- a retrospective and individual vote on the maximum aggregate amount of variable compensation for the Board of Directors and the Executive Board for the annual reporting period preceding the Annual General Meeting.

Furthermore the Annual General Meeting casts a consultative vote on the Compensation Report.

## 4. COMPENSATION SYSTEM

Burckhardt Compression Holding AG's compensation system consists of a mix of fixed and variable components. In accordance with the Bylaws of Burckhardt Compression Holding AG, variable compensation can be paid in whole or part in the form of shares, conditional rights to receive shares, or in comparable instruments of the company.

### 4.1. Compensation system for the Board of Directors

Compensation paid comprises a fixed cash component, an additional cash payment for directors serving on a formal Board committee, and a variable profit-related component distributed as shares (free shares).

The fixed cash component amounts to CHF 55'000 for members of the Board of Directors and CHF 110'000 for the Chairman. The additional cash payment for directors serving on a formal Board committee amounts to CHF 10'000 a year.

Topic	Proposal/recommendation by	Approval authority
Compensation principles and guidelines	NCC	Board of Directors
Compensation Report	NCC	Board of Directors
Compensation of Board of Directors	NCC	Board of Directors
Compensation of CEO	NCC	Board of Directors
Aggregate compensation of Executive Board	NCC	Board of Directors
Compensation per member of Executive Board (excl. CEO)	CEO	NCC
Loans and additional pension benefits for Executive Board (excl. CEO)	CEO	NCC

As of fiscal year 2013, variable compensation is based on the attainment of the net income targets as specified in the Mid Range Plan for the fiscal years 2013 to 2016 and will be calculated in two allotments as a percentage of cumulative net income for the fiscal years 2013 and 2014 and for the fiscal years 2015 and 2016, respectively. The percentage rate used for the members of the Board of Directors is 0.04% of net income; a percentage rate of 0.06% of net income is used for the Chairman of the Board of Directors. A maximum amount in absolute terms has been set as an upper limit on the awardable variable compensation for each allotment. For members of the Board of Directors the maximum amount for each two-year period is CHF 65'000; for the Chairman of the Board of Directors the maximum amount for each two-year period is CHF 100'000. If the minimum absolute amount of net income for a two-year period (CHF 90 mn) is not attained, entitlement to the variable compensation for the corresponding two-period will lapse. At the time the compensation system for the Board of Directors (2013–2016) was implemented in 2012, variable compensation of the Board of Directors was standard practice. Furthermore, the awardable amount of variable compensation corresponds to less than 25% of total compensation and a maximum amount of variable compensation has been defined in absolute terms. The amount calculated based on the defined percentage of net income will be paid out in the form of free shares. The number of shares awarded will be based on the average share price for the periods from the announcement of the full-year results to the Annual General Meetings for the fiscal years 2014 and 2016, respectively. The number of shares awarded will be derived from the calculated amount of the variable pay component divided by the average share price for the period. The free shares for the fiscal years 2013 and 2014 were distributed at the end of July 2015. The free shares for the fiscal years 2015 and 2016 will be distributed at the end of July 2017, subject to approval by the Annual General Meeting. All shares received will not be subject to any restrictions upon the date of transfer.

#### 4.2. Compensation system for the Executive Board

Compensation of the Executive Board consists of three components:

- A fixed base salary;
- a variable performance- and profit-related annual bonus paid in cash;
- variable performance- and profit-related long-term incentive pay awarded in the form of free shares.

**Base salary** The members of the Executive Board are assigned to so-called Global Grades as defined by a global functional grading system (Willis Towers Watson Global Grading System). Market data for each Global Grade and the results of annual executive performance appraisals are taken into consideration when determining the base salary of the members of the Executive Board.

**Annual Bonus** The members of the Executive Board receive a variable performance- and profit-related bonus in addition to their base salaries. The annual bonus is calculated based on a predefined percentage of net income generated by the Burckhardt Compression Group and is contingent on the attainment of minimum financial targets. The percentage rate applied for the CEO is 0.28%. For the members of the Executive Board, the predefined fixed percentage rate varies from 0.08%–0.16% of net income, depending on their Global Grade. If the minimum financial target with regard to the net income margin (7.5%) is not achieved, entitlement to the variable pay component for the corresponding business year will lapse. If the financial target is at least reached and the net income margin (7.5%) is equal to or higher than the returns achieved by the benchmark group, entitlement to the full variable pay will be granted; if not, the variable pay will be reduced by 50%.

The benchmark group consists of one direct competitor for compressor systems, one direct competitor for compressor components, and one company that sells products in the same market as Burckhardt Compression Group. Specifically, the benchmark group consists of the following three companies or corporate units:

- Sulzer Chemtech
- Neuman & Esser
- EnPro Industries, Engineered Products Division

A maximum amount in absolute terms has not been set for the annual bonus because:

- the annual bonus accounts for less than 20% of the total compensation of the Executive Board.
- in accordance with the current compensation guidelines, the Board of Directors is empowered to adjust the guidelines and the annual bonus entitlements in the event of a major change (e.g. mergers, acquisitions, fundamental change in the economic environment). This represents an implied restriction of the annual bonus.

**Long-term incentive pay** Members of the Executive Board additionally receive long-term incentive pay awarded in the form of free shares.

Long-term incentive pay is based on the attainment of the Mid Range Plan targets for organic growth (sales) and net income of Burckhardt Compression Group set for the fiscal years 2013 to 2016.

The basis upon which the long-term incentive pay is calculated consists of a fixed, predefined amount per Global Grade. If the sales and net income targets set in the Mid Range Plan are attained by the end of the fiscal year 2016, this fixed amount will be multiplied by a factor of 1.0 (0.5 each for sales and net income) and awarded in the form of shares (free shares). The targeted amount of the long-term bonus for the entire four-year period is CHF 600'000 for the CEO and for the members of the Executive Board, depending on their Global Grade, between CHF 270'000 and CHF 400'000. The sales target in the Mid Range Plan (aggregate) for the four years amounts to

CHF 1'850 mn, the net income target is CHF 250 mn. If the targets are only partially achieved, the factors will be reduced by a corresponding amount. Minimum financial targets have been defined for both cumulative sales and for cumulative net income. Minimum cumulative sales is set at CHF 1'600 mn, minimum cumulative net income is CHF 180 mn. If cumulative sales or net income fall short of these minimum thresholds, the corresponding factor will be reduced to zero. If the Mid Range Plan targets for sales or net income are exceeded, the corresponding factors will be increased up to a maximum amount of 0.6 each (1.2 in total).

An interim evaluation of the attained targets was conducted after two years. Members of the Executive Board whose employment with the company had not been terminated as of July 31, 2015 were awarded a fixed number of free shares for the fiscal years 2013 and 2014 on that date. These free shares will be distributed at the end of July 2017. The factors used for the multiplication of the fixed amount in the interim evaluation are limited to 0.25 each (total 0.5). The second allotment of free shares for the fiscal years 2015 and 2016 will be awarded and distributed at the end of July 2017, subject to approval by the Annual General Meeting and provided that the employment

contract for the respective Executive Board members has not been terminated. Persons subsequently appointed to the Executive Board will be entitled to long-time incentive pay on a pro rata basis. The number of shares awarded will be based on the average share price for the periods from the announcement of the full-year results to the annual general meetings for the fiscal years 2014 and 2016, respectively.

All shares received will not be subject to any restrictions upon the date of transfer.

**Employment contract terms** Employment contracts with Executive Board members are entered into for an indefinite period with a notice period of six months.

## 5. COMPENSATION PAID WITH COMPARATIVE FIGURES FOR THE PREVIOUS YEAR

### 5.1. Compensation paid to the Board of Directors

The following aggregate compensation was paid to the members of the Board of Directors for the fiscal years 2016 and 2015:

in CHF 1'000								2016
Name	Function	Fees	Social insurance contributions and other benefits	Total fixed compensation (gross)	Share-based payments <sup>1</sup>	Social insurance contributions and other benefits	Total variable compensation (gross)	Total
<b>Members of the Board of Directors</b>								
Valentin Vogt	Chairman	120	9	129	20	1	22	151
Hans Hess	Deputy Chairman	65	4	69	14	1	15	83
Dr. Stephan Bross	Member	65	0	65	14	0	14	78
Dr. Monika Krüsi	Member	75	5	80	13	1	14	95
Urs Leinhäuser	Member	65	5	70	13	1	14	85
<b>Total</b>		<b>390</b>	<b>23</b>	<b>413</b>	<b>74</b>	<b>5</b>	<b>79</b>	<b>492</b>
<b>Approved for fiscal year 2016 by the 2015 AGM</b>				<b>425<sup>2</sup></b>				

in CHF 1'000								2015
Name	Function	Fees	Social insurance contributions and other benefits	Total fixed compensation (gross)	Share-based payments <sup>1</sup>	Social insurance contributions and other benefits	Total variable compensation (gross)	Total
<b>Members of the Board of Directors</b>								
Valentin Vogt	Chairman	120	9	129	25	2	27	156
Hans Hess	Deputy Chairman	65	4	69	17	4	21	90
Dr. Stephan Bross	Member	65	0	65	17	0	17	82
Dr. Monika Krüsi	Member	75	5	80	17	1	18	98
Urs Leinhäuser	Member	65	5	70	17	0	17	87
<b>Total</b>		<b>390</b>	<b>23</b>	<b>413</b>	<b>93</b>	<b>7</b>	<b>100</b>	<b>513</b>

<sup>1</sup> Variable compensation paid to members of the Board of Directors (free shares)

<sup>2</sup> This amount includes a contingency reserve of CHF 10'000

The total fixed compensation in the fiscal year under review is unchanged from the previous fiscal year. The Annual General Meeting of July 4, 2015 approved aggregate fixed compensation in the amount of CHF 425'000 (gross, incl. social insurance contributions) for the Board of Directors (five persons) for fiscal year 2016. The amount of compensation actually paid was CHF 12'000 less than the approved amount.

## 5.2. Compensation paid to the Executive Board

The following compensation was paid to the members of the Executive Board for the fiscal years 2016 and 2015:

in CHF 1'000									2016
Name	Function	Fixed base salary, cash	Social insurance contributions and other benefits	Total fixed compensation (gross)	Variable annual bonus, cash	Share-based long-term incentive pay	Social insurance contributions and other benefits	Total variable compensation (gross)	Total
<b>Executive Board</b>									
Marcel Pawliczek	CEO	425	123	548	84	35	31	150	698
Other members of the Executive Board <sup>1</sup>		1'117	249	1'367	145	192	59	396	1'763
<b>Total</b>		<b>1'542</b>	<b>372</b>	<b>1'915</b>	<b>229</b>	<b>227</b>	<b>90</b>	<b>546</b>	<b>2'461</b>
<b>Approved for fiscal year 2016 by the 2015 AGM</b>				<b>3'470</b>					

in CHF 1'000									2015
Name	Function	Fixed base salary, cash	Social insurance contributions and other benefits	Total fixed compensation (gross)	Variable annual bonus, cash	Share-based long-term incentive pay	Social insurance contributions and other benefits	Total variable compensation (gross)	Total
<b>Executive Board</b>									
Marcel Pawliczek	CEO	424	118	542	155	108	54	317	859
Other members of the Executive Board <sup>2</sup>		2'084	470	2'554	485	448	153	1'086	3'640
<b>Total</b>		<b>2'508</b>	<b>588</b>	<b>3'096</b>	<b>640</b>	<b>556</b>	<b>207</b>	<b>1'403</b>	<b>4'499</b>

<sup>1</sup> As per March 31, 2017: 4 members

<sup>2</sup> As per March 31, 2016: 10 members

The CEO's fixed compensation for the period under review is comparable to the level from the previous fiscal year. The total amount of fixed compensation for the other members of the Executive Board is significantly lower than in the prior-year period. The number of members on the Executive Board was reduced as of June 1, 2016 from 11 (incl. the CEO) to 5. In addition, two of the five members joined the Executive Board during the course of the fiscal year, the President of Services Division as of September 1, 2016 and the President of Systems Division as of October 1, 2016, and therefore their compensation was calculated on a pro rata basis. The Annual General Meeting of July 4, 2015 approved a total sum of CHF 3'470'000 (gross, including social insurance contributions) for the fixed compensation of the entire Executive Board for the fiscal year 2016. Due to the aforementioned reasons, the amount of fixed compensation actually paid (gross, including social insurance contributions) was significant CHF 1'555'000 below the approved amount.

Based on the published results, the minimum target with respect to the net income margin (7.5%) was not reached in the fiscal year 2016. However, the company's compensation policy allows acquisition effects to be factored out when calculating whether the minimum financial targets have been achieved. Excluding the effect of the acquisition of Shenyang Yuanda Compressor, the net income margin stood at 8.9%, which is above the specific minimum target. Therefore, the annual bonus for the Executive Board members submitted by the Board of Directors to the Annual General Meeting for approval is significantly lower due to the decline in net income for the year under review.

The four-year long-term incentive pay program for fiscal years 2013–2016 ended with the 2016 fiscal year. The sales target of CHF 1'850 mn consisting of the cumulative sales for the four-year period was slightly exceeded (CHF 1'872 mn). The net income target for the period (CHF 250 mn) was clearly not

reached as cumulative net income amounted to CHF 197 mn. Therefore, only 70% of the respective long-term bonuses will be paid out to the members of the Executive Board in July 2017, subject to approval by the upcoming Annual General Meeting.

## 6. OVERVIEW OF SHAREHOLDINGS AND ALLOCATED/DISTRIBUTED SHARES

### 6.1. Detailed overview of allocated and distributed shares

In the fiscal years 2015 and 2016 the following shares were allocated and distributed:

Name	Function	Shares allocated in FY 2015	Shares allocated in FY 2016	Shares distributed in FY 2015	Shares distributed in FY 2016
<b>Members of the Board of Directors</b>					
Valentin Vogt	Chairman	177	0	177	0
Hans Hess	Deputy Chairman	118	0	118	0
Dr. Stephan Bross	Member	45	0	45	0
Dr. Monika Krüsi	Member	118	0	118	0
Urs Leinhäuser	Member	118	0	118	0
<b>Total</b>		<b>576</b>	<b>0</b>	<b>576</b>	<b>0</b>
<b>Executive Board</b>					
Marcel Pawlicek	CEO	622	0	0	0
Other members of the Executive Board		2'318	0	0	0
<b>Total</b>		<b>2'940</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>		<b>3'516</b>	<b>0</b>	<b>576</b>	<b>0</b>

## 6.2. Detailed overview of shareholdings

As per March 31, 2017, the members of the Executive Board and the Board of Directors (and related persons) owned the following numbers of shares of Burckhardt Compression Holding AG:

Name	Function	03/31/2017 Total shares	03/31/2016 Total shares
<b>Members of the Board of Directors</b>			
Valentin Vogt	Chairman	203'026	203'026
Hans Hess	Deputy Chairman	5'493	5'493
Dr. Stephan Bross	Member	45	45
Dr. Monika Krüsi	Member	815	815
Urs Leinhäuser	Member	910	710
<b>Total</b>		<b>210'289</b>	<b>210'089</b>
<b>Executive Board</b>			
Marcel Pawlicek	CEO	42'111	44'045
Fabrice Billard <sup>1</sup>	President Systems Division	220	N/A
Rolf Brändli	CFO	1'054	1'054
Sandra Pitt	CHRO	0	0
Martin Wendel <sup>2</sup>	President Services Division	100	N/A
<b>Total</b>		<b>43'485</b>	<b>45'099</b>
<b>Total</b>		<b>253'774</b>	<b>255'188</b>
As a % of all outstanding shares		7.5%	7.5%

<sup>1</sup> Member of Executive Board since October 1, 2016

<sup>2</sup> Member of Executive Board since September 1, 2016

## 7. TRANSACTIONS WITH THE BOARD OF DIRECTORS, THE EXECUTIVE BOARD AND RELATED PARTIES

No other payments or fees for additional services were paid to the members of the Board of Directors or the Executive Board or to related parties during the fiscal year 2016. No bonuses for accession were paid in the year under review. At the reporting date no loans, credit lines or pension benefits over and above those provided by mandatory occupational pension plans have been extended to members of the company's boards.

## 8. MOTIONS FOR THE ANNUAL GENERAL MEETING

### 8.1. Approval of the maximum aggregate amount of variable compensation for the Board of Directors fiscal year 2016

The Board of Directors proposes that a maximum aggregate amount of CHF 79'000 (gross, including social insurance contributions and other benefits) be approved as variable compensation for the Board of Directors for fiscal year 2016.

### 8.2. Approval of the maximum aggregate amount of variable compensation for the Executive Board fiscal year 2016

The Board of Directors proposes that a maximum aggregate amount of CHF 546'000 (gross, including social insurance contributions and other benefits) be approved as variable compensation for the Executive Board for fiscal year 2016.

### 8.3. Consultative vote on the Compensation Report for fiscal year 2016

The Board of Directors proposes that shareholders approve the Compensation Report for fiscal year 2016 in a consultative vote.

### 8.4. Approval of the maximum aggregate amount of fixed compensation for members of the Board of Directors fiscal year 2017

The Board of Directors proposes that a maximum aggregate amount of CHF 580'000 (gross, including social insurance contributions and other benefits) be approved as fixed compensation for the Board of Directors for fiscal year 2017. The proposed amount includes a contingency reserve of CHF 9'000. The previous compensation policy for the Board of Directors, which had been in effect for the period from April 1, 2013 to March 31, 2017, was replaced with a revised policy on April 1, 2017. The new compensation scheme is based on fixed compensation only; variable compensation will no longer be paid. In addition, compensation levels were adjusted at the end of the four-year period. This is the reason why the maximum aggregate amount of compensation is much higher than in previous years.

### 8.5. Approval of the maximum aggregate amount of fixed compensation for members of the Board of Directors fiscal year 2018

The Board of Directors proposes that a maximum aggregate amount of CHF 580'000 (gross, including social insurance contributions and other benefits) be approved as fixed compensation for the Board of Directors for fiscal year 2018. The proposed amount includes a contingency reserve of CHF 9'000.

### 8.6. Approval of the maximum aggregate amount of fixed compensation for the members of the Executive Board fiscal year 2018

The Board of Directors proposes that a maximum aggregate amount of CHF 2'120'000 (gross, including social insurance contributions and other benefits) be approved as fixed compensation for the Executive Board for fiscal year 2018. The proposed fixed compensation is significantly lower because the Executive Board consists of only 5 members as of June 1, 2016 compared to 11 persons in the previous period. The proposed sum includes a contingency reserve of CHF 250'000.

## 9. EVALUATION OF THE COMPENSATION SYSTEM

The compensation system of Burckhardt Compression was designated as best-in-class in a survey conducted by the University of St. Gallen in 2010. The next-best ranked compensation systems were Nestle, Straumann, Sika and Hilti's. This designation confirms that Burckhardt Compression introduced a simple, transparent, fair and integrated compensation system in 2008.

The former system of compensation for the Board of Directors, which had been in effect for the period from April 1, 2013 to March 31, 2017, was replaced with a new policy on April 1, 2017. The revised compensation plan is based on fixed compensation only; variable compensation will no longer be paid. A corresponding revision of the company's bylaws will be submitted for approval at the Annual General Meeting on July 1, 2017.

The previous system of compensation for the Executive Board applicable for the fiscal years from 2013 to 2016 will be replaced with a modified compensation system effective as from fiscal year 2017. Compensation paid to Executive Board members will, as before, consist of three components, a fixed base salary, a variable annual bonus and variable long-term incentive pay, but the annual bonus for the Executive Board will now be capped at 50% of the base salary. This change in the compensation system for the Executive Board will be introduced within the scope of the current bylaws and does not necessitate a revision of the company's bylaws.



## ***Report of the statutory auditor to the General Meeting of Burckhardt Compression Holding AG Winterthur***

We have audited chapter 5 to 7 of the remuneration report of Burckhardt Compression Holding AG for the year ended 31 March 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) on pages 63 to 67 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 Burckhardt Compression Holding AG for the year ended 31 March 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'B Inauen', written in a cursive style.

Beat Inauen  
Audit expert  
Auditor in charge

A handwritten signature in blue ink, appearing to read 'O Illa', written in a cursive style.

Oliver Illa  
Audit expert

Winterthur, 1 June 2017

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