



MTS SYSTEMS CORPORATION

PROCEDURE

TITLE

EXPATRIATE RELOCATION

NUMBER

PRO 108-03

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SUPERSEDES

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This Procedure Applies To:

☐ MTS Minneapolis☒ MTS North America☐ MTS Sector/Sub/Div – as noted below:☐ MTS Minneapolis & Sales/Service☐ MTS Worldwide

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The Human Resources Manager has the responsibility for managing and the authority to revise this procedure with final approval from the President.

Any deviations from this policy requires the advance approval of the Human Resources Manager or his/her Designee.

1. PURPOSE

The assignment of personnel to locations outside of North America is considered to be desirable in the shorter term operation and longer term development of MTS Systems Corporation. The purpose of such an assignment is to provide special skills abroad which may not be immediately available at that location and/or to provide MTS U.S. based employees with experience in "foreign" locations.

The opportunity to work in an overseas assignment is generally regarded as advantageous for the employee's career development.

2. APPLICABILITY

These policies and guidelines for temporary re-assignment of MTS-U.S. employees abroad (Expatriates) have been established to provide structure for the more important compensation and remuneration issues typical of

REVIEWED AND APPROVED BY						AUTHOR
						HR: Employment
						TYPOGRAPHER/DEPT. BJC/Corp



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overseas assignments. A detailed offer to employees must follow these guidelines and have the approval of both Human Resources and the cognizant vice president before presentation to the employee.

- Such assignment will normally be for an uninterrupted period of time not less than three years duration.
- Employees permanently assigned to any foreign country are exceptions to this definition.

The temporary assignment of employees whose home base is other than the United States will be covered by individual plans which follow the conceptual format of these policies and guidelines.

3. DEFINITIONS

Spouse - Husband or wife legally recognized as married by the state of residence.

Family - Spouse and unmarried children under age 25 who are full-time students residing with the expatriate and qualifying as a dependent under IRS rules.

Home Base - The location from which the employee is initially expatriated to a foreign assignment.

Home - The relocating employee's primary residence consisting of a traditional single family residence or apartment style condominium. In case of multiple unit dwellings, only that portion occupied by the employee.

Foreign Assignment - A location out of the home base country within which the employee has taken residence at the request of the company.

4. RELOCATION

General - It is not intended that the employee suffer financial loss by reason of bona fide expenses resulting from relocation, nor is it expected that the employee will profit as a result of relocation expenses. Further, to qualify for reimbursement under this Policy the expense must be 1) covered and 2) necessary or unavoidable, 3) reasonable. Expenses or additional costs due to personal preference/choice will be borne by the employee.

Reporting -

All reimbursable expenses covered, under this procedure, are to be reported on a timely basis using MTS Expense Report Form No. 100730-97. Receipts or other acceptable supporting documentation must be submitted to the Human Resources Department for approval.

Reimbursement - Expenses incurred prior to the move will be reimbursed in U.S. dollars by the transferring unit. Temporary living and other reimbursable expenses incurred at the overseas location will be reimbursed in local currency by the local entity. Expenses incurred in the performance of the job, while reported separately, will be paid in local currency by the local entity.

Travel -

Actual travel expenses via the most direct route will be reimbursed. Additional expenses resulting from "irregular" travel will be borne by the employee.

5. ADVANCE VISIT

Travel and living expenses may be paid for an advance visit by the employee and spouse to decide whether or not to accept the transfer and/or to locate housing before the transfer becomes effective. Expenses connected with such a trip are treated as those of a normal business trip, and the normal caution should be exercised so as not to incur unreasonably large expenses.

6. MOVING PHYSICAL BELONGINGS

The transportation of the employee's household goods will be arranged for by the Minneapolis Human Resources Department and paid for by MTS. To the extent possible, shipment is to be by surface carrier. Air



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shipment of household goods will be authorized only when extreme inconvenience and/or expense would result. This must be documented by the employee and approved by the vice president.

Items not covered under the above paragraph include power tools, boats, household pets, personal collections (high monetary value or irreplaceable), large appliances, pianos, automobiles, and any other large items that do not constitute necessities at the foreign location.

If the employee is required at company request or elects to not ship a portion of his/her household effects or other possessions, the company will pay necessary storage costs. The employee is encouraged to dispose of those items whose value or usefulness is such that storage would be economically unwise.

When necessary, until the employee secures new quarters, the company will pay in transit storage up to a period of 30 days in either country.

All items in storage in either country should be removed at the same time. The employee will bear the cost of removal of individual items or partial removal of items from shipment.

7. AUTOMOBILES

MTS will not reimburse the cost of shipping an automobile to the foreign location, nor will the company pay any automobile storage costs.

It is recommended that the employee sell or dispose of his/her automobile(s) prior to the transfer.

The purchase and operation of cars for personal use at the foreign location is considered a personal affair of the employee. (Use of personal cars for business purposes is covered under the business expense reimbursement procedures at the new location.)

8. EMPLOYEE'S HOME

It is the policy of MTS to allow home owning employees to make their own decision regarding the disposition of their primary residence. A factor in this decision will be the length of the foreign assignment.

- Should the employee elect to sell the home, the company will reimburse selling expenses per Procedure #96.
- Should the employee elect to retain the home, the company will pay the employee a total of 5% of the appraised value of the home to cover management fees and maintenance costs. Payment will be made in four equal installments during the first year. An additional 5% or fraction thereof will be provided for each subsequent three years of overseas assignment.

In order to remain with the company, it may be necessary for the repatriating employee to return to a location other than the home base. When this happens, home selling assistance provided for per Procedure #96 will be reduced by the 5% paid to the employee to cover management and maintenance costs.

Home Purchase - The company strongly discourages the purchase of a home at the foreign location and will not reimburse any costs associated with the sale or purchase.

9. INTERIM LIVING COSTS

When the employee is unable to secure and take possession of a residence at the new location at the time the transfer is effected, the company will reimburse certain interim living costs.

The vice president may approve up to 30 days of expenses. Costs that are reimbursable are lodging and actual meal expenses. All expenses should be supported by proper receipts and claimed on an expense report form.



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The vice president may alternately choose to establish a fixed dollar amount to cover interim living expenses.

Miscellaneous Expenses - MTS will reimburse the cost of purchase of household appliances, fixtures and special furnishings necessary at the foreign location but not transferable between the North American and the foreign location. Such purchases must have the advance approval of the sending vice president. These items may remain the property of MTS at MTS' sole discretion.

10. LIVING COST DIFFERENTIAL

MTS utilizes the services of an international management consulting firm to assist in the development of equitable expatriate cost-of-living differentials. This consultant (currently *Associates for International Research*) provides up-to-date comparative costs between the home location and expatriate location covering three major categories. They are: housing, goods and services, and transportation. Information from the consulting company's report will serve as the basis for developing and updating MTS' expatriate compensation program.

Expatriate's compensation will be expressed in U.S. dollars and consists of the following:

- Base Salary
- Expatriate Premium
- Housing Cost Differential
- Goods & Services Cost Differential
- Transportation Cost Differential

In order to minimize the effect of currency fluctuations on their pay, transferees will have, where possible, a portion of their salary paid in the local currency. The portion paid in the local currency will equal the sum of the transferee's goods and services, housing, and transportation costs at the receiving location as determined by the international management consultant. (The transferee may elect to have less funds converted to local currency) The local currency salary will be deducted from the US salary using the Standard Intercompany Conversion Rate on January 1st and July 1st.

Payment will be made by wire transfer of local currency into the transferee's local bank account. The monthly deposit will be the responsibility of the Accounts Payable Department. MTS will bear the loss/gain due to currency fluctuations. The transferee will be responsible for providing timely and accurate transfer instructions.

Housing - The employee is cautioned to judge foreign housing on the basis of local criteria rather than on home country criteria. The employee should keep in mind it may be extremely difficult, if not impossible, to duplicate housing equivalent to that in the U.S./Canada at the foreign location.

The company will subsidize the cost of housing, up to the amount of the housing cost differential between the home location and foreign location, per data supplied by the international consulting firm. The company may elect to pay the actual cost of housing as agreed upon by the Company and employee.

Goods and Services - The cost of acquiring a comparable "market basket" of goods and services at the overseas location may be higher than in the U.S.. Therefore, MTS provides a differential which is designed to offset these additional expenses. The company will rely on information provided by the consulting firm in setting the amount of the differential.

Transportation - Information supplied by the consulting firm will determine the maximum amount payable to cover the cost differential between the two locations. If an automobile is provided according to the employee's position requirements, then no further allowances will be provided under this policy.

Living cost differentials will be reviewed and adjusted as follows:

- Housing - annually (mid-July)



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- Goods & Services - semi-annually (mid-January and mid-July)
- Transportation - annually (mid-July)

Expatriate Premium - An expatriate, or overseas service, premium is paid as an additional inducement to take the assignment. The amount of the premium is 10% of base salary.

Taxation - MTS will provide tax equalization to expatriate employees. The purpose of the program is to keep an employee "whole" with respect to his/her overall tax burden (i.e., an employee neither gains nor loses by expatriate service).

A "hypothetical tax" figured on the employees base salary is established. The hypothetical tax represents the amount of tax the employee would have paid had he/she remained in the U.S.. The combined U.S. and foreign taxes actually incurred by the employee in excess of this is reimbursed. Any "windfall benefits" will accrue to the company. The hypothetical tax will be calculated by the Tax Department at the beginning of the assignment and updated with each change in base salary.

MTS endeavors to comply with all U.S. and host country income tax laws and will engage and pay a qualified international tax accounting firm to prepare the income tax returns of expatriate employees. The employee is responsible for assuring payment of all legal income taxes.

11. HOLIDAYS AND VACATION

The employee will observe local work schedules (and work related policies) and will receive paid holidays when such are observed by the local entity or by local custom. Vacation will accrue per MTS North American policy. Upon return to the U.S., accrued vacation will be credited to the employee. Unused vacation may be paid by the subsidiary at their discretion.

12. HOME LEAVE

Home leave is intended to provide employees and their families the opportunity to visit their home at periodic intervals to renew personal contacts, visit relatives and take care of personal business.

Employees will be eligible for home leave after each twelve months of overseas assignment. Home leave should usually be combined with a business trip. Therefore, the duration of the leave will be determined by the employee and manager. The non-business portion of the trip should be used as vacation or unpaid time off.

The company will pay the cost of travel for the employee and family and up to 30 days hotel and car rental expenses during any one stay. Additional trips made in the normal conduct of business are not covered in this policy.

13. BENEFITS

Because of the variation in customs and laws at various locations, it is difficult to be specific about fringe benefits.

However, MTS will provide a benefits package for foreign service employees that is comparable to those provided MTS-Minneapolis employees.

14. LANGUAGE INSTRUCTIONS

The achievement of at least a working knowledge of the country's language is considered to be highly desirable. To assist in this respect, the company will absorb the reasonable cost of language instruction for the employee and spouse. Language instruction may be undertaken prior to the foreign assignment and continued afterward.

15. CHILDREN'S EDUCATION



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MTS will pay the actual and reasonable educational cost for expatriate employees' children grades K-12 to attend an American or International school overseas. Costs include tuition, registration fees, textbooks and local bus transportation.

16. TERMINATIONS

In the unlikely event of termination by the company, MTS will provide for the return of the employee and family to the home base and will pay reasonable transportation and shipping charges on personal effects and household goods.

The move must occur within three months of termination. No payment will be made in lieu of not exercising the option to move.

In the event of a resignation by an employee, MTS will provide relocation only if the Personnel Department determines that the circumstances of the resignation warrants such action by the company.

17. POSITION UPON RETURN

MTS considers a foreign assignment as an opportunity for the employee to develop skills that will be valuable to MTS when the employee returns and will make every effort to assimilate the employee into a suitable position within the company. A suitable position is defined as one with at least similar pay and impact to the job the employee held before the foreign assignment. If a position has not been found before the expatriate returns and, it is still the desire of the employee and intent of the company that a position be found, the employee will be placed on "temporary assignment" for up to six months. If no job is found or if the employee rejects a position offered within the six months period then MTS has no further obligation to the employee. Severance and outplacement will apply per company policy.

Unless stated in writing by the President, no absolute guarantee of employment upon return to the U.S. can be made.

18. RETURN RELOCATION

MTS will provide for the return to the home base of the employee and family and will absorb reasonable transportation and shipping charges on personal effects and household goods and generally provide relocation assistance according to Procedure #96.

As a rule-of-thumb, it is expected that the employee's personal effects and household goods brought back will approximate the amount taken over to the foreign assignment.

The company will not pay the cost of shipping items of unusual size or weight or items requiring high import duties.

19. LETTER OF UNDERSTANDING

For both the benefit of the expatriate and employer, it is advisable to have a Letter of Understanding executed between the two parties that clearly sets forth the conditions of the assignment. Following is a list of items that should be covered:

- Job Title and Reporting Relationship
- Employment Relationship - Length of Assignment
- Compensation (Salary and Variable Compensation/Incentive)
- Living Cost Differential
- Travel/Relocation Expenses
- Repatriation
- Education Allowance
- Vacation/Home Leaves

20. PAYMENT AND REIMBURSEMENT CONDITIONS

Notwithstanding anything herein to the contrary, the payments under this policy or procedure is intended to comply with the requirements applicable to reimbursement arrangements under Code §409A and regulations promulgated thereunder. To this end, any payment or reimbursement required under this policy or procedure



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shall be subject to the following conditions: (a) payment shall be made no later than three months following the period in which all information is received from the foreign taxing authority to calculate the payment; (b) the amount of such expenses the Corporation is obligated to pay in any given calendar year shall not affect the expenses the Corporation is obligated to pay in any other calendar year; and (c) the recipient's right to have the Corporation pay such expenses may not be liquidated or exchanged for any other benefit.