

# Compensation Report

This report describes the philosophy, policy and practices as well as the governance and architectural framework of the compensation system for all employees and the members of the Board of Directors of Gurit. The report discloses information regarding variable, performance-based compensation as well as fixed, performance-independent compensation, including the share participation schemes of the members of the Executive Committee and the members of the Board of Directors.

## 1. Compensation Philosophy

Gurit's compensation system is designed to align the interests of the Board of Directors, the Executive Committee, additional key managers and all other employees across the whole Group with the long-term goals of the Company and the interests of the shareholders. Gurit is a globally active industrial group operating in a competitive marketplace. The compensation system is therefore intended to enhance Gurit's ability to recruit and retain a talented and performing workforce. The system also seeks to motivate Gurit employees at all levels to adopt an entrepreneurial stance; to strive for above-market-average performance, accountability and value creation; and to reward individuals according to pre-defined targets and objectives.

Gurit maintains a compensation system in accordance with the employment practices relevant in the various countries in which the Company operates. In the context of Gurit's compensation system, the total compensation for an individual employee generally reflects the required qualifications, the scope and complexity of a person's role, national legal requirements and employment conditions in the relevant countries, the overall business performance, and the person's individual performance.

Gurit is convinced that a well-balanced compensation system, which includes a sound mix of fixed elements as well as performance-related compensation, supports a sustainable business, employee loyalty and entrepreneurship.

## 2. Compensation Reporting Standards

Unless otherwise indicated, all information disclosed in this report refers to the fiscal year ending on December 31, 2017. This report follows article 13 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies and the

Swiss Code of Best Practice for Corporate Governance published by *economiesuisse*. It also complies with chapter 5 of the Annex to SIX Swiss Exchange's Directive on Information relating to Corporate Governance and the Swiss Code of Obligations. In addition, the compensation system is coherent with Gurit's Code of Conduct, which establishes comprehensive guidance of business principles applicable throughout the Group.

## 3. Compensation Governance

### Responsibilities of the Annual General Meeting of Shareholders

The Annual General Meeting approves all compensation paid to the members of the Board of Directors as a group prospectively for the period from the date of the ordinary Annual General Meeting until the next ordinary Annual General Meeting.

It furthermore approves the maximum fixed compensation paid to the members of the Executive Committee for the period from July 1 following the date of the ordinary Annual General Meeting to June 30 the year after, as well as the maximum variable compensation paid to the same employees for the period from January 1 to December 31 of the year in which the Annual General Meeting takes place (see graphic "Compensation Vote at the AGM").

### Responsibilities of the Board of Directors

The Board of Directors is ultimately responsible for the compensation system and the formulation of the proposals to the Annual General Meeting regarding compensation.

### Responsibilities of the Nomination and Compensation Committee (NCC)

The Nomination and Compensation Committee is responsible for the design and maintenance of the compensation systems for members of the Board of Directors, the Executive Committee and all other Gurit employees.

The Nomination and Compensation Committee proposes the fixed compensation (in cash, benefits and shares) for members of the Board of Directors, the CEO and the other members of the Executive Committee to the Board of Directors and the ordinary Annual General Meeting of Shareholders.

The Nomination and Compensation Committee reviews the allocation of shares to Gurit employees under the Share Participation Plan for Management.

The Nomination and Compensation Committee furthermore reviews the Executive Committee's proposals regarding Group- or Business-Unit-related performance objectives for the Group-wide bonus plan. It also reviews the resulting bonus payments within the limits approved by the ordinary Annual General Meeting of Shareholders, based on target achievement ratios calculated by the CFO.

The Committee reserves the right to propose amendments to the Group or Business Unit performance targets and the required achievement levels to take major changes in the economic environment into consideration.

Furthermore, the Articles of Association define the additional responsibilities of the Nomination and Compensation Committee.

### Responsibilities of the CEO

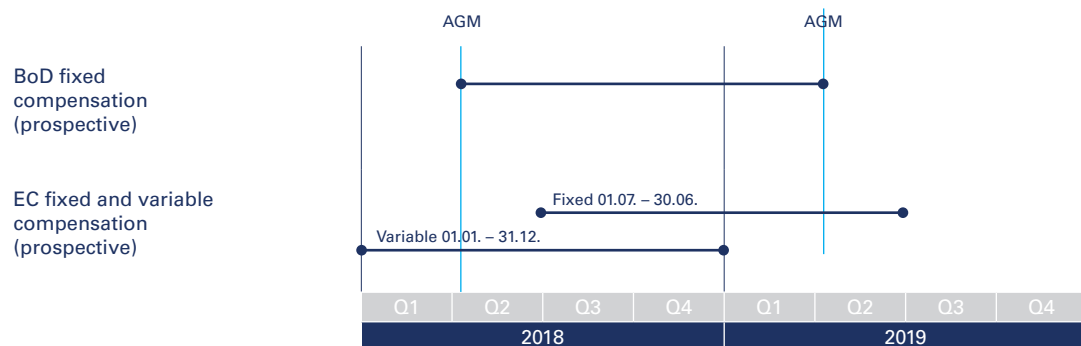
The CEO proposes the compensation for the members of the Executive Committee to the Nomination and Compensation Committee.

### Responsibilities of the Executive Compensation Committee

The Business Unit managers and the CEO approve the objectives of the Performance Incentive Schemes for production and sales employees and the evaluation of the achievement of these objectives.

Furthermore, the Executive Compensation Committee (ECC = CEO, CFO and Head of Group HR) proposes the Group or Business Unit performance-related objectives for the Performance Incentive Scheme for other employees to the Nomination and Compensation Committee.

### Compensation Vote at the AGM



To ensure market competitive compensation, Gurit benchmarks the Board of Directors and the Executive Management compensation with 13 comparable Swiss-based industry companies from the SPI (Swiss Performance Index).

This involves the following companies: Ascom, Burkhart Compression, Feintool, Interroll, AFG, Belimo AG, Bossard AG, CPH AG, Hügli AG, Komax Gruppe, Phoenix Mecano AG, Meyer Burger Technology AG and Schweiter Technologies AG.

In addition, Gurit collaborates with an international consultancy firm, which supports Gurit in benchmarking the compensation system and salary levels in comparison to industry standards relative to the respective countries, regions and skill levels. This collaboration aims to increase transparency, to ensure appropriateness of senior management compensation and to further improve the Company's career development paths.

The compensation governance can be summarized as shown in the table "Overview Compensation Governance".

### Overview Compensation Governance

Recipient	Compensation system design	Bonus plan objectives	Compensation proposal
Production employees	NCC BoD	Line Mgr BU Mgr and CEO	Line Mgr BU Mgr and CEO
Sales employees	NCC BoD	Line Mgr BU Mgr and CEO	Line Mgr BU Mgr ECC
Share Plan Participants	NCC BoD	NCC BoD	ECC NCC and BoD AGM for EC
Senior Management and other employees	NCC BoD	ECC NCC BoD	Line Mgr BU Mgr ECC
Members of the Executive Committee	NCC BoD	CEO NCC BoD	CEO NCC and BoD AGM
CEO	NCC BoD	NCC BoD	NCC BoD AGM
BoD members	NCC BoD	n.a.	NCC BoD AGM

Body which recommends  
 Body which decides (reviews EC relevant governance elements)  
 Body which approves

NCC = Nomination and Compensation Committee; BoD = Board of Directors; AGM = Annual General Meeting; EC = Executive Committee; ECC = Executive Compensation Committee (CEO, CFO and Group HR); Mgr = Managers

## 4. Compensation Policy and Key Elements

As a general rule, the total compensation for all Gurit employees consists of a fixed salary component and a variable, performance-related bonus element. These two elements together form the target market salary for a given position.

### 4.1 Fixed Salary Components

The fixed compensation elements at Gurit consist of the following elements:

- Fixed cash compensation (base salary)
- Pension plans and social security according to applicable jurisdiction
- Fringe benefits such as car and parking allowances for certain employees
- A share-based compensation for the members of the Board of Directors. These shares are subject to a blocking period of three years from the date of the grant during which the members of the Board of Directors cannot sell the shares. The shares are considered at the value of the date they are granted

The fixed cash compensation is reviewed annually, taking into account inflation and the situation of the employment markets in the countries where the respective employees are employed, as well as individual performance and changes in responsibilities.

### 4.2 Performance-Related Variable Salary Components

The performance-related variable compensation elements of Gurit's compensation system consist of following:

- Performance-related cash payments as defined by Gurit's Performance Incentive Scheme
- Gurit's Share Participation Plan for Management (SPPM)
- In exceptional cases: limited individual bonuses for special achievements (not for the CEO or members of the Executive Committee)

	Board of Directors	Executive Committee	Senior Managers	Other employees	Sales	Production employees
Variable performance related salary components		Gurit Share Participation Plan (6)				
		Gurit Performance Incentive Scheme (5.3)			Gurit Sales Incentive Scheme (5.2)	Shop Floor Bonus (5.1)
Fixed salary components	Fixed granted shares					
	Fixed cash	Fixed cash (base salary)				

## 5. Cash-Based Performance Incentive Schemes

Gurit's cash-based Performance Incentive Scheme defines performance-related payments and covers all Gurit employees. It is essentially made up of the following three distinct elements:

### 5.1 Performance Incentive Scheme for Production Employees

As defined by the Performance Incentive Scheme for production employees (Shop Floor Bonus), the cash bonus of production staff can range from 0% to 5% of a person's fixed annual salary at target goal achievement. If the target is outperformed, it can reach a maximum of 8%. The objectives for this bonus are defined at site level by the site management and approved by the respective Business Unit manager and the CEO. The key performance indicators (KPI's) include objectives for health and safety, quality, productivity and individual attendance. The achievement of these objectives is assessed with all operations employees four times per year, or in certain cases monthly, and the bonus is generally paid on a quarterly basis, reflecting the need for operational flexibility. The bonus payments are calculated by the local site management and approved by the respective Business Unit manager and the CEO.

### 5.2 Performance Incentive Scheme for Sales Employees

As defined by the Performance Incentive Scheme for sales employees (Sales Incentive Scheme), the cash bonus of sales employees can range up to 50 % of a person's fixed salary of which three-quarters are linked to the achievement of the sales budget and one-quarter to the achievement of individual qualitative objectives. The sales targets are defined in the context of the Group's budgeting process and are approved in their entirety as part of the Group's budget by the Executive Committee and the Board of Directors. The individual targets are set and evaluated by the line manager of the respective sales employee and approved by the Business Unit Head.

### 5.3 Performance Incentive Scheme for Other Employees

As defined by the Performance Incentive Scheme for other employees, the cash bonus for all other employees consists of a general performance element related to the relevant Business Unit, Sub-Unit or the total Group plus an individual performance element.

### Summary Bonus Components

Recipient	Group performance component	Business Unit or Sub-Unit performance component	Total general performance bonus component	Individual bonus component	Total maximum bonus
CEO	80%	–	80%	20%	100%
Business Unit / Sub-Unit Manager	50%	30%	80%	20%	100%
CFO & Corporate Functions	60%	–	60%	40%	100%
Business Unit Functions	30%	30%	60%	40%	100%

The total bonus achievable for an employee under this scheme may vary between a maximum of 8 % and a maximum of 100 % of the respective fixed salary, depending on the employee's level of responsibility:

- CEO: up to 100 % of the annual base salary
- Executive Committee members: up to 50 % of the annual base salary
- Managers or senior staff members: up to 15 % or 30 % of the annual base salary, depending on the management level
- Other employees: up to 8 % of the base salary.

### 5.3.1 Business Unit, Sub-Unit, and Group General Performance Bonus Component

The Business Unit, Sub-Unit, and Group general performance bonus component is calculated annually considering typically the following three KPI's: 1) Net sales, 2) Operating profit excluding one-off income and expenses, Group and sales bonus expenses and 3) Net working capital per Business Unit/Sub-Unit or Group.

The respective minimum objective levels, target levels and cap levels are proposed by the ECC, reviewed by the Nomination and Compensation Committee and approved by the Board of Directors.

At the end of the fiscal year, the Business Unit, Sub-Unit, and Group general performance bonus achievements are calculated by the CFO and proposed by the Nomination and Compensation Committee for approval to the Board of Directors. Bonus payment starts with the achievement of the minimum objective level, rises linearly to a 66.7 % payout of the maximum bonus at achievement of the target level and then rises again linearly to full maximum payout at achievement of the cap level. During the year under review, the objective levels were in general between 9 % and 22 % below the target levels, and the cap levels exceeded the target levels in general by between 9 % and 17 %. No bonus is paid if the minimum objective level has not been achieved.

The level of the Business Unit, Sub-Unit or Group bonus element has no impact on the level of achievement of the individual bonus.

### 5.3.2 Individual Bonus Component

The fulfillment level of the individual and/or factory-related objectives are assessed on an annual basis by the line manager for each person, based on objectives and targets defined in the first quarter of each business year. The individual bonus element represents between 20 % to 40 % of the total maximum bonus as shown in the table "Summary Bonus Components".

Bonuses under the Performance Incentive Scheme might be paid out after publication of the annual results.

### 5.3.3 Limited Individual Bonus for Special Achievements

In exceptional cases some limited, individual bonuses for special achievements may be granted. Upon proposal by the respective superior, the ECC may approve the granting of such special bonuses. Such limited, individual bonuses may not be granted to the CEO and the other members of the Executive Committee.

## 6. Share-Based Compensation for Selected Categories of Management

The Group's Share Participation Plan for Management (SPPM) aims at providing to the Executive Committee and the next level of management a part of their performance-related compensation in form of Gurit bearer shares to build their long-term commitment to Gurit and to align their interests with the interests of Gurit shareholders. The share-based compensation amount of the various management levels is determined every year by the Nomination and Compensation Committee and approved by the Board of Directors. It does not form part of the employment contract. The shares granted under this plan are blocked for a period of three years, during which the employee cannot sell the shares.

Shares granted under this plan form part of the variable compensation, as the amount of shares granted is subject to the achievement of the following main performance criteria:

- a) Market environment, includes:
  - Market demand development
  - Competitive situation
  - Main cost factor impacts
  - Statutory environment
  - Currency swings
- b) Strategy deployment, includes:
  - Group strategy deployment and achievement
- c) Prospective cash development and financial results relative to competition:
  - Prospective cash development
  - Results in perspective to competition

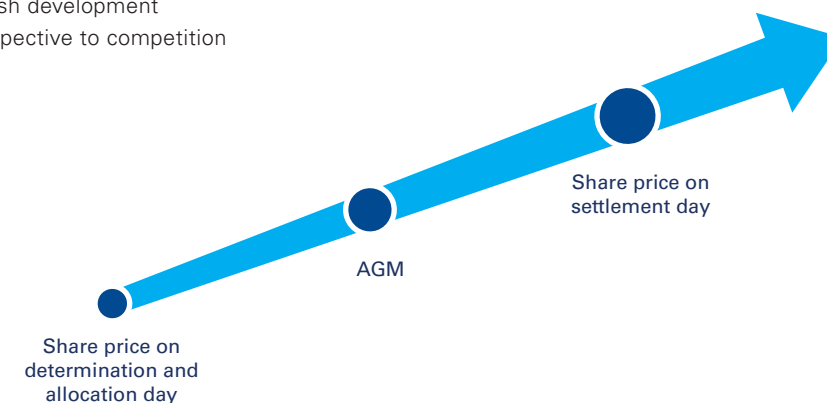
The level to which these criteria are achieved is assessed early in the year following the year under review by the Nomination and Compensation Committee. Depending on the level of achievement, the number of shares granted varies between 50% and 150% of the target number of shares fixed for each level of management as follows:

Share-based compensation at 100% target achievement:

- CEO: 300 shares
- Executive Committee members: 50 shares
- Managers or senior staff members: between 15 and 50 shares, depending on the management level.

The shares are blocked for a period of three years and are transferred to the share plan participants some 5-10 days after the Annual General Meeting of Shareholders. Therefore, the closing price on the day on which the shares are actually transferred might vary from the closing price on the day (allocation day) on which the total number of shares was determined and allocated by the Nomination and Compensation Committee and approved by the Board of Directors. This might deviate from the maximum amount of share-based compensation if the share price has increased in the period between these dates.

### Potential Deviation in Share Closing Prices:



## 7. Compensation for Members of the Executive Committee and the Board of Directors

### 7.1 CEO

The fixed compensation for the CEO (base salary) is based on what the Nomination and Compensation Committee assessed and benchmarked as the industry standard for comparable, listed Swiss industrial companies of a similar size in terms of net sales (around CHF 500 million) and complexity, based on the Nomination and Compensation Committee's members' experience as well as on collaboration with an international consultancy company which supports Gurit in benchmark compensation and salary levels (as indicated on page 33).

The CEO benefits from a pension scheme of which half of the premiums are financed by him. The part financed by Gurit is disclosed as part of the other compensation in article 8 of this report.

The CEO is entitled to performance-related cash compensation according to the Performance Incentive Scheme described above. He is entitled to a performance-related cash bonus payment of a maximum of 100 % of his base salary. 20 % of the performance-related bonus depends on the achievement of individual targets set by the Nomination and Compensation Committee and approved by the Board of Directors. The remaining 80 % depends on the achievement of the general Group Performance Bonus component.

The CEO is entitled to receive shares as part of the Group's Share Participation Plan for Management (SPPM). The amount of shares granted will vary between 150 and 450 shares per annum. The total variable compensation (shares and cash bonus) is capped and must not exceed 100 % of the CEO's total fixed compensation.

### 7.2 Other Members of the Executive Committee

The fixed compensation for the other members of the Executive Committee (base salary) is based on the market and employment conditions in the relevant country as gathered from various sources; it also reflects the individual qualifications and requirements needed for the specific position.

A supplementary pension scheme exists for certain members of the Executive Committee according to the practices of the countries in which the person is employed. Half of the premiums are financed by the members themselves. The part financed by Gurit is disclosed as part of the other compensation in article 8 of this report.

The other members of the Executive Committee are also entitled to shares granted according to the Group's Share Participation Plan for Management (SPPM). The granting of such shares is subject to certain performance criteria as described above under article 6 and is considered part of the variable compensation. The annual amount of shares granted varies between 25 and 75 shares per annum.

The other members of the Executive Committee are furthermore entitled to a performance-related cash compensation based on the Performance Incentive Scheme described above. As such, they are entitled to a performance-related cash bonus of a maximum of 50% of their base salary. 20 % to 40 % of their bonus depend on the achievement of individual targets set by the CEO, reviewed by the Nomination and Compensation Committee and approved by the Board of Directors. The remaining 60 % to 80 % depend on the achievement of the Business Unit and Group bonus components. The total variable compensation for other members of the Executive Committee (shares and cash bonus) must not exceed 100 % of their base salaries.

### 7.3 Members of the Board of Directors

The fixed compensation for the members of the Board of Directors is based on what has been assessed by the Nomination and Compensation Committee as the industry standard for comparable, listed Swiss industrial companies of a similar size in terms of net sales (around CHF 500 million) and complexity, based on the Nomination and Compensation Committee's members' experience. It includes an element of fixed cash compensation and an element of fixed share-based compensation.

A performance-based incentive scheme does not exist for the members of the Board of Directors.

## 8. Management Compensation 2017/2016

The following tables show the compensation for the Board of Directors and the Executive Committee in 2017 and 2016. Fixed other compensation includes pension contributions and social benefits relating to the fixed compensation. Variable compensation contains the accrued variable compensation (including related accrued social benefits), which are paid out in the calendar year following the calendar year under review.

The amount of the share-based compensation for 2017 was calculated based on a share price of CHF 968 per share. This corresponds to the average closing share price of the five days actual stock price trading before the date of the NCC meeting on February 15, 2018. Due to the share price fluctuation, the effective settlement value may be higher or lower on the settlement date in April 2018. In 2016, the share-based compensation was calculated based on a share price of CHF 848, based on the average closing share price of the five days actual stock price trading before the date of the NCC meeting on March 3, 2017.

In 2017, the performance-related compensation for the members of the Executive Committee varied from 29% to 91% (2016: 23% to 72%) of the individual fixed compensation.

The reduction of the total amount paid to Management (Board of Directors and Executive Committee) in 2017 compared to 2016 mainly reflects the reduction of the number of members in the Executive Committee from six to five.

Gurit did not pay any exit compensation to anyone leaving office during the year under review. The former General Manager Composite Components who resigned from the Executive Committee in November 2016, received his salary until the end of the notice period in May 2017. Apart from this, there was no compensation paid to former members of governing bodies during the year under review. There were no transactions with current or former members of the Board of Directors or the Executive Committee (or parties closely linked to them) at conditions that were not at arm's length.

No loans, securities, advances, or credits were granted to members of the Board of Directors or the Executive Committee (or parties closely linked to them). There are no options issued on Gurit bearer shares on December 31, 2017, in the context of a participation program.

**Management Compensation 2017/2016**

In CHF 1000							2017
	Fixed cash compensation	Fixed share-based compensation	Fixed other compensation	Variable cash compensation	Variable share-based compensation	Total compensation	
<b>Board of Directors</b>							
Peter Leupp (Chairman)	250	48	–	–	–	298	
Stefan Breitenstein (member)	80	24	–	–	–	104	
Nick Huber (member)	80	24	14	–	–	118	
Urs Kaufmann (member)	80	24	14	–	–	118	
Peter Pauli (member)	80	24	–	–	–	104	
<b>Total Board of Directors</b>	<b>570</b>	<b>144</b>	<b>28</b>	<b>–</b>	<b>–</b>	<b>742</b>	
	77%	19%	4%	0%	0%	100%	
<b>Executive Committee</b>							
Rudolf Hadorn (CEO)	630	–	131	320	373	1 454	
Other members*	1 165	–	243	278	252	1 938	
<b>Total Executive Committee</b>	<b>1 795</b>	<b>–</b>	<b>374</b>	<b>598</b>	<b>625</b>	<b>3 392</b>	
	53%	0%	11%	18%	18%	100%	
<b>Total Management compensation</b>	<b>2 365</b>	<b>144</b>	<b>402</b>	<b>598</b>	<b>625</b>	<b>4 134</b>	
	58%	3%	10%	14%	15%	100%	

\* The annual average number of other Executive Committee Members in 2017 is 4.0

In CHF 1000							2016
	Fixed cash compensation	Fixed share-based compensation	Fixed other compensation	Variable cash compensation	Variable share-based compensation	Total compensation	
<b>Board of Directors</b>							
Peter Leupp (Chairman)	250	36	–	–	–	286	
Stefan Breitenstein (member)	80	18	13	–	–	111	
Nick Huber (member)	80	18	13	–	–	111	
Urs Kaufmann (member)	80	18	13	–	–	111	
Peter Pauli (member)	80	18	13	–	–	111	
<b>Total Board of Directors</b>	<b>570</b>	<b>108</b>	<b>52</b>	<b>–</b>	<b>–</b>	<b>730</b>	
	78%	15%	7%	–	–	100%	
<b>Executive Committee</b>							
Rudolf Hadorn (CEO)	630	–	131	317	272	1 350	
Other members*	1 434	–	320	375	230	2 359	
<b>Total Executive Committee</b>	<b>2 064</b>	<b>–</b>	<b>451</b>	<b>692</b>	<b>502</b>	<b>3 709</b>	
	56%	–	12%	19%	13%	100%	
<b>Total Management compensation</b>	<b>2 634</b>	<b>108</b>	<b>503</b>	<b>692</b>	<b>502</b>	<b>4 439</b>	
	59%	2%	11%	16%	11%	100%	

\* The annual average number of other Executive Committee Members in 2016 is 5.0

## 9. Management Compensation Compared to Amounts Approved by the Annual General Meeting

The below table provides a comparison of the actual compensation amounts in the reporting year to the respective amounts approved by the Annual General Meeting.

	Fixed compensation Board of Directors April 13, 2017 - April 17, 2018		Fixed compensation Executive Committee July 1, 2016 - June 30, 2017		Variable compensation Executive Committee January 1, 2017 - December 31, 2017	
	Approved Maximum	Actual	Approved Maximum	Actual	Approved Maximum	Actual
Cash, in CHF 1000	570	570	2 208	1 940	1 300	557
Number of shares	150	150	–	–	825	600
Shares value at current price in CHF 1000	144	144	–	–	799	581
Social security and pension in CHF 1000	64	28	442	397	169	86
<b>Total</b>	<b>778</b>	<b>742</b>	<b>2 650</b>	<b>2 337</b>	<b>2 268</b>	<b>1 224</b>

## Report of the statutory auditor to the General Meeting of Gurit Holding AG Wattwil

We have audited the accompanying remuneration report of Gurit Holding AG for the year ended 31 December 2017 on page 40 to 41.

### 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 Gurit Holding AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Patrick Balkanyi  
Audit expert  
Auditor in charge

Cüneyt Budakoglu  
Audit expert

Zurich, February 28, 2018