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## COMPENSATION REPORT 2017



# 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 contains information on their annual compensation. The 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, 2017 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 vote on the maximum aggregate amount of fixed compensation for the Board of Directors and the Executive Board for the fiscal year following the Annual General Meeting
- a retrospective vote on the maximum aggregate amount of variable compensation for the Executive Board for the fiscal year preceding the Annual General Meeting.

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

## 4. COMPENSATION SYSTEM

Burckhardt Compression Group'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.

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

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

New compensation rules for the Board of Directors came into force in the 2017 fiscal year. These were approved through a change in the Bylaws at the Annual General Meeting of July 1, 2017. Compensation for the Board of Directors consists of a fixed component, 80% of which is paid in cash, 20% in shares; a fixed cash supplement for directors who serve on a formal Board committee; and a fixed lump-sum for expenses. The number of shares awarded is based on the average share price (daily closing price on the SIX exchange) for the period between the announcement of the full-year results and the Annual General Meeting.

The fixed cash component amounts to CHF 81'000 for members of the Board of Directors and CHF 134'000 for the Chairman. The fixed supplement for directors serving on a formal Board committee is CHF 10'000 a year. The lump sum for expenses is CHF 4'000 for members of the Board of Directors and CHF 6'000 per year for the Chairman of the Board of Directors.

#### 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
- a variable performance- and profit-related long-term incentive bonus 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 other members of the Executive Board, the predefined fixed percentage rate varies from 0.08% to 0.16% of net income, depending on their Global Grade. The annual bonus is limited to 50% of annual base salary.

**Long-term incentive pay** Members of the Executive Board additionally receive long-term incentive pay awarded in the form of free shares. The long-term bonus program is valid for a six-year period (fiscal years 2017–2022). 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 for the fiscal years 2018 to 2022 and for the 2017 fiscal year.

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 fiscal year 2022, 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 six-year period is CHF 900'000 for the CEO, and between CHF 405'000 and CHF 600'000 for the members of the Executive Board, depending on their Global Grade. The sales target in the Mid-Range Plan (aggregate) for the six years is CHF 3'819 mn, the net income target is CHF 300 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. The minimum cumulative sales target is set at CHF 3'346 mn, minimum cumulative net income at CHF 195 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 will be conducted after three years. Members of the Executive Board whose employment with the company has not been terminated as of July 31, 2020 will on that date be awarded a fixed number of free shares for the fiscal years 2017, 2018 and 2019. These free shares will be distributed at the end of July 2020. The second allotment of free shares for the fiscal years 2020, 2021 and 2022 will be distributed at the end of July 2023, 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 2019 and 2022, 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 2017 and 2016:

in CHF 1'000								2017
Name	Function	Fees	Social insurance contributions and other benefits	Total fixed compensation (gross)	Share-based payments	Social insurance contributions and other benefits	Total variable compensation (gross)	Total
<b>Members of the Board of Directors</b>								
Valentin Vogt	Chairman	144	17	161	–	–	–	161
Hans Hess	Deputy Chairman	91	10	101	–	–	–	101
Dr. Stephan Bross	Member	91	4	95	–	–	–	95
Dr. Monika Krüsi	Member	101	10	111	–	–	–	111
Urs Leinhäuser	Member	91	10	101	–	–	–	101
<b>Total</b>		<b>518</b>	<b>51</b>	<b>569</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>569</b>
<b>Approved by the 2017 AGM for fiscal year 2017</b>				<b>580<sup>2</sup></b>				<b>580<sup>2</sup></b>

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 by the 2015 AGM for fiscal year 2016</b>				<b>425<sup>3</sup></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 9'000

<sup>3</sup> This amount includes a contingency reserve of CHF 10'000

Total fixed compensation in the fiscal year under review is higher than in the previous year because from fiscal 2017 onwards no variable payments are being made to the Board of Directors, with the corresponding sums directed instead to the fixed payments. The Annual General Meeting of July 1, 2017 approved aggregate fixed compensation in the amount of CHF 580'000 (gross, incl. social insurance contributions) for the Board of Directors (five persons) for fiscal year 2017. The amount of compensation actually paid was CHF 11'000 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 2017 and 2016:

in CHF 1'000									2017
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 Pawlicek	CEO	425	116	541	64	75	29	168	709
Other members of the Executive Board		1'066	260	1'326	118	172	53	343	1'669
<b>Total</b>		<b>1'491</b>	<b>376</b>	<b>1'867</b>	<b>182</b>	<b>247</b>	<b>82</b>	<b>511</b>	<b>2'378</b>
<b>Approved by the 2016 AGM for fiscal year 2017</b>				<b>2'130<sup>1</sup></b>					

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 Pawlicek	CEO	425	123	548	84	35	31	150	698
Other members of the Executive Board <sup>2</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 by the 2015 AGM for fiscal year 2016</b>				<b>3'470</b>					

<sup>1</sup>This amount includes a contingency reserve of CHF 200'000

<sup>2</sup>As per March 31, 2017: 4 members

The CEO's fixed base salary for the period under review is comparable to the level from the previous year. The total amount of fixed base salary for the other members of the Executive Board is CHF 51'000 less than in the prior-year period. The 2016 amount included the pro rata salaries of former Executive Board members for the months of April and May. The Annual General Meeting of July 1, 2016 approved a total sum of CHF 2'130'000 (gross, including social insurance contributions) for the fixed compensation of the entire Executive Board for the fiscal year 2017. The amount of fixed compensation actually paid (gross, including social insurance contributions) was CHF 263'000 below the approved amount.

Owing to the expected business performance, no minimum financial performance limit was defined for the transitional year of 2017 for the annual bonus at net profit margin level.

The annual bonus for the Executive Board in fiscal 2017 was CHF 47'000 lower than a year earlier. This is because net profit, which serves as the basis for the annual bonus, was lower. Personnel expenses for the Executive Board's long-term bonus were CHF 20'000 more than in the previous year. The provision made for the long-term bonus has been adjusted for two reasons: firstly, on the basis of an assessment of business performance over several years; secondly, the Swiss GAAP FER accounting standard requires expenses over the vesting period to be spread across the duration of the program, which can lead to adjustments within individual business years.

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

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

In the fiscal years 2016 and 2017, the following shares were allocated and distributed:

Name	Function	Shares allocated in FY 2016	Shares allocated in FY 2017	Shares distributed in FY 2016	Shares distributed in FY 2017
<b>Members of the Board of Directors</b>					
Valentin Vogt	Chairman	0	187	0	187
Hans Hess	Deputy Chairman	0	125	0	125
Dr. Stephan Bross	Member	0	125	0	125
Dr. Monika Krüsi	Member	0	125	0	125
Urs Leinhäuser	Member	0	125	0	125
<b>Total</b>		<b>0</b>	<b>687</b>	<b>0</b>	<b>687</b>
<b>Executive Board</b>					
Marcel Pawlicek	CEO	0	673	0	1'295
Other members of the Executive Board		0	859	0	1'170
<b>Total</b>		<b>0</b>	<b>1'532</b>	<b>0</b>	<b>2'465</b>
<b>Total</b>		<b>0</b>	<b>2'219</b>	<b>0</b>	<b>3'152</b>

## 6.2. Detailed overview of shareholdings

As per March 31, 2018, 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	03/31/2018 Total shares	03/31/2017 Total shares
<b>Members of the Board of Directors</b>			
Valentin Vogt	Chairman	203'213	203'026
Hans Hess	Deputy Chairman	5'618	5'493
Dr. Stephan Bross	Member	170	45
Dr. Monika Krüsi	Member	940	815
Urs Leinhäuser	Member	1'035	910
<b>Total</b>		<b>210'976</b>	<b>210'289</b>
<b>Executive Board</b>			
Marcel Pawlicek	CEO	42'111	42'111
Fabrice Billard	President Systems Division	400	220
Rolf Brändli	CFO	1'702	1'054
Sandra Pitt	CHRO	278	0
Martin Wendel	President Services Division	231	100
<b>Total</b>		<b>44'722</b>	<b>43'485</b>
<b>Total Board of Directors and Executive Board</b>		<b>255'698</b>	<b>253'774</b>
As a % of all outstanding shares		7.5%	7.5%

## 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 2017. 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 Executive Board Fiscal year 2017**

The Board of Directors proposes that a maximum aggregate amount of CHF 511'000 (gross, including social insurance contributions and other benefits) be approved as variable compensation for the Executive Board for fiscal year 2017.

### **8.2. Consultative vote on the Compensation Report Fiscal year 2017**

The Board of Directors proposes that shareholders approve the Compensation Report for fiscal year 2017 in a consultative vote.

### **8.3. Approval of the maximum aggregate amount of fixed compensation for members of the Board of Directors Fiscal year 2019**

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 2019. The proposed amount includes a contingency reserve of CHF 11'000.

### **8.4. Approval of the maximum aggregate amount of fixed compensation for members of the Executive Board Fiscal year 2019**

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 2019. The proposed sum includes a contingency reserve of CHF 250'000.

## 9. EVALUATION OF THE COMPENSATION SYSTEM

Burckhardt Compression's compensation system is regularly evaluated by the Nomination and Compensation Committee and the Board of Directors, and adjusted if required. With the introduction of the divisional organization, it was decided to adjust the annual bonus program, starting from fiscal year 2018. The change in the way the annual bonus for the Executive Board is calculated was made to ensure that account is taken not only of Group profitability, but also of the profitability of the two divisions. As before, the percentage specified for the Global Grade of Executive Board functions is multiplied by the Group's net profit. A new feature from the 2018 fiscal year onwards is that this value will be adjusted using a Group factor (return on net operating assets – RONOA) for the CEO, CFO and CHRO, and using a division factor (divisional operating income) for the presidents of the two divisions. This produces the annual bonus for a specific fiscal year. If the defined target value is not met, or if a minimum financial performance threshold of 4% return on sales at the net profit level is not achieved, no annual bonus is paid. The modifications to the compensation system for the Executive Board from fiscal year 2018 are being implemented within the existing rules and require no adjustment to the Bylaws.

One part of the fair and integrated compensation system is the annual benchmarking, which is based on the Global Grading and which uses compensation market data from Willis Towers Watson. This is carried out annually, most recently in the 2017 fiscal year.



## **Report of the statutory auditor**

### **to the General Meeting of Burckhardt Compression Holding AG**

#### **Winterthur**

We have audited the remuneration report of Burckhardt Compression Holding AG for the year ended March 31, 2018. 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 63 and 64 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 March 31, 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen  
Audit expert  
Auditor in charge

Oliver Illa  
Audit expert

Winterthur, May 24, 2018

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