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**EXECUTIVE REPORT 2017**

Compressors for a Lifetime™

# TO OUR SHAREHOLDERS

## DEAR SHAREHOLDERS

As expected, 2017 was a challenging year for our business. Nevertheless, we can report an increase in both order intake and sales. Our margins met our expectations for the 2017 fiscal year, but are significantly lower than our targets for the coming years.

**Order intake: growth in both divisions** Consolidated order intake amounted to CHF 525.2 mn, which is 10.6% higher than a year previously. Excluding currency translation effects, there was a rise of 10.3%. The Systems Division accounted for CHF 319.8 mn of total order intake, or 14.0% more than in the previous year. This increase is explained primarily by the strong petrochemical and refinery business. Meanwhile, orders received in the Services Division rose by 5.7% to CHF 205.4 mn thanks mainly to good growth in the engineering business.

**Another increase in sales** Burckhardt Compression Group achieved further growth in fiscal year 2017, booking CHF 594.6 mn in sales (plus 6.6%). The Services Division (plus 10.3%) as well as the Systems Division (plus 4.7%) contributed. Excluding currency translation effects, sales increased by 6.4%.

**Operating income within guidance** Gross profit of CHF 125.1 mn was 4.2% below the figure reported for the previous year (CHF 130.5 mn). This resulted in a gross margin of 21.0% (previous year: 23.4%). The decline in the Systems Division's gross margin from 9.9% to 7.1% was mainly due to one-time costs in the LNGM business and the sharp rise in material prices, especially in China. Gross profit at the Services Division went up again to CHF 97.9 mn, which is CHF 3.9 mn higher than in the previous year; the gross profit margin was 46.6%, lower than in 2016 (49.4%), primarily because of changes in the product mix.

Operating income amounted to CHF 41.7 mn, or 7.0 percent of sales, down CHF 6.0 mn on the prior-year figure. The Systems Division reported a substantially higher operating loss of CHF -9.0 mn, compared with CHF -1.5 mn in 2016. The Services Division achieved operating income of CHF 54.4 mn, compared with CHF 53.0 mn a year previously.

Consolidated net income amounted to CHF 29.0 mn, 10.6% less than in the previous fiscal year. Net income per share amounted to CHF 8.51 (previous year CHF 9.12).

**Equity base even stronger** Total assets at the end of the reporting period amounted to CHF 797.6 mn, which represents a reduction of 1.7%, or CHF 13.4 mn, on the year-back figure. Current and non-current assets both decreased. The equity ratio increased from the previous year's 39.1% to 42.0%. The net financial position at the end of the fiscal year came to CHF -62.1 mn, a slight improvement of CHF 5.2 mn compared to end-March 2017.

**Market position maintained, further cost savings realized** Despite the very competitive environment, Burckhardt Compression successfully defended its market leadership position in the reciprocating compressor systems market. The Services Division continued to expand its market position and achieved largely organic sales growth of 10.3%. It also moved further into additional markets including Argentina and the Nordic countries. Further progress was made on the cost-saving and optimization projects started some time ago, such as Value Engineering and Best-Cost Countries. Overall costs for compressors were reduced as a result.

**Mid-Range Plan for 2018–2022 approved** The Mid-Range Plan adopted in December 2017 sets different priorities for the two divisions for the next five fiscal years. The Systems Division is focusing mainly on improving profitability while maintaining global market leadership, whereas the Services Division is aiming for significant growth. The first priority for growth is service business involving compressors made by other manufacturers. This will be built up with the help of operational initiatives, including the implementation of a global ERP platform, the further expansion of our local and regional presence, and the expansion of service structures for the marine business. Ongoing digitalization will be used for new services and applications in both divisions. The Systems Division is aiming for sales of CHF 340 mn by 2022, with an EBIT margin of 0% to 5%, while the Services Division is targeting sales of CHF 360 mn and an EBIT margin of 20% to 25%. This strategy is based mainly on organic growth, which includes the complete takeover of Shenyang Yuanda Compressor and Arkos Field Services.

**Outlook for fiscal 2018** We believe that key sales markets will continue to recover in fiscal year 2018, making customers more willing to invest. With sales expected to match the 2017 level, we expect a slight increase in operating income and net profit.

**Dividend** The Board of Directors will propose a dividend of CHF 6.00 per share (CHF 7.00 in the previous year) at the annual general meeting. This corresponds to a payout ratio of 70.5% of net income (previous year according to Swiss GAAP FER 76.8%), which is at the upper end of the targeted range of 50% to 70%.

**First annual accounts according to Swiss GAAP FER Standard** The annual financial statements contained in this report are the first to be based on the Swiss GAAP FER accounting standard. Prior-year figures (fiscal year 2016) have been recalculated on the basis of this standard to provide proper comparability between this year and last.

**Thank you** The Board of Directors and Executive Board would like to thank our approximately 2'200 employees around the world for their exceptionally motivated and greatly valued work during the year under review. We would like to thank our over 4'000 shareholders for the confidence they have shown in us, even in times that have not been easy for the company. Special thanks also to our customers and suppliers for the long-term relationship, in a spirit of mutual respect.

Yours sincerely,



Valentin Vogt  
Chairman of the Board of Directors



Marcel Pawlicek  
CEO



Valentin Vogt



Marcel Pawlicek

Winterthur, May 29, 2018

# MILESTONES 2017



## **New Mid-Range Plan launched**

At the start of January 2018, Burckhardt Compression presented investors its new Mid-Range Plan for fiscal years 2018 to 2022. The main objectives are to improve profitability while maintaining global market leadership in the Systems Division, and to secure significant growth in the Services Division. The latter is to be achieved through the ongoing expansion of our local and regional presence, as well as by creating service structures for the marine business.



## **New sales office in Argentina**

Burckhardt Compression opened a sales office in Buenos Aires, Argentina, at the start of 2018. In addition to Argentina, the new South American office covers Chile, Uruguay, Paraguay and Bolivia.



## **Opening of the Global Support Center in India**

Burckhardt Compression opened its new Global Support Center in Pune, India, in August 2017. The center provides the company with support in IT, engineering, contracting and sales, helping to lower costs and extended response times.



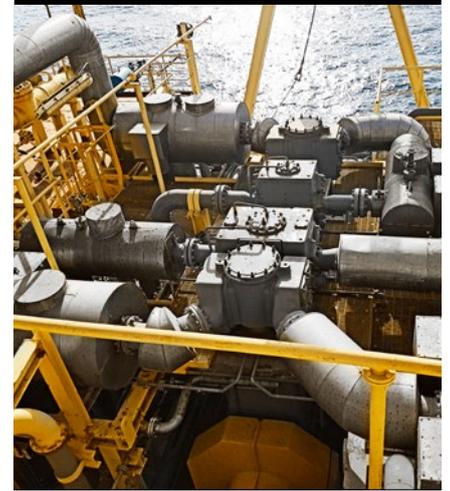
### Service Center Nordics

The new Service Center opened in Kungälv near Gothenburg, Sweden, in collaboration with Kompressor-teknik ML AB, repairs and services reciprocating compressors made by Burckhardt Compression and other manufacturers. This brings the company closer to customers in the Nordic countries, allowing it to be more responsive to their needs.



### Stronger presence in Canada

Burckhardt Compression took over Canadian company CSM Compressor Supplies & Machine Work Ltd., which is based in Edmonton and Drumheller, Alberta, in June 2017. This acquisition expands our service infrastructure in Western Canada. CSM can look back on 35 years of experience in the spare parts and repair business. The acquisition allows further development of our presence in the market for servicing compressors in Canadian upstream business.

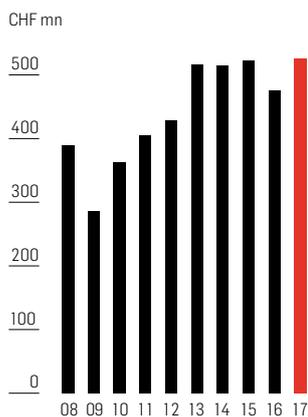


### First service contracts for ships with remote diagnostics

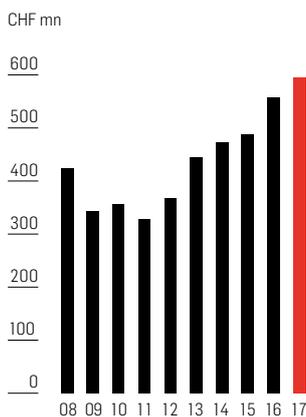
During the year under review, Burckhardt Compression signed multiyear service agreements with several operators of LNG tankers; these agreements include remote diagnosis of Laby®-GI Compressors with PROGNOST-NT systems. PROGNOST remote diagnostics systems provide seamless monitoring of the mechanical condition of the equipment, as well as of the gas compression in all cylinders. If there are any irregularities in the operation of the compressors, it will be displayed on the ship and the PROGNOST Systems Customer Support phone line can be called around the clock.

# FIGURES AT A GLANCE <sup>1</sup>

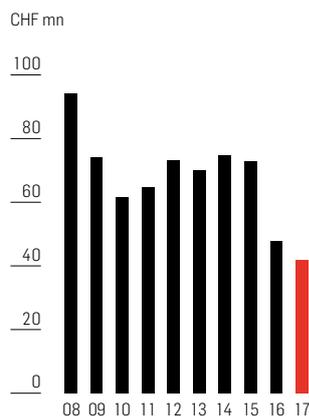
## ORDER INTAKE



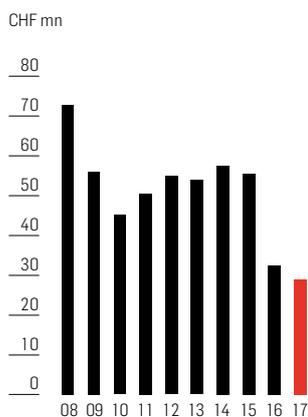
## SALES



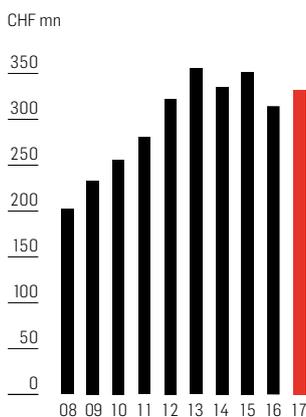
## OPERATING INCOME (EBIT)



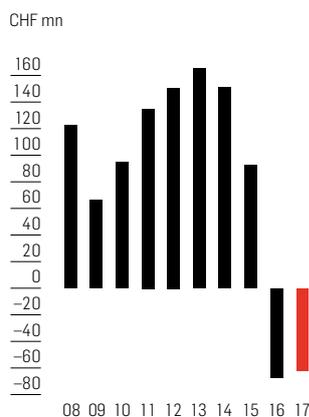
## NET INCOME



## SHAREHOLDERS' EQUITY

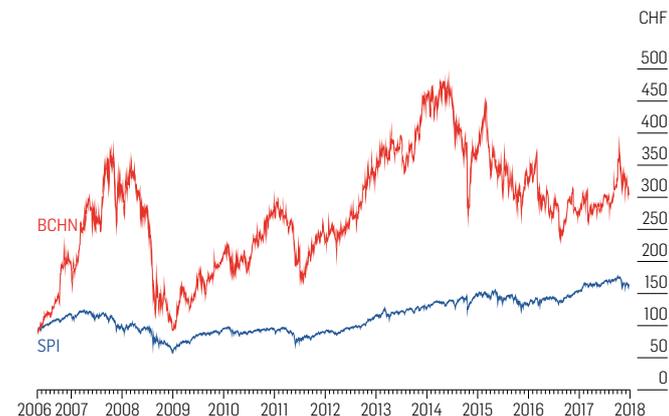


## NET FINANCIAL POSITION

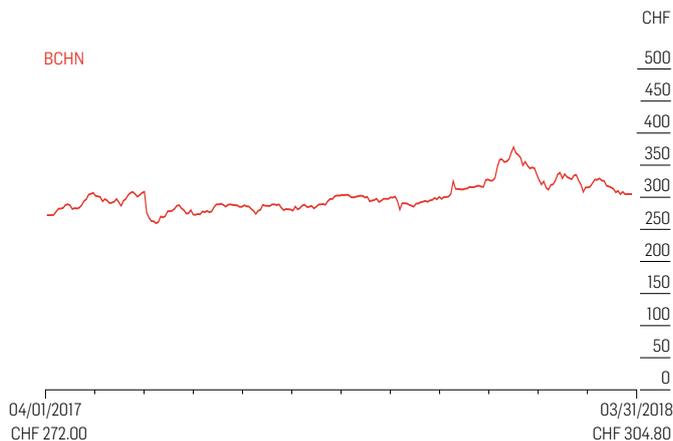


## SHARE PRICE

SINCE IPO



FISCAL YEAR 2017



<sup>1</sup> The consolidated accounts have been prepared in accordance with Swiss GAAP FER since April 1, 2017. The previous period (fiscal year 2016) has been restated accordingly to enable comparison with the year under preview.

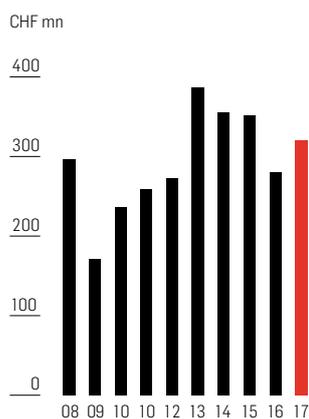
in CHF mn		2015	2016 <sup>1</sup>	2017 <sup>1</sup>	Change 2016/2017
<b>Order intake:</b>					
– Systems Division		351.4	280.6	319.8	14.0%
– Services Division		171.8	194.3	205.4	5.7%
<b>Total</b>		<b>523.2</b>	<b>474.9</b>	<b>525.2</b>	<b>10.6%</b>
<b>Sales and gross profit:</b>					
– Systems Division	Sales	332.4	367.2	384.4	4.7%
	Gross profit	73.0	36.5	27.2	–25.5%
	in % of sales	22.0%	9.9%	7.1%	
– Services Division	Sales	154.8	190.5	210.2	10.3%
	Gross profit	78.7	94.0	97.9	4.1%
	in % of sales	50.8%	49.4%	46.6%	
<b>Total</b>		<b>Sales 487.2</b>	<b>557.7</b>	<b>594.6</b>	<b>6.6%</b>
		<b>Gross profit 151.7</b>	<b>130.5</b>	<b>125.1</b>	<b>–4.2%</b>
		<b>in % of sales 31.1%</b>	<b>23.4%</b>	<b>21.0%</b>	
<b>Operating income (EBIT)</b>		<b>73.0</b>	<b>47.7</b>	<b>41.7</b>	<b>–12.7%</b>
in % of sales		15.0%	8.6%	7.0%	
<b>Net income</b>		<b>55.5</b>	<b>32.5</b>	<b>29.0</b>	<b>–10.6%</b>
in % of sales		11.4%	5.8%	4.9%	
<b>Depreciation and amortization</b>		<b>15.3</b>	<b>20.4</b>	<b>21.3</b>	<b>4.4%</b>
<b>Cash flow:</b>					
– from operating activities		40.7	45.9	44.4	–3.3%
– from investing activities		–63.1	–146.8	–17.2	
– from financing activities (incl. translation differences)		–30.8	50.5	–27.0	
<b>Total</b>		<b>–53.2</b>	<b>–50.4</b>	<b>0.2</b>	
<b>Total balance sheet assets</b>		<b>708.0</b>	<b>811.0</b>	<b>797.6</b>	<b>–1.7%</b>
Non-current assets		247.2	257.6	251.8	–2.2%
Current assets		460.8	553.4	545.8	–1.4%
Shareholders' equity		355.1	317.1	335.2	5.7%
in % of total balance sheet assets		50.2%	39.1%	42.0%	
<b>Net financial position (in CHF mn)</b>		<b>93.2</b>	<b>–67.2</b>	<b>–62.1</b>	
<b>Headcount as per end of fiscal year (full-time equivalents)</b>		<b>1'432</b>	<b>2'107</b>	<b>2'214</b>	<b>5.1%</b>
<b>Total remuneration Board of Directors (in TCHF)</b>		<b>513.0</b>	<b>492.0</b>	<b>569.0</b>	<b>15.7%</b>
<b>Total remuneration Executive Board (in TCHF)</b>		<b>4'499.0</b>	<b>2'461.0</b>	<b>2'378.0</b>	<b>–3.4%</b>
<b>Share price as per end of fiscal year (in CHF)</b>		<b>329.75</b>	<b>271.25</b>	<b>304.80</b>	<b>12.4%</b>
<b>Market capitalization (in CHF mn)</b>		<b>1'121.2</b>	<b>922.3</b>	<b>1'036.3</b>	<b>12.4%</b>
<b>Market capitalization/shareholders' equity (ratio)</b>		<b>3.2</b>	<b>2.9</b>	<b>3.1</b>	<b>6.3%</b>
<b>Net income per share (EPS) (in CHF)</b>		<b>16.34</b>	<b>9.12</b>	<b>8.51</b>	<b>–6.7%</b>
<b>Dividend per share (in CHF)</b>		<b>10.00</b>	<b>7.00</b>	<b>6.00</b>	<b>–14.3%</b>
<b>Number of issued shares</b>		<b>3'400'000</b>	<b>3'400'000</b>	<b>3'400'000</b>	

<sup>1</sup> The consolidated accounts have been prepared in accordance with Swiss GAAP FER since April 1, 2017.

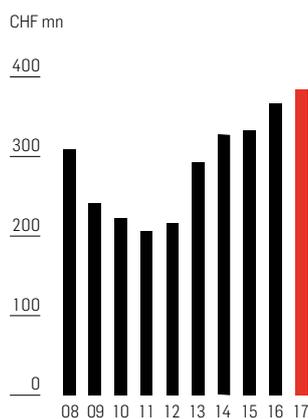
The previous period (fiscal year 2016) has been restated accordingly to enable comparison with the year under preview.

# REVIEW OF THE FISCAL YEAR SYSTEMS DIVISION<sup>1</sup>

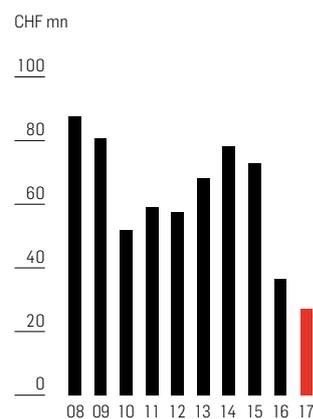
## ORDER INTAKE



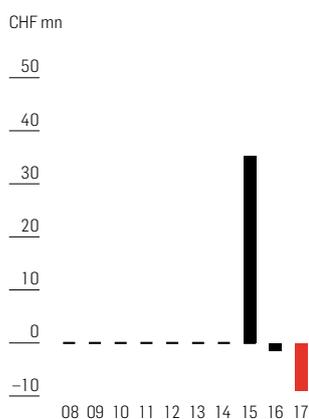
## SALES



## GROSS PROFIT



## OPERATING INCOME (EBIT)



## FIGURES

	2015	2016 <sup>1</sup>	2017 <sup>1</sup>	Change 2016/2017
in CHF mn				
Order intake	351.4	280.6	319.8	14.0%
Sales and gross profit				
Sales	332.4	367.2	384.4	4.7%
Gross profit	73.0	36.5	27.2	-25.5%
in % of sales	22.0%	9.9%	7.1%	
Operating income (EBIT)	35.3	-1.5	-9.0	
in % of sales	10.6%	-0.4%	-2.3%	
Headcount as per end of fiscal year (full-time equivalents)				
		1'446	1'425	-1.6%

<sup>1</sup> The consolidated accounts have been prepared in accordance with Swiss GAAP FER since April 1, 2017. The previous period (fiscal year 2016) has been restated accordingly to enable comparison with the year under preview.

## FINANCIAL PERFORMANCE

### Markets still highly competitive

Incoming orders at the Systems Division amounted to CHF 319.8 mn, which is 14.0% higher than in the previous year. Thanks to an improved market environment, increased capacity utilization and rising oil and gas prices, our customers invested significantly more during the year under review. The sales figure of CHF 384.4 mn was 4.7% up on the previous year, thus setting a new record. Gross profit, by contrast, stood at an unsatisfactory CHF 27.2 mn, which is 25.5% down on the year, leaving a lower gross margin of 7.1% (previous year 9.9%). The main reasons for the significant decline in gross profit were the global increase in material prices, especially in the second half of the year in China, as well as much lower sales in the LPGM marine business and one-time costs incurred while building up the LNGM business. These factors were only partially offset by our improvement program. As a consequence, operating income declined sharply from CHF –1.5 mn in the previous year to CHF –9.0 mn during the year under review.

## MARKETS

Burckhardt Compression offers compressor system solutions in the following application areas:

- Upstream oil & gas
- Gas transport and storage
- Refinery
- Petrochemical/chemical industry
- Industrial gases

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### **Burckhardt Compression achieved some important successes and signed several major contracts in the reinvigorated LDPE market.**

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Burckhardt Compression achieved some important successes in a highly competitive market environment. These included several major contracts signed in the reinvigorated LDPE (low density polyethylene) market in China. Further significant orders were won in Japan, the USA and India.

### Upstream oil & gas

A substantial recovery in oil prices during the year under review and productivity improvements in extraction technologies stimulated investments in production capacities. This is the only application area in which Burckhardt Compression's business is influenced by movements in the oil price.

### Gas transport and storage

Within the LNG (liquefied natural gas) application area, there was a slight recovery in the LNG tanker business after several years of stagnation. Efforts to diversify energy supply are leading various countries to buy more liquid gas, and to build the requisite import terminals. The use of LNG for new applications, such as fueling vehicles, also offers medium-term growth opportunities. Projected additional capacity for natural gas liquefaction will boost demand for LNG tankers in the years to come.

After a phase of overcapacities, the use of LPG (liquefied petroleum gas) is undergoing a period of consolidation. With energy generated from regional coal deposits increasingly being replaced by liquefied gas from other regions, this market is set to become more attractive in the future. Initial signs of recovery in this market have been evident for some months now.

### Refinery

The positive business trend is a result of capacity building in various regions, particularly in the Middle East, India, China and Southeast Asia. This reflects a continuing trend that has seen these countries trying to increase their local share of added value and reduce dependency on imports of refined products. This is also helping the compressor business.

### Petrochemical and chemical industry

This application area performed positively again. In the petrochemical sector, Hyper Compressor projects, including booster-primary compressors, were acquired for the first time in a long time. Due to growing worldwide demand for products made of plastic, the petrochemical industry is increasing its production capacity significantly. In emerging markets in particular, demand is being driven in part by a higher proportion of local value creation. China, which accounts for more than 30% of the global market for reciprocating compressors used in petrochemical applications, is performing especially well.

### Industrial gases

The industrial gases business also put in a good performance, thanks not least to the extremely broad range of applications. It can be assumed that various user industries will grow at least in step with global GDP growth, if not faster, so we can expect to see a corresponding increase demand for compressors.

## INTEGRATION

The integration of Shenyang Yuanda Compressor, acquired in 2016, was completed on schedule at the end of 2017, and the first joint projects have already been carried out. Thanks to this acquisition Burckhardt Compression reinforced its leading position in China and gained new, cost-efficient suppliers.

## "PULLING SYSTEMS TOGETHER" FOR POSITIVE CHANGE

At the end of 2016, the Systems Division initiated an extensive process- and cost-optimization program as a short-term response to the reduced volume of incoming orders, while striving to improve its competitive edge significantly in the medium term. The cost-optimization program, the primary aim of which is to improve operational excellence, consists of 30 projects affecting all units, including design, procurement, production processes, project management, logistics and capacity management.

Substantial progress was made on various fronts during the year under review. Capacities were adjusted to lower volumes, for example, and the procurement organization was realigned, resulting in significant cost savings. Another step was taken to improve competitiveness when a Global Support Center was opened in India to support the Group worldwide, especially in the areas of engineering, IT and contracting.

## OUTLOOK

Overall, we expect further market growth in 2018 and 2019. Over the next few years, the markets in China and India in particular will continue to flourish, while markets in Southeast Asia and the Middle East gain further in importance. The increasing use of plastics in China and Southeast Asia should help keep the petrochemical market strong. The refinery business will continue to grow, and we are seeing positive signals from the industrial gases application area as well. The marine business is beginning to show the first signs of a recovery in 2018. Raw materials prices will continue to increase globally over the next few months, but especially in China.

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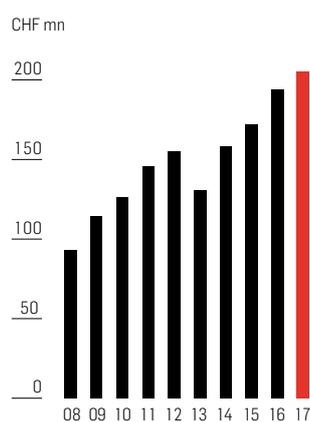
### Overall, we expect further market growth in 2018 and 2019.

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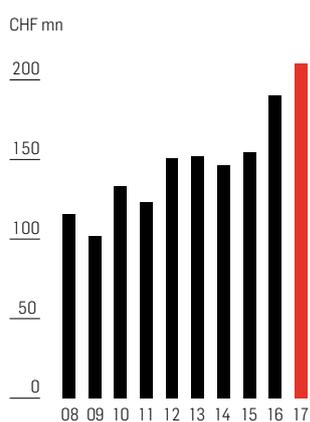
The Systems Division is focusing on improving profitability while maintaining its global market leadership. Our 2018–2022 Mid-Range Plan forecasts annual sales of CHF 340 mn by 2022, with an EBIT margin of 0% to 5%. Global procurement is being strengthened, and we are continuing measures to increase competitiveness. The measures implemented so far have produced some first successes, which is encouraging. Initial implementation of the Value Engineering approach identified a 20% reduction in manufacturing costs for a first compressor line. Innovations and a more widely diversified presence in the different market segments will continue to bolster Burckhardt Compression's market leadership. In the year under review, for example, a new product line was developed for the highly competitive process gas compressor market. This robust, modular compressor line is optimized for CAPEX. As such it is a perfect complement to Burckhardt Compression's traditional premium products with their low product life cycle costs. Further innovations in compressing and reliquefying boil-off gas (BOG) from liquid gases in the marine sector are equally promising.

# REVIEW OF THE FISCAL YEAR SERVICES DIVISION<sup>1</sup>

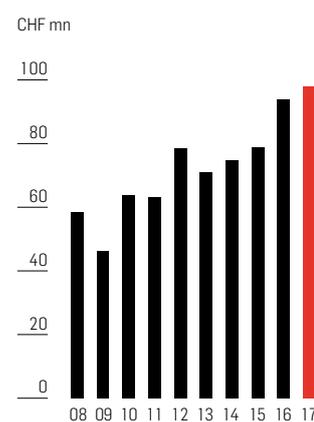
## ORDER INTAKE



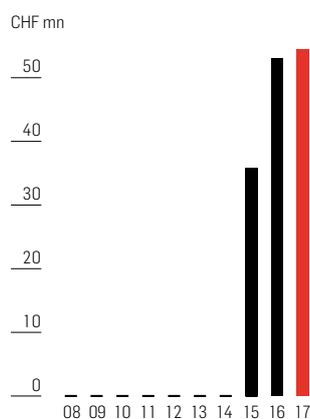
## SALES



## GROSS PROFIT



## OPERATING INCOME (EBIT)



## FIGURES

	2015	2016 <sup>1</sup>	2017 <sup>1</sup>	Change 2016/2017
in CHF mn				
Order intake	171.8	194.3	205.4	5.7%
Sales and gross profit				
Sales	154.8	190.5	210.2	10.3%
Gross profit	78.7	94.0	97.9	4.1%
in % of sales	50.8%	49.4%	46.6%	
Operating income (EBIT)	35.8	53.0	54.4	2.5%
in % of sales	23.2%	27.8%	25.9%	
Headcount as per end of fiscal year (full-time equivalents)				
		649	778	19.9%

<sup>1</sup> The consolidated accounts have been prepared in accordance with Swiss GAAP FER since April 1, 2017. The previous period (fiscal year 2016) has been restated accordingly to enable comparison with the year under preview.

## FINANCIAL PERFORMANCE

### Further increase in order intake and sales

Order intake rose 5.7% to CHF 205.4 mn, a new high, in large part thanks to services for third-party products. Divisional sales were likewise sharply higher, rising by 10.3% to CHF 210.2 mn. The division now accounts for 35.4%, more than one-third, of total Group sales. Strong organic growth and acquisitions both helped fuel the rise. Gross profit was 4.1% up on the prior year at CHF 97.9 mn. The gross margin fell to 46.6% (2016: 49.4%), because of the changed product mix. Operating income came to CHF 54.4 mn, which is CHF 1.3 mn up on the previous year's CHF 53.0 mn. The increase was kept from being greater by the shift from spare parts business to service offerings such as maintenance and spare parts for third-party products.

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**Order intake rose 5.7% to CHF 205.4 mn,  
a new high, in large part thanks to services  
for third-party products.**

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## MARKETS

Burckhardt Compression offers service solutions in the following application areas:

- Spare Parts
- Engineering/Revamp/Repair
- Field Service
- Monitoring/Diagnostics

Burckhardt Compression signed several long-term service contracts during the year under review for Laby®-GI fuel gas supply compressors in the marine sector. It also brought important innovations to market, including upgrades to the portfolio of sealing materials for piston rings and packings.

### Spare Parts

More spare parts for third-party products were ordered by customers during the year under review. Customers are increasingly purchasing spare parts in combination with services. The market is responding positively to our strategy of expanding our business with other companies' products.

### Engineering/Revamp/Repair

Expertise in the key areas of engineering and project management was strengthened significantly in the year under review. There was a clear rise in the number of large-scale projects involving the conversion and modernization of complete systems. More local consulting services were offered as well. This gives the division a distinct competitive advantage over smaller, local service providers.

### Field Service

Field Service reported gratifying growth thanks to preventive and corrective maintenance work on our own and third-party equipment. In addition, more and more long-term service agreements are being signed. The growth in commissioning business was mainly attributable to Laby®-GI Compressors on natural gas tankers.

### Monitoring/Diagnostics

Monitoring/Diagnostics also recorded sustained growth, especially in the USA. PROGNOST Systems further expanded and optimized its range of products for monitoring additional rotating equipment. Ongoing digitalization during the year under review saw the launch of a new mobile application offering a simpler way for customers to access monitoring data.

## FURTHER STRENGTHENING OF SALES STRUCTURES

As part of the ongoing development of its sales strategy, Burckhardt Compression further professionalized the offer and execution of service engineering solutions with the introduction of central management during the year under review. This has greatly accelerated process times for requests, offers and implementation. At the same time, regional sales structures have been strengthened. As local Field Service Representatives, our highly qualified engineers are responsible both for customer care and for evaluating local market opportunities. The greater skill-set required by these employees is reflected in the training they are now receiving.

A partnership model was developed and implemented to expand our local service presence. This allows us to offer service capabilities close to our customers, especially in small but fast-growing markets, while limiting the amount of investment required.

## ACQUISITIONS AND ALLIANCES

Burckhardt Compression took over Canadian company CSM Compressor Supplies & Machine Work Ltd., based in Edmonton and Drumheller, Alberta, in June 2017, thus strengthening its service business for reciprocating compressors in Canada. Downstream customers in the region will now benefit from a comprehensive local service portfolio that combines servicing and engineering expertise. Importantly, the acquisition also allows the division to build up its presence in local upstream service business.

In the year under review, Burckhardt Compression also entered into a strategic cooperation with Swedish company Kompressorteknik ML AB. This will strengthen Burckhardt Compression's presence in Sweden, Norway, Denmark, Finland and Iceland. This partner company has many years of experience and expertise in servicing oil-free compressors, and offers customers tailor-made service packages. The partnership provides customers with the added value of a wider product range and locally available repair skills.

Thanks to the partnership with Arkos Field Services, in which Burckhardt Compression has a 40% stake, the US company's existing upstream network of 15 branches across the USA can also be used as a platform for service provision in the downstream sector.

## NEW SERVICE CENTERS

To further strengthen its geographical presence, Burckhardt Compression opened a sales office in Argentina. In collaboration with Kompressorteknik ML AB, which entered into a strategic partnership with us in July 2017, we have begun to develop a local Service Center. To meet growing local requirements, the subsidiaries in Spain and Korea were relocated to new locations during the year under review. A targeted increase in headcount was carried out in Korea to strengthen the provision of services to the marine sector. Investments were also made in developing the Field Service team in India.

## OUTLOOK

Interesting growth prospects will be opening up for the service business in the coming years for various reasons:

- More and more customers are outsourcing service-related operations.
- The inventory of installed equipment continues to grow.
- Customers are seeking efficiency gains to sharpen their competitive profile, and this requires retrofitting and conversions.
- Preventive maintenance in conjunction with continuous monitoring of systems is growing in importance.

We believe, therefore, that the demand for comprehensive services from a single source will grow more strongly than direct business with spare parts.

Innovation plans are focusing on the development and production of specific plastics for sealing systems on reciprocating compressors, as well as on the further development of solutions for simple, cost-effective condition monitoring and diagnosis of operational compressor systems.

According to our 2018–2022 Mid-Range Plan, the Services Division will increase sales by between 6% and 8% a year to reach CHF 360 mn by 2022. Our target range for the EBIT margin is 20% to 25%. Our growth priorities are service business for compressors made by other manufacturers, and personal services. To ensure success here, Burckhardt Compression is taking further operational initiatives, such as strengthening customer care and further developing local and regional service competence. Further measures include the expansion of engineering and project management structures in the division, as well as the implementation of a global ERP platform for all service locations. The growing number of natural gas tankers using Laby®-GI fuel gas supply compressors calls for the creation of a service structure tailored to the specific requirements of marine business. In addition, digitalization should be used for new services and applications. The main aims here are to further increase the availability and use of operational and customer data, to make communication more transparent, and to optimize business processes. At the same time, cost control is being implemented more rigorously.

The successes achieved in the year under review confirm that we are on the right course. Customers warmly welcomed the expansion of our service presence, our engineering and project management skills, for example. The effectiveness of the above-mentioned initiatives is regularly evaluated using customer satisfaction surveys involving over 400 key customers worldwide.

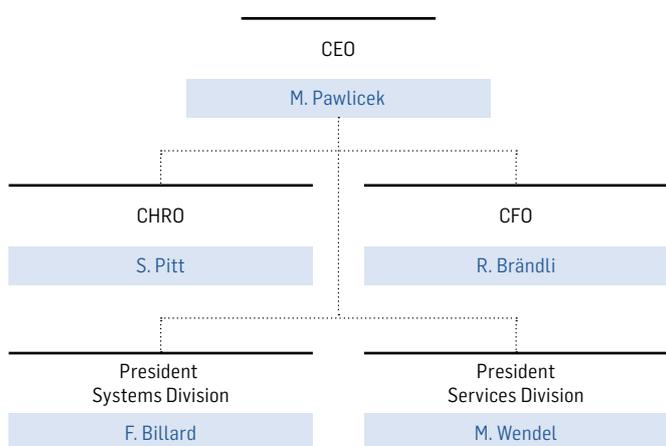
# EXTRACT FROM THE CORPORATE GOVERNANCE REPORT

Burckhardt Compression is committed to responsible corporate governance. The company adheres to the Directive on Information Relating to Corporate Governance (DCG) issued by SIX Swiss Exchange, where applicable to Burckhardt Compression, and the "Swiss Code of Best Practice for Corporate Governance" issued by economiesuisse.

## GROUP STRUCTURE AND SHAREHOLDERS

### Management structure

Burckhardt Compression is managed by a divisional operating structure with two divisions, the Systems Division (compressor manufacturing business) and the Services Division (compressor services and components). The management structure of the Burckhardt Compression Group is given in the organizational chart below:



### Significant shareholders

According to information available to the company from the disclosure notifications of the SIX Swiss Exchange AG, the shareholders listed in the following table reported shareholdings of at least 3% of the voting rights as per March 31, 2018. In accordance with the company's Bylaws, the voting rights of NN Group N.V. and J O Hambro Capital Management limited are limited in each case to 5.0% of the total number of BCHN registered shares recorded in the commercial register:

Name	Country	% of shares
MBO Aktionärsgruppe	CH	12.4
NN Group N.V.	NL	6.9
J O Hambro Capital Management Limited	UK	6.9
Atlantic Value General Partner Limited (Mondrian)	UK	5.0
Ameriprise Financial Inc.	US	3.5
Credit Suisse Funds AG	CH	3.0
Oppenheimer Funds	US	3.0
UBS Fund Management (Switzerland) AG	CH	3.0

More detailed information on the disclosure notifications is available on the website of the SIX Swiss Exchange's Disclosure Office (<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>).

## BOARD OF DIRECTORS

The Bylaws stipulate that the Board of Directors consists of a minimum of three and a maximum of seven members. At present, the composition of the Board of Directors is as follows:

Name	Nationality	Function	First elected	Term expires
Valentin Vogt	CH	Chairman, non-executive, Chairman SC	2002	2018
Hans Hess	CH	Deputy Chairman, non-executive, Chairman NCC	2006	2018
Dr. Monika Krüsi	CH/IT	Member, non-executive, member SC, member AC	2012	2018
Urs Leinhäuser	CH	Member, non-executive, Chairman AC	2007	2018
Dr. Stephan Bross	DE	Member, non-executive, member NCC	2014	2018

AC = Audit Committee

NCC = Nomination and Compensation Committee

SC = Strategy Committee

# EXTRACT FROM THE COMPENSATION REPORT

## 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 2016 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.

### 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.

### 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%

# EXTRACT FROM THE FINANCIAL REPORT

## CONSOLIDATED INCOME STATEMENT

	2017	2016
in CHF 1'000		
<b>Sales</b>	<b>594'574</b>	<b>557'725</b>
Cost of goods sold	-469'514	-427'188
<b>Gross Profit</b>	<b>125'060</b>	<b>130'537</b>
Selling and marketing expenses	-45'341	-44'774
General and administrative expenses	-35'127	-32'512
Research and development expenses	-8'004	-8'795
Other operating income	25'158	27'221
Other operating expenses	-20'064	-23'948
<b>Operating income</b>	<b>41'682</b>	<b>47'729</b>
Share of results of associates	-1'888	-2'551
Financial income and expenses	-1'867	-1'842
<b>Earnings before taxes</b>	<b>37'927</b>	<b>43'336</b>
Income tax expenses	-8'904	-10'883
<b>Net income</b>	<b>29'023</b>	<b>32'453</b>
Share of net income attributable to shareholders of Burckhardt Compression Holding AG	28'837	30'905
Share of net income attributable to non-controlling interests	186	1'548
Basic earnings per share in CHF	8.51	9.12
Diluted earnings per share in CHF	8.51	9.12

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of fiscal year 2017. Prior period figures have been restated accordingly.

## CONSOLIDATED BALANCE SHEET

in CHF 1'000	03/31/2018	03/31/2017
<b>Non-current assets</b>		
Intangible assets	13'200	11'767
Property, plant and equipment	193'170	200'379
Investment in associates	12'249	14'704
Deferred tax assets	7'871	6'622
Other financial assets	25'313	24'083
<b>Total non-current assets</b>	<b>251'803</b>	<b>257'555</b>
<b>Current assets</b>		
Inventories	210'703	250'232
Trade receivables	227'699	209'782
Other current receivables	29'546	15'326
Prepaid expenses and accrued income	2'755	3'178
Cash and cash equivalents	75'077	74'892
<b>Total current assets</b>	<b>545'780</b>	<b>553'410</b>
<b>Total assets</b>	<b>797'583</b>	<b>810'965</b>
<b>Equity</b>		
Share capital	8'500	8'500
Capital reserves	421	-
Treasury shares	-1'652	-6'582
Retained earnings and other reserves	288'798	278'129
<b>Equity attributable to shareholders of Burckhardt Compression Holding AG</b>	<b>296'067</b>	<b>280'047</b>
Non-controlling interests	39'133	37'056
<b>Total equity</b>	<b>335'200</b>	<b>317'103</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Non-current financial liabilities	65'599	71'825
Deferred tax liabilities	14'599	16'365
Non-current provisions	14'249	13'000
Other non-current liabilities	5'900	6'707
<b>Total non-current liabilities</b>	<b>100'347</b>	<b>107'897</b>
<b>Current liabilities</b>		
Current financial liabilities	71'538	70'310
Trade payables	65'294	59'980
Customers' advance payments	120'642	164'669
Other current liabilities	21'373	21'741
Accrued liabilities and deferred income	63'340	49'340
Current provisions	19'849	19'925
<b>Total current liabilities</b>	<b>362'036</b>	<b>385'965</b>
<b>Total liabilities</b>	<b>462'383</b>	<b>493'862</b>
<b>Total equity and liabilities</b>	<b>797'583</b>	<b>810'965</b>

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of fiscal year 2017. Prior period figures have been restated accordingly.

## CONSOLIDATED CASH FLOW STATEMENT

	2017	2016
in CHF 1'000		
<b>Cash flow from operating activities</b>		
Net income	29'023	32'453
Income tax expenses	8'904	10'883
Financial income and expenses	1'867	1'842
Share of results of associates	1'888	2'551
Depreciation	17'411	16'471
Amortization	3'897	3'945
Change in inventories	42'029	12'829
Change in trade receivables	-10'412	-7'610
Change in other current assets	-10'627	11'155
Change in trade payables	3'452	-18'137
Change in customers' advance payments	-46'169	14'222
Change in provisions	2'037	-778
Change in other current liabilities	19'119	-10'940
Adjustment for non-cash items	1'082	-6'609
Interest received	578	302
Interest paid	-1'743	-2'068
Income taxes paid	-17'977	-14'545
<b>Total cash flow from operating activities</b>	<b>44'359</b>	<b>45'966</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	-8'730	-14'489
Sale of property, plant and equipment	810	774
Purchase of intangible assets	-5'101	-1'513
Sale of intangible assets	-	65
Acquisition of group companies net of cash acquired	-4'197	-131'677
<b>Total cash flow from investing activities</b>	<b>-17'218</b>	<b>-146'840</b>
<b>Cash flow from financing activities</b>		
Increase in financial liabilities	2'322	99'424
Decrease in financial liabilities	-6'961	-9'648
Purchase of treasury shares	-	-4'917
Dividends paid	-23'859	-33'950
Transactions with non-controlling interests	299	-
<b>Total cash flow from financing activities</b>	<b>-28'199</b>	<b>50'909</b>
Currency translation differences on cash and cash equivalents	1'243	-419
<b>Net change in cash and cash equivalents</b>	<b>185</b>	<b>-50'384</b>
Cash and cash equivalents at beginning of period	74'892	125'276
Cash and cash equivalents at end of period	75'077	74'892
<b>Net change in cash and cash equivalents</b>	<b>185</b>	<b>-50'384</b>

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of fiscal year 2017. Prior period figures have been restated accordingly.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in CHF 1'000	Share capital	Capital reserves	Treasury shares	Hedge reserve	Translation reserve	Goodwill offset	Other retained earnings	Equity attributable to shareholders of Burckhardt Compression Holding AG	Non-controlling interests	Total equity
<b>Balance at 03/31/2016 (IFRS)</b>	8'500	-	-1'639	-4'671	-18'920	-	371'822	355'092	-	355'092
Swiss GAAP FER Adjustments					18'920	-20'460	19'161	17'621		17'621
<b>Balance at 04/01/2016 (Swiss GAAP FER)</b>	8'500	-	-1'639	-4'671	-	-20'460	390'983	372'713	-	372'713
Result for the period							30'905	30'905	1'548	32'453
Additions from acquisitions of subsidiaries								-	37'037	37'037
Currency translation differences					-993			-993	-1'529	-2'522
Changes of cash flow hedges				-1'117				-1'117		-1'117
Dividends paid							-33'950	-33'950		-33'950
Changes in treasury shares			-4'943					-4'943		-4'943
Share-based payments (allocated)							239	239		239
Goodwill on acquisition						-82'807		-82'807		-82'807
<b>Balance at 03/31/2017 (Swiss GAAP FER)</b>	8'500	-	-6'582	-5'788	-993	-103'267	388'177	280'047	37'056	317'103
<b>Balance at 03/31/2017 (IFRS)</b>	8'500	-	-6'582	-5'788	-23'057	-	338'779	311'852	45'337	357'189
Swiss GAAP FER Adjustments					22'064	-103'267	49'398	-31'805	-8'281	-40'086
<b>Balance at 04/01/2017 (Swiss GAAP FER)</b>	8'500	-	-6'582	-5'788	-993	-103'267	388'177	280'047	37'056	317'103
Result for the period							28'837	28'837	186	29'023
Currency translation differences					3'138			3'138	1'827	4'965
Changes of cash flow hedges				5'354				5'354		5'354
Dividends paid							-23'624	-23'624	-235	-23'859
Transactions with non-controlling interests								-	299	299
Share-based payments (distributed)		421	4'930				-5'351	-		-
Share-based payments (allocated)							2'878	2'878		2'878
Goodwill on acquisition						-563		-563		-563
<b>Balance at 03/31/2018 (Swiss GAAP FER)</b>	8'500	421	-1'652	-434	2'145	-103'830	390'917	296'067	39'133	335'200

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of fiscal year 2017. Prior period figures have been restated accordingly.

## GROUP COMPANIES AND ASSOCIATES

Company	Registered office	Registered capital	Interest in capital	Research & development	Manufacturing & engineering	Contracting	Sales	Service
Burckhardt Compression AG <sup>1</sup>	Winterthur, Switzerland	CHF 2'000'000	100%	•	•	•	•	•
Burckhardt Compression Immobilien AG <sup>1</sup>	Winterthur, Switzerland	CHF 5'000'000	100%					
Burckhardt Compression (Deutschland) GmbH	Neuss, Germany	EUR 30'000	100%				•	•
Burckhardt Compression (Italia) S.r.l.	Milan, Italy	EUR 400'000	100%			•	•	•
Burckhardt Compression (France) S.A.S.	Cergy Saint Christophe, France	EUR 300'000	100%				•	•
Burckhardt Compression (España) S.A.	Madrid, Spain	EUR 550'000	100%				•	•
Burckhardt Compression (UK) Ltd.	Bicester, United Kingdom	GBP 250'000	100%				•	•
Burckhardt Compression (US) Inc.	Houston, USA	USD 18'250'000	100%		•	•	•	
Burckhardt Compression (Canada) Inc.	Brampton, Canada	CAD 200'000	100%			•	•	•
Burckhardt Compression (Japan) Ltd.	Tokyo, Japan	JPY 50'000'000	100%				•	•
Burckhardt Compression (Shanghai) Co. Ltd.	Shanghai, China	CNY 14'198'000	100%		•	•	•	•
Burckhardt Compression (India) Private Ltd.	Pune, India	INR 331'140'000	100%	•	•	•	•	•
Burckhardt Compression (Brasil) Ltda.	São Paulo, Brazil	BRL 5'818'000	100%				•	•
Burckhardt Compression (Middle East) FZE	Dubai, United Arab Emirates	AED 2'000'000	100%				•	•
Burckhardt Compression Korea Ltd.	Seoul, South Korea	KRW 250'000'000	100%				•	•
Burckhardt Kompresör San. ve Tic. Ltd.	Istanbul, Turkey	TRY 800'000	100%				•	•
Burckhardt Compression Singapore Pte Ltd.	Singapore, Singapore	SGD 700'000	100%				•	•
Burckhardt Compression South Africa (Pty) Ltd.	Sunnyrock, South Africa	ZAR 3'000'000	100%				•	•
Burckhardt Compression Korea Busan Ltd.	Busan, South Korea	KRW 7'000'000'000	100%		•	•	•	
Burckhardt Compression (Saudi Arabia) LLC	Dammam, Saudi Arabia	SAR 1'000'000	100%				•	•
Burckhardt Compression North America Service LLC	Wilmington, USA	USD 1'800'000	100%					
Burckhardt Compression Tehran SSK	Tehran, Iran	IRR 100'000'000	100%				•	•
CSM Compressor Inc.	Edmonton, Canada	CAD 10'000	100%				•	•

Company	Registered office	Registered capital	Interest in capital	Research & development	Manufacturing & engineering	Contracting	Sales	Service
Shenyang Yuanda Compressor Co. Ltd. <sup>1</sup>	Shenyang, China	CNY 94'500'000	60%	•	•	•	•	•
Liaoning Yuanyu Industrial Machinery Co. Ltd.	Kaiyuan, China	CNY 39'000'000	60%	•	•			
Shenyang Yuanda Compressor Automatic Control System Co. Ltd.	Shenyang, China	CNY 5'000'000	36%			•	•	•
Shenyang Yuanda Compressor Energy Service Co. Ltd.	Shenyang, China	CNY 1'000'000	60%				•	•
Shenyang Yuanda Compressor Import and Export Co. Ltd.	Shenyang, China	CNY 1'000'000	60%				•	•
Shenyang Yuanda Shengda Turbine Compressor Co. Ltd. <sup>2</sup>	Shenyang, China	CNY 100'000'000	24%			•	•	•
Shunyuan Resources Recycling Equipment Industry (Liaoning) Co. Ltd. <sup>2</sup>	Shenyang, China	CNY 65'000'000	24%				•	•
Compressor Tech Holding AG <sup>1</sup>	Zug, Switzerland	CHF 200'000	100%					
PROGNOST Systems GmbH	Rheine, Germany	EUR 200'000	100%	•	•	•	•	•
PROGNOST Systems Inc.	Houston, USA	USD 240'000	100%		•		•	•
Société d'Application du Métal Rouge SAS	Pont Sainte Marie Cedex, France	EUR 501'000	100%	•	•		•	•
Arkos Group LLC <sup>2</sup>	Houston, USA	USD 26'250'000	40%					
Arkos Field Services LP <sup>2</sup>	Houston, USA	–	40%	•	•	•	•	•
Arkos Realty & Investments LP <sup>2</sup>	Houston, USA	–	40%					
Precision Arkos Machine, LP <sup>2</sup>	Houston, USA	–	28%				•	•

<sup>1</sup> Company is directly held by Burckhardt Compression Holding AG.

All other companies are indirectly held by Burckhardt Compression Holding AG.

<sup>2</sup> Company is accounted for using the equity method.

All other companies are fully consolidated.

The statements in this review relating to matters that are not historical facts are forward-looking statements that are not guarantees of future performance and involve risks and uncertainties, including but not limited to: future global economic conditions, foreign exchange rates, regulatory rules, market conditions, the actions of competitors and other factors beyond the control of the company.

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