

# Compensation report 2017



The Ordinance Against Excessive Compensation at Public Corporations (VegüV) requires listed companies incorporated in Switzerland to publish a Compensation Report. Cavotec SA (the "Company") is a Swiss Company listed on the NASDAQ in Stockholm, the Corporate Governance of Cavotec is based on Swiss and Swedish rules and regulations, such as Swiss Code of Obligations (the "CO") and the Swedish Code of Corporate Governance (Sw. Svensk kod for bolagsstyrning) (the "Code").

The Company having its seat in Lugano, Switzerland, also applies some Swiss Exchange ("SIX") rules regarding good Corporate Governance.

The Compensation Report describes our compensation system and philosophy, and provides details on the compensation payments to the Board of Directors and to the Chief Executive Officer in 2016.

## Compensation guidelines

The remuneration programme for senior executives in the Cavotec Group (the "Group") consists of four components:

- a) base salary
- b) annual non-equity cash compensation ("STIP")
- c) equity based incentives ("LTIP")
- d) pension benefits

The four components can be divided into fixed and performance based elements; the base salary and the pension benefits are fixed, whereas the STIP and LTIP are performance based. Qualified international remuneration consultants from Towers Watson have been consulted when the remuneration system was designed in order to ascertain that the remuneration system is competitive and in line with remuneration systems that exist in comparable companies.

Base pay	Variable pay
Base salary	STIP
Pension benefits	LTIP
Based on: - functions and responsibilities - mandatory pension plans of the country of employment	For: - performance and results - participating in long term success

### a) Base salary

The base salary for a senior executive of the Group is targeted at up to 120 per cent of the competitive market's median – where the competitive market is defined as general industry in the country of residence. In 2016, the benchmark analysis (or the competitive market analysis) has been made by using all companies listed in the general industry survey from Towers Watson for the following countries: Australia, Brazil, Canada, China, Denmark, Finland, France, Germany, Hong Kong, India, Italy, the Netherlands, Norway, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, the UAE (Dubai), the UK and the USA.

The base salary is revised once a year. The average yearly increase is historically below 5 per cent, but depends on the country of employment (where the inflation rate is an important factor for determining the increase). The base salary can also be adjusted in the case of a change of responsibility or relocation. There is a contingency plan that can be implemented in the case of worldwide economic recession or worldwide financial crisis whereby salaries can be voluntarily reduced by up to 10 per cent or increases can be halted. In fact, following the economical unrest in late 2008, the measures of the contingency plan were implemented and salaries were reduced by 10 per cent for nine months of 2009 and salary increases were halted. These measures were withdrawn in 2010.

### **b) STIP**

The STIP is a cash bonus that provides incentives for senior executives by providing them with a bonus based on Group profit before taxation. From 2012 EBIT is being used as the profit measure for the purpose of calculating the STIP, prior to 2012 EBT was used. The expected amount of the STIP each year is 10 to 35 per cent of the base salary.

When the STIP is distributed, it is calculated as a percentage of the base salary for each senior executive.

### **c) LTIP**

The LTIP is a long-term incentive plan that is aimed at creating a managing shareholder culture by allowing selected key employees of the Group to become shareholders of Cavotec SA.

The Plan Participant has the possibility, but is not obligated to purchase Co-investment Shares at fair value on the stock-market during the Co-investment Period of the Respective Plan.

The amount of the Matching Incentive depends on the number of Co-investment Shares still held by the Plan Participant on the Matching Date, as well as, on the achievement of the Revenue Target and the EBIT Margin Target.

The incentive from the LTIP is expected to be a maximum of 25-30 per cent of the Total Direct Compensation (Total Direct Compensation = base salary + STIP + LTIP). The incentive from the LTIP as a portion of Total Direct Compensation shall be higher for more senior executives as it is expected that the more senior the executives are, the more they influence the Group's result.

### **d) Pension benefits**

The pension benefits are based on defined contributions that are determined based on the mandatory pension plans of the country of employment and other local conditions. In certain selected cases an extra pension benefit equal to 10 to 15 per cent of the base salary can be agreed with key managers as an extra compensation. This extra compensation can be revised on a yearly basis.

### **a) Ordinary General Meeting**

An ordinary general meeting of shareholders is to be held yearly within six months following the close of the business year. It is called by the Board of Directors or, if necessary, by the auditors.

General meetings of shareholders are presided over by the Chairman of the Board of Directors or, in his absence, by a chairman of the day to be elected by the general meeting of shareholders. The chairman appoints a secretary and some scrutinisers neither of whom need be shareholders.

The Ordinary General Meeting "OGM" of Cavotec SA was held in Lugano and chaired by Fabio Cannavale in 2016.

The general meeting of shareholders has the following exclusive competences:

1. Amendments to the Articles of Association;
2. Approval of the annual report and, as the case may be, of the consolidated statements of accounts;
3. Approval of the annual financial statement as well as resolutions on the use of the balance sheet profits, in particular, the declaration of dividends and of profit sharing by directors in accordance with Art. 671 and Art. 677 CO;
4. Discharge of the members of the Board of Directors and of the Chief Executive Officer (CEO);
5. Election of the Board members, the chairman of the Board of Directors and the members of the Remuneration Committee;
6. Election of the independent proxy;
7. Election of the auditors;
8. Approval of the remuneration of the members of the Board of Directors and the CEO according to article 16b of the Articles of Association listed below:
  - 1) The general meeting of shareholders shall annually approve the maximum aggregate amount each of:
    - a) the remuneration for the Board of Directors for the next business year;
    - b) the remuneration for the CEO for the next business year.
  - 2) The aggregate amount shall cover the fixed remuneration, the STIP and the LTIP payable during the next business year.
  - 3) In the event the general meeting of shareholders does not approve a proposal of the Board of Directors, the Board of Directors may submit another proposal at the same general meeting of shareholders or convene a new general meeting of shareholders to approve the remuneration;
  - 4) The general meeting of shareholders may at any time approve a subsequent increase of an approved aggregate amount.
9. Resolutions on all other matters which, under the Articles of Association or according to the law, are in the exclusive competence of the general meeting of shareholders or which have been submitted to the meeting for its decision by the Board of Directors.

### **b) Board of Directors**

The current members of the Board of Directors in Cavotec SA are Fabio Cannavale, Leena Essén, Nicola Gerber, Heléne Mellquist, Erik Lautmann, Ottonel Popesco, Helena Thrap-Olsen, Patrik Tigerschiöld and Stefan Widegren (Chairman).

The Board of Directors of Cavotec SA held ten board meetings in 2016 and two in 2017.

By Swiss law, the Board of Directors has the following non-transferable and inalienable duties:

1. The determination of the strategy of the Company and the Group and the issuance of the necessary directives;
2. The establishment of a framework of the organisation;
3. The basic structuring of the accounting system, of a system of internal financial controls, and of the financial planning;
4. The approval of the appointment (and suspension) of the officers entrusted with the management of the Company or with its representation;
5. The supervision of management, in particular in relation to compliance with the law, the Articles and corporate regulations, charters and directives;
6. Decisions on the business report consisting of the annual financial statements, the annual report, and consolidated financial statements including interim published reports and determination of the accounting standard;
7. The preparation of the general meeting of shareholders of the Company and the implementation of its resolutions;
8. Notification to the judge in case of a capital loss ("Unterbilanz") of the Company and in case of over indebtedness ("Überschuldung"; art. 725-725a CO);
9. Preparation of the compensation report.

By Swiss law, the Board of Directors also has the following non-transferable responsibilities: Decisions in connection with capital increases pursuant to art. 651a, 652g, 653g CO (acknowledgement of capital increase) and art. 651 IV CO (increase of share capital in the case of authorised capital); decisions pursuant to art. 634a I CO (shares not fully paid in) and resolutions pursuant to the Swiss Merger Act.

### **c) Remuneration Committee**

The current members of the Remuneration Committee in Cavotec SA are Helena Thrap-Olsen, Patrik Tigerschiöld and Erik Lautmann (Chairman).

The Remuneration Committee of Cavotec SA held four meetings in 2016.

The Remuneration Committee has the following duties and competences:

1. Reviewing and advising the Board of Directors on the terms of appointment of the CEO;
2. Reviewing working environments and succession planning for members of the management;
3. Reviewing the terms of the employment arrangements with members of the management so as to develop consistent group-wide employment practices subject to regional differences;
4. Reviewing of and making proposals to the Board of Directors on the remuneration of the members of the Board of Directors and of the Chief Executive Officer;
5. Reviewing the terms of the Company's short and long term incentive plans;
6. Submission of a draft of the remuneration report to the Board of Directors.

## Compensation components

The remuneration to the members of the Board of Directors in Cavotec SA, is, in deviation from the code, resolved by the Board of Directors as set out in the Articles of Association. In addition, Board members may receive remuneration for consultancy services provided to the Company. None of the

members of the Board of Directors are entitled to any benefits when resigning from the Board, in their capacity as Board members. However, Board members may be entitled to benefits according to employment or consultancy agreements that will continue even if the Board member would resign as Board member.

### **a) Elements of Remuneration and Additional Amount for new CEO**

#### ***i. Elements of Remuneration (Articles of Association - Art. 16a)***

1. The Board members and the CEO shall be appropriately compensated for their services in view of their functions and responsibilities;
2. Both the members of the Board of Directors and the CEO shall receive a fixed and, if applicable, a variable remuneration;
3. The fixed remuneration may consist of a base salary plus social security contributions on the part of the employer, benefits and pension benefits;
4. The variable remuneration consists of annual compensation ("STIP") and/or long term incentives ("LTIP") plus social security contributions on the part of the employer and, if applicable, additional pension benefits;
5. The STIP is a variable compensation that provides incentives for senior executives by providing them with bonus based on Cavotec profitability;
6. The LTIP is a long-term incentive plan for senior executives which shall be aligned to the long-term value creation of the Company and may include or be based on shares and/or options;
7. The pension benefits are based on defined contributions, that are determined based on the mandatory and elective pension plans of the country of employment. Pension benefits may include retirement benefits (such as pensions, purchase of medical insurances etc.) outside of the scope of occupational pension benefit regulations and may amount to up to 50% of the last paid out fixed remuneration per year.

#### ***ii. Additional Amount for new CEO (Articles of Association - Art. 16c)***

If a new CEO is appointed after the remuneration has been approved, the Board of Directors is authorised to use for a given year, in addition to any approved amount, an additional amount of 100% of the approved amount of the remuneration of the CEO to remunerate any such new CEO to the extent that the approved total remuneration for the CEO is not sufficient to remunerate the new CEO until the next general meeting of shareholders. This additional amount does not need to be approved by the general meeting of shareholders.

### **b) Other remuneration**

#### ***i. Loans to members (Articles of Association - Art. 16j)***

The Company does not grant loans or extend credit to the members of the Board of Directors and to the CEO.

#### ***ii. Pension benefits (Articles of Association - Art. 16j)***

The Company may grant to the members of the Board of Directors and to the CEO pension benefits outside of the scope of occupational pension benefit regulations as provided in Article 16b, para 7.

**iii. Contractual terms (Articles of Association - Art. 16e)**

Indefinite contracts regulating remuneration with members of the Board of Directors or with the CEO shall have a notice period for such not exceeding 12 months.

Fixed-term contracts regulating remuneration with members of the Board of Directors, if applicable, or with the CEO are allowed to provide a duration of up to 12 months.

Compensation for the 2016 business year

**a) Compensation paid to the members of the Board of Directors 2016**

Year ended 31 December 2016						
EUR	Board fees	Short-term employee benefits	Post-employment benefits	Consultancy	Total 2016	Total 2015
Fabio Cannavale	35,000	-	-	-	35,000	38,161
Leena Essén	35,000	543	1,174	-	36,717	120,558
Nicola Gerber	30,000	1,064	1,588	-	32,652	32,669
Christer Granskog	10,000	179	386	2,444	13,009	41,898
Lakshmi Khanna	11,125	992	2,147	39,395	53,659	134,912
Heléne Mellquist	29,625	1,052	1,568	-	32,245	-
Erik Lautmann	38,800	573	1,240	-	40,613	41,015
Helena Thrap-Olsen	26,250	932	1,390	-	28,572	-
Patrik Tigerschiöld	40,000	1,420	2,117	-	43,537	38,114
Stefan Widegren (Chairman)	110,000	148,307	-	121,657	379,964	484,647

Year ended 31 December 2016						
CHF	Board fees	Short-term employee benefits	Post-employment benefits	Consultancy	Total 2016	Total 2015
Fabio Cannavale	38,155	-	-	-	38,155	40,751
Leena Essén	38,155	592	1,280	-	40,027	128,740
Nicola Gerber	32,705	1,160	1,731	-	35,596	34,886
Christer Granskog	10,902	195	421	2,664	14,182	44,741
Lakshmi Khanna	12,128	1,081	2,341	42,947	58,497	144,068
Heléne Mellquist	32,296	1,147	1,709	-	35,152	-
Erik Lautmann	42,298	625	1,352	-	44,275	43,798
Helena Thrap-Olsen	28,617	1,016	1,515	-	31,148	-
Patrik Tigerschiöld	43,606	1,548	2,308	-	47,462	40,701
Stefan Widegren (Chairman)	119,917	161,678	-	132,625	414,220	517,535

**NOTE:**

- Stefan Widegren through Soliden Sagl, has provided consulting services to the Group totalling EUR 122 thousands i.e. CHF 133 thousands.
- Lakshmi Khanna has provided consulting services to the Group totalling EUR 39 thousands i.e. CHF 43 thousands.
- Christer Granskog and Lakshmi Khanna did not stand for re-election as Board members at OGM April 2016.
- Heléne Mellquist and Helena Thrap-Olsen were elected as Board members at OGM April 2016.

**b) Compensation paid to the Chief Executive Officer 2016**

Year ended 31 December 2016						
EUR	Base Salary	Short-term Incentive	LTI Matching Incentive	Social Security, Insurance and Pension Contributions	Total 2016	Total 2015
Ottonel Popesco	468,602	-	9,393	262,313	740,308	910,113

Year ended 31 December 2016						
CHF	Base Salary	Short-term Incentive	LTI Matching Incentive	Social Security, Insurance and Pension Contributions	Total 2016	Total 2015
Ottonel Popesco	510,849	-	10,240	285,962	807,051	971,873

**NOTE:**

- The 2016 base salary remained unchanged compared to 2015. The variation is due to the currency exchange differences.
- The LTIP Matching incentive is based on a long term incentive plan. Each year the CEO has the possibility to purchase Co-investment shares at fair value in the stock market during the Co-investment period of the respective plan. In 2016, the CEO has decided to receive his matching incentive for the plan 2013 in the form of shares i.e. 4,272 shares (when the shares were received the value of the share was SEK 23.31 and the exchange rate was SEK 1= EUR 0.1076).
- The Social Security, Insurance and Pension Contributions include employer contributions.

Lugano, February 2017



**Erik Lautmann**  
Chairman, Remuneration Committee

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