
Compensation Report

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Introduction

The Compensation Report describes the compensation policy and programmes of Zehnder Group AG as well as the method of determination of compensation. Further, it provides details about the compensation awarded to the members of the Board of Directors and the Group Executive Committee in the fiscal year 2020.

The Compensation Report was prepared in accordance with the Ordinance against Excessive Compensation in Listed Companies (VegüV) and is in line with the Corporate Governance Directive issued by SIX Swiss Exchange and with the principles of the Swiss Code of Best Practice from economiesuisse. This Compensation Report shows how the business results are reflected in the variable compensation awarded to members of the Group Executive Committee in 2020.

1. Governance and method of determination of compensation

1.1 Shareholders' involvement

The Annual General Meeting approves the maximum compensation amounts paid to the Board of Directors and to the Group Executive Committee, each in a binding vote. The provisions of the Articles of Association of Zehnder Group AG (www.zehndergroup.com/en/investor-relations/corporate-governance; Article 16) foresee that the Annual General Meeting votes annually and prospectively on each of the aggregate compensation amounts as follows:

- the maximum total compensation of the Board of Directors for the period to the next Annual General Meeting;
- the maximum total compensation of the Group Executive Committee for the current fiscal year.

The Articles of Association of the Zehnder Group AG (www.zehndergroup.com/en/investor-relations/corporate-governance; Article 32 ff.) include the following provisions on compensation:

- Principles of compensation and the allocation of listed shares for the Board of Directors (Articles 32 and 34);
- Principles of compensation and the allocation of listed shares for the Group Executive Committee (Articles 33, 34 and 36);
- Additional amount for payments to members of the Group Executive Committee appointed after the vote on compensation at the Annual General Meeting (Article 37);
- Loans, credit facilities and post-employment benefits for members of the Board of Directors and of the Group Executive Committee (Article 35).

1.2 Compensation Committee

According to the Articles of Association, the Annual General Meeting annually and individually elects at least two and a maximum of four members of the Board of Directors to the Compensation Committee, for a term of office of one year until the conclusion of the next Annual General Meeting. Members are eligible for re-election. At the 2019 General Meeting, shareholders elected the following members of the Compensation Committee:

	Executive/Independent/Non-independent member of the BoD	Chairman/Member
Riet Cadonau	Independent member of the BoD	Chairman
Thomas Benz (up to 2 April 2020)	Independent member of the BoD	Member
Urs Buchmann	Independent member of the BoD	Member
Milva Zehnder (since 2 April 2020)	Non-independent member of the BoD ¹	Member

BoD: Board of Directors

¹ Related to the representative of the controlling majority shareholder; holds less than 0.05% of the share capital of Zehnder Group AG.

As determined by the Articles of Association (based on Article 27), the Compensation Committee has the following responsibilities:

- Submission of proposals to the entire Board of Directors regarding the compensation system for the Board of Directors and the Group Executive Committee;
- Submission of proposals to the entire Board of Directors regarding the total compensation amounts of the Board of Directors and of the Group Executive Committee to be submitted to vote at the Annual General Meeting;
- Submission of proposals to the entire Board of Directors regarding the individual compensation of the Chairman and other members of the Board of Directors;
- Submission of proposals to the entire Board of Directors regarding the individual compensation and the employment terms and conditions of the CEO and other members of the Group Executive Committee;
- Submission of proposals to the entire Board of Directors regarding the determination of compensation-related performance objectives for the Group Executive Committee;
- Submission of proposals to the entire Board of Directors regarding the Compensation Report;
- Submission of proposals to the entire Board of Directors regarding amendments to the Articles of Association in respect of the compensation system for the Group Executive Committee;
- Submission of proposals to the entire Board of Directors regarding the approval of external mandates of members of the Group Executive Committee.

The levels of authority between the Compensation Committee, the Board of Directors and the Annual General Meeting are summarised in the table below.

Responsibility levels

	CEO	CC	BoD	AGM
Compensation policy and principles		Proposes	Approves	
Total compensation of the BoD and GEC		Proposes	Reviews	Approves (binding vote)
Individual compensation of members of the BoD		Proposes	Approves	
Compensation of CEO		Proposes	Approves	
Individual compensation of other members of the GEC	Proposes	Reviews	Approves	
Compensation Report		Proposes	Approves	Advisory vote

BoD: Board of Directors, CEO: Chief Executive Officer, GEC: Group Executive Committee, CC: Compensation Committee, AGM: Annual General Meeting

The Compensation Committee meets as often as the business requires, generally before the meetings of the full Board of Directors, which take place at least four times a year. In 2020, the Compensation Committee held four meetings of an hour and a half each on average, which were attended by all members. The Compensation Committee conducted its regular activities during the year, including the annual review of the compensation policy, taking into consideration the feedback of external shareholders about the compensation programmes and their disclosure in the Compensation Report, the benchmarking of the compensation of the Board of Directors and the Group Executive Committee, the review of employment contracts for the individual Group Executive Committee members, and the determination of the individual remuneration of the members of the Board of Directors and the Group Executive Committee, for the attention of the full Board of Directors.

On 1 April 2020, the Compensation Committee proposed to the Board of Directors that the compensation for the Board of Directors be temporarily reduced by 10% due to the negative impact of the coronavirus pandemic on the Zehnder Group's business activities. The Board of Directors approved this reduction and it was applied to retainers in cash and shares plus committee fees. Additionally, the Compensation Committee temporarily reduced the annual base salaries of the Group Executive Committee members by 10% in 2020 following a proposal by the Group Executive Committee. After a careful review of the business situation in the second half of 2020, the temporary reduction in the compensation for Board of Directors members and the annual base salaries of the Group Executive Committee members was revoked on 1 October 2020, six months after its introduction.

For certain agenda items, the Chairman of the Board of Directors and/or the CEO participate in the meetings in an advisory capacity. The Chairman of the Compensation Committee may invite other executives as appropriate. However, the Chairman of the Board of Directors and the executives do not participate in the meetings, or periods of meetings, during which their own compensation and/or performance are being discussed. After each meeting, the Chairman of the Compensation Committee reports on the activities of the committee to the Board of Directors. The minutes of the meetings are available to the full Board of Directors.

The Compensation Committee is entitled to bring in external consultants regarding specific compensation issues. In 2020, the Compensation Committee tasked Willis Towers Watson with benchmarking the compensation of the Board of Directors and Group Executive Committee. KPMG was also tasked with reviewing the employment contracts for the Group Executive Committee members to ensure their compliance with tax regulations and national insurance legislation. The Compensation Committee is also being supported by internal experts, such as the Head of Group Human Resources.

1.3 Method of determination of compensation

In order to ensure competitive compensation levels that allow to attract key talents and keep them motivated over the long term, the compensation of executives is regularly benchmarked with that of executives from other international industrial companies with similar market capitalisation, revenue, profitability, headcount and geographical reach to the Zehnder Group. The following companies were used for comparison purposes for the CEO and other members of the Group Executive Committee: Arbonia, Belimo, Bobst, Bossard, Burckhardt Compression, Burkhalter, Conzzeta, Daetwyler, Feintool, Forbo, Gurit, Huber+Suhner, Interroll, Komax, Landis+Gyr, Metall Zug, Meier Tobler, Phoenix Mecano, Rieter, Schweiter and Starrag. Executives who are fulfilling their tasks at the expected performance level are generally awarded target compensation at median level of the relevant benchmark data.

In 2020, Willis Towers Watson performed a benchmarking exercise for the compensation of the Board of Directors. The report was designed to provide the Compensation Committee with a basis for analysing the compensation of the Board of Directors for the 2021/2022 period of office. Willis Towers Watson also performed a benchmarking exercise for the Group Executive Committee's compensation in 2020. For this purpose, the data of industrial benchmark companies (as described above) has been compiled by Willis Towers Watson from their existing database for each function of the Group Executive Committee in the country of employment of the respective member and by using the job grading methodology of Willis Towers Watson. The grading system is the basis for compensation activities such as benchmarking and determination of the compensation structure and levels. In addition, the grading system is also used for talent management (succession planning and people development).

While the benchmarking data is one factor considered by the Compensation Committee to determine the compensation of the Group Executive Committee, other factors are considered as well, such as the internal compensation structure (equity), the profile of the Group Executive Committee member (skill set, experience, seniority) and affordability to the company. The performance of the company in any given year has a direct impact on the variable short-term and long-term compensation actually paid to the Group Executive Committee member through the profit-sharing plan.

2. Compensation policy and principles

Zehnder Group's executives and employees are the company's most valuable assets. There would be no entrepreneurial success without their commitment, passion and professionalism. Consequently, the clear objectives of the compensation policy are to recruit and retain qualified employees, to drive best-in-class performance, to ensure market-based pay and to encourage behaviour that is in line with the company's values and high standards of integrity. The compensation programmes are designed to fulfil these fundamental objectives based on the compensation principles.

Compensation policy and principles

Alignment with business strategy	Compensation programmes are designed to support the business strategy.
Reward for sustainable performance	Variable compensation is based on the profitability of the company and its businesses, hence the performance management process is a central management tool to drive sustainable performance.
Participation in the company's long-term success	Executives have the opportunity to participate in the company's long-term success through the variable long-term compensation plan and the Zehnder Group Management Share Plan.
Market competitiveness	Compensation is regularly benchmarked against best market practice. The policy is to target median compensation of the relevant benchmark considering years of experience in the role.
Transparency and fairness	Compensation decisions are transparent and fair. The global grading system ensures consistency across the organisation.

3. Architecture of compensation of the Board of Directors

In order to guarantee their independence in their supervisory function of the Group Executive Committee, the members of the Board of Directors receive a fixed compensation only, consisting of a fixed annual retainer, a fixed compensation for the membership in committees of the Board of Directors as well as a lump sum expense allowance. The compensation of the Board of Directors is reviewed regularly. In order to strengthen the alignment to long-term shareholders' interests, 50% of the compensation of the Board of Directors is paid in cash and 50% is paid in form of Zehnder Group AG registered shares A. These shares are granted with a discount of 30% on the relevant share price, determined as the average volume-weighted share price of the share during the period between 1 October and 31 December of the respective year. The shares are subject to a restriction period of three years during which they cannot be sold, transferred or pledged. The restriction period also applies in case of termination of employment, except in case of death where the restriction immediately lapses.

The cash compensation is paid out monthly and the restricted shares A are allocated in January for the previous compensation period covering the term of office from the Annual General Meeting of the previous year to the Annual General Meeting of the reporting year.

Additional compensation to Board members for advisory services to the company or for the activities in companies that are controlled directly or indirectly by the company is permitted. This compensation is included in the total amount of compensation paid to the Board of Directors, which must be approved by the Annual General Meeting.

Architecture of compensation of the Board of Directors

	In cash	In shares ¹
Retainer (gross p.a.)		
Chairman of the Board of Directors	175,000	175,000
Vice Chairman of the Board of Directors	50,000	50,000
Members of the Board of Directors	40,000	40,000
Committee fees (gross p.a.)		
Chairman of the Compensation Committee or Audit Committee	15,000	15,000
Member of the Compensation Committee or Audit Committee	10,000	10,000
Expense lump sum (gross) ²	2,000	

¹ Converted into shares on the basis of the average volume-weighted share price during the period between 1 October and 31 December, discounted by 30%.

² The Chairman of the Board of Directors receives a lump sum expense allowance based on his level of activity, and in line with the company's expenses regulations for executives. For non-Swiss members of the Board of Directors or in cases where effective business expenses are in excess of CHF 2000, no expense lump sum is paid out and business expenses are reimbursed on an actual cost basis.

4. Architecture of compensation of the Group Executive Committee

The compensation for the Group Executive Committee includes a fixed annual base salary, a variable short-term element, a variable long-term element, participation in a management share plan, as well as occupational benefits and perquisites.

Architecture of compensation of the Group Executive Committee

	Purpose	Drivers	Performance measures	Vehicle
Annual base salary (ABS)	Attract & retain	Position, experience and qualifications		Monthly cash payments
Variable short-term compensation element (short-term incentive, STI)	Pay for performance	Annual business performance	Group net profit	Annual cash payment
Variable long-term compensation element (long-term incentive, LTI)	Reward long-term, sustained performance; align with shareholders' interests; retain	Role and area of responsibility	Relative total shareholder return (rTSR); increase in earnings per share (EPS)	Conditional rights to restricted shares A (Performance Share Units)
Zehnder Group Management share plan (ZGMSP)	Align with shareholders' interests, retain	Level of position	Share price evolution	Discounted registered shares A
Benefits	Protect against risks, attract & retain	Market practice and position		Retirement plan, insurances, perquisites

4.1 Annual base salary (ABS)

The annual base salary is determined individually on the basis of the scope and responsibilities associated with the position, experience and qualifications of the individual. The annual base salary is reviewed annually and adjustments reflect individual performance, current salary, competitive positioning, market salary trends and the affordability to the company.

4.2 Variable short-term compensation element (short-term incentive, STI)

The short-term incentive (STI) allows the Group Executive Committee to participate in the Group's current success and is delivered in form of a cash payment under a profit-sharing plan. For each position, a profit-sharing amount is determined, taking into account the impact on the operating result, company strategy and responsibilities. The STI amount paid out for the fiscal year corresponds to the profit-sharing amount multiplied by the Group net profit (in EUR million). Since the reporting year, the STI can only be paid if a Group net profit of at least 60% of the budget value is achieved (lower limit, adjusted for non-budgeted one-off effects such as company acquisitions). This aligns with the STI principles of the other executives of the Zehnder Group. Considering the profit-sharing characteristic of the formula, there is no formal target level for this STI. However, there is a contractually agreed upper limit for the STI amount. This is set at 100% of the annual base salary for the CEO and 75% for all other members of the Group Executive Committee.

Calculation of the STI amount:

	Individual profit-sharing amount (EUR)	Group net profit × (MEUR)	STI amount = (EUR)
Example	2,000	30	60,000

The STI amount for any given fiscal year is paid in the spring of the following year.

The decision to directly and solely link the STI to the financial results of the company (Group net profit) is based on the conviction that performance management shall be disconnected from compensation. For the CEO and the other members of the Group Executive Committee, within the framework of the global performance management process, the performance objectives are derived directly from the business strategy by the Board of Directors at the start of each year and reviewed at regular intervals. This takes place at the request of the Compensation Committee. These performance objectives include financial, strategic and qualitative objectives, for example in the area of leadership and project management.

In case of termination of employment during the first half of the fiscal year, the STI is calculated pro rata temporis, based on pay-out level of the previous year. In case of termination of employment in the second half of the year, the published half-year figures for the pro rata temporis calculation are taken into account. And in case of termination of employment at the end of the year, the published annual results apply.

The STI is subject to clawback and malus provisions in the event that the company is required to prepare a relevant accounting/financial restatement or in the event of violating the law or the internal regulations.

4.3 Variable long-term compensation element (long-term incentive, LTI)

As part of a long-term share plan, the LTI is granted in the form of Performance Share Units (PSUs). The LTI rewards the long-term performance and the sustainable success of the Zehnder Group and is aligned to the interests of shareholders.

A PSU represents a conditional right to receive shares of the company. The prerequisite for this is the fulfilment of certain conditions during the three-year performance period (vesting period). The vesting conditions include both the attainment of the predefined performance objectives (performance conditions) and continuous and ongoing employment at the end of the vesting period (service condition).

The features of the LTI can be summarised as follows: At grant a target amount in relation to the LTI is determined for each member of the Group Executive Committee, taking the relevant benchmark for the individual total compensation into account.

In 2020, the allocation of the target amount consisted of 50% of the annual base salary for the CEO and no more than 50% of the annual base salary for the other members of the Group Executive Committee.

On the grant date, the individual target amount is converted into the relevant number of PSUs based on the average volume-weighted share price of Zehnder Group AG at the SIX Swiss Exchange during the period from 1 October to 31 December of the year before grant date.

50% of the performance condition is based on the relative total shareholder return (TSR) and the remaining 50% is based on the increase in earnings per share (EPS growth). The relative TSR is the achieved increase in value for the investor (that is, the share price performance plus dividend) in relation to a comparison group.

Peer group

The peer group for the relative TSR measure is a summary of comparable companies that have already been taken into account for benchmarking purposes. The Board of Directors confirmed that the following companies were comparable:

Arbonia	Belimo	Bobst
Bossard	Burckhardt Compression	Burkhalter
Conzzeta	Daetwyler	Feintool
Forbo	Gurit	Huber+Suhner
Interroll	Komax	Landis+Gyr
Metall Zug	Meier Tobler	Phoenix Mecano
Rieter	Schweiter	Starrag

Rewarding long-term performance

The total number of shares that are transferred to the participants after the vesting period is calculated as shown below. The performance factor can range between 0 and 150%, with no conversion into shares carried out below the threshold. The conversion into shares is limited to a maximum of 1.5 shares per PSU.

For both key figures, the Compensation Committee defines a lower limit for the performance level (with no vesting taking place below this limit), a target value (100% vesting) and an upper limit for the performance level (150% vesting). Between these levels, vesting is calculated on a linear basis.

	Lower limit 25% (EPS) 50% (TSR) vesting	Target value 100% vesting	Cap 150% vesting
Relative TSR (50%)	25% percentile rank	Median of the comparison group	≥75% percentile rank
EPS growth (50%)	X% of the target value	EPS target value	Z% of the target value

EPS: Earnings Per Share, TSR: Total Shareholder Return

The achievement of the relative performance measure and the combined performance factor are calculated by an external independent consultancy company. If the Zehnder Group reports a loss from ongoing business activities during the last year of the three-year vesting period or in other exceptional cases, the Board of Directors reserves the right to specify whether and to what extent the PSUs will lapse for this period, regardless of the combined performance factor achieved.

In case of termination of employment, the blocked PSUs usually lapse, except in the event of retirement, disability, death or a change of control at the company. These provisions are outlined individually in the table below.

Reason for release	Plan rules for non-vested PSUs
Termination by employee	Lapse
Termination of employment by employer for good cause	Lapse
Termination of employment by employer (other causes)	Discretion of the Board of Directors
Retirement	Discretion of the Board of Directors
Invalidity	Pro rata vesting, based on effective performance at regular vesting point in time
Death	Accelerated pro rata vesting based on target performance (100% payment factor)
Change of control	Accelerated, full vesting based on effective performance at the point of change of control (except if the plan is continued or replaced with an equivalent)

PSUs or shares granted as part of the long-term share plan are subject to the same clawback and sunset clauses as the STI.

In the event of a participant failing to adhere to reporting regulations and/or committing fraud and/or breaching legislation or relevant internal regulations, these clauses enable the Board of Directors to declare that any variable cash compensation elements that have not been paid out or long-term incentives that have not yet been transferred are forfeited, either in part or in full (penalty clause), and/or to reclaim in part or in full any variable cash compensation elements that have been paid out or long-term incentives that have been transferred.

Shareholding guideline

To align the interests of the Group Executive Committee more closely with those of the shareholders, a shareholding guideline was introduced from the 2019 fiscal year onwards. Introduction of the shareholding guideline or after their appointment to the Group Executive Committee, the members of the Group Executive Committee must hold at least a multiple of their annual basic compensation in Zehnder Group AG shares, as demonstrated in the table below.

	% of the annual base salary
CEO	200%
Other members of the Group Executive Committee	150%

CEO: Chief Executive Officer

4.4 Long-term benefits: Zehnder Group Management Share Plan (ZGMSP)

The Zehnder Group Management Share Plan (ZGMSP) is a long-term benefit programme with the objective to encourage members of the Group Executive Committee and all employees at management level to directly participate in the long-term success of the company. The Group Executive Committee members may elect to draw up to 30% of their annual base salary in the form of Zehnder Group AG registered shares A. These shares are offered at a discount of 30% on the relevant share price determined as the average volume-weighted share price of the share during the period between 1 October and 31 December. The shares are subject to a restriction period of three years during which they cannot be sold, transferred or pledged. The restriction period also applies in case of termination of employment, except in case of death where the restriction immediately lapses.

The ZGMSP strengthens the link between compensation and company long-term performance, as the compensation invested in the programme is exposed to the change in share value over the restriction period of three years.

4.5 Benefits

As the Group Executive Committee is international in its nature, the members participate in the benefit plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to retirement and to the risks of disability, death and illness/accident.

The members of the Group Executive Committee with a Swiss employment contract participate in the pension plan offered to all employees in Switzerland, in which earnings up to an amount of CHF 700,000 per annum is insured. On 1 April 2020, optional pension saving schemes were introduced for all employees in Switzerland as a means of adapting to the changing market conditions. Within this context, employer pension contributions were increased by 1% in all cases. Employees also have the option of increasing their individual pension saving contribution by 1% or 2%. The Zehnder Group's pension benefits exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and are in line with what other international industrial companies offer. As a result of the employer pension contributions increasing by 1% during the reporting year, the pension benefits provided by the Zehnder Group are approaching the median of the peer group companies in Switzerland.

Members of the Group Executive Committee under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and are structured in accordance with local practice and in line with local legal requirements.

In addition, the members of the Group Executive Committee are also eligible to standard perquisites such as a company car, children allowance, subsidised staff restaurant and other benefits in kind, according to competitive market practice in their country of contract. The monetary value of these other elements of compensation is evaluated at fair value and is included in the compensation tables.

Expenses that are not covered by the lump sum remuneration for expense allowance in accordance with the company's expenses regulations are compensated upon presentation of documentary evidence. The reimbursement of business expenses is not considered compensation and does not need to be approved by the Annual General Meeting.

4.6 Contracts of members of the Group Executive Committee

The employment contracts of the members of the Group Executive Committee are unlimited, incorporate a notice period of minimum six to maximum twelve months and provisions on a non-competition clause, which is limited to two years after termination of the employment relationship and provides for an entitlement to a maximum of the annual base salary. There are no agreements with regard to severance compensation in connection with leaving the company or a “change of control”.

5. Additional information on compensation, guarantees, loans and credits for the business year 2020

5.1 Compensation to the Board of Directors in the business year 2020

In 2020, the members of the Board of Directors received a total compensation of CHF 1.6 million (2019: CHF 1.7 million) in the form of fixed compensation of CHF 0.7 million (2019: CHF 0.8 million), share-based compensation of CHF 0.8 million (2019: CHF 0.8 million) and national insurance contributions of CHF 0.1 million (2019: CHF 0.1 million).

In 2020, the total compensation paid to the Board of Directors was slightly lower than the previous year as a result of the following factors:

- To demonstrate solidarity, waiving of 10% of the fixed compensation between April and September 2020, for the Board of Directors members in office for the 2020/2021 period,
- Reduction in the Board of Directors by two members,
- Higher share price on the grant date in 2021 compared to the previous year.

Compensation for the members of the Board of Directors

✓ PwC Switzerland

	Units 2020	Units 2019	CHF ¹ 2020	CHF ¹ 2019
Hans-Peter Zehnder				
Chairman of the Board of Directors				
Fixed cash compensation for Board activity			166,250	175,000
Lump sum expense allowances			12,000	12,000
Allocated shares for Board activity ²	5,071	6,046	307,092	250,585
Fixed cash compensation for additional services			-	60,000
Cash compensation as per invoiced hours for additional services ⁴			-	20,000
Employer national insurance contributions			27,806	63,300
Other payments			12,935	12,475
Total compensation			526,083	593,360

	Units 2020	Units 2019	CHF 2020	CHF 2019
Thomas Benz				
Vice Chairman of the Board of Directors and member of the Compensation Committee up to 2 April 2020				
Fixed cash compensation for Board activity			12,500	50,000
Fixed cash compensation for Compensation Committee activity			2,500	10,000
Allocated shares for Board and Compensation Committee activity ²	493	2,073	21,670	85,895
Employer national insurance contributions			2,533	7,468
Total compensation			39,203	153,363

	Units 2020	Units 2019	CHF ¹ 2020	CHF ¹ 2019
Jörg Walther				
Vice Chairman of the Board of Directors since 2 April 2020 and Chairman of the Audit Committee				
Fixed cash compensation for Board activity			45,000	40,000
Fixed cash compensation for Audit Committee activity			14,250	15,000
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Audit Committee activity ²	1,801	1,899	110,390	78,712
Cash compensation as per invoiced hours for additional services ⁵			164,003	180,427
Employer national insurance contributions			11,468	9,175
Total compensation			347,111	325,314

	Units 2020	Units 2019	CHF 2020	CHF 2019
Urs Buchmann				
Member of the Board of Directors, the Compensation Committee and the Audit Committee				
Fixed cash compensation for Board activity			38,000	40,000
Fixed cash compensation for Compensation Committee activity			9,500	10,000
Fixed cash compensation for Audit Committee activity			9,500	10,000
Allocated shares for Board, Compensation and Audit Committee activity ²	1,737	2,072	105,148	85,853
Employer national insurance contributions			11,238	10,009
Total compensation			173,386	155,862

	Units 2020	Units 2019	CHF 2020	CHF 2019
Riet Cadonau				
Member of the Board of Directors and Chairman of the Compensation Committee				
Fixed cash compensation for Board activity			38,000	40,000
Fixed cash compensation for Compensation Committee activity			14,250	15,000
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Compensation Committee activity ²	1,593	1,899	96,450	78,712
Employer national insurance contributions			10,303	9,175
Total compensation			161,003	144,887

	Units 2020	Units 2019	CHF 2020	CHF 2019
Daniel Frutig				
Member of the Board of Directors from 28 March 2019 up to 2 April 2020				
Fixed cash compensation for Board activity			10,000	30,000
Allocated shares for Board activity ²	328	985	14,443	43,329
Total compensation			24,443	73,329

	Units 2020	Units 2019	CHF 2020	CHF 2019
Ivo Wechsler				
Member of the Board of Directors and the Audit Committee since 28 March 2019				
Fixed cash compensation for Board activity			38,000	30,000
Fixed cash compensation for Audit Committee activity			9,500	7,500
Lump sum expense allowances			2,000	1,500
Allocated shares for Board activity ²	1,448	1,231	87,650	54,153
Employer national insurance contributions			8,892	4,866
Total compensation			146,042	98,019

	Units 2020	Units 2019	CHF 2020	CHF 2019
Milva Zehnder				
Member of the Board of Directors and member of the Compensation Committee since 2 April 2020				
Fixed cash compensation for Board activity			38,000	40,000
Fixed cash compensation for Compensation Committee activity			7,000	–
Lump sum expense allowances			2,000	2,000
Allocated shares for Board activity ²	1,366	1,382	84,042	57,255
Employer national insurance contributions			7,493	6,673
Total compensation			138,535	105,928

	Units 2020	Units 2019	CHF 2020	CHF 2019
Total compensation paid to the members of the Board of Directors in the year of review				
Fixed cash compensation for Board activity			385,750	445,000
Fixed cash compensation for Compensation Committee activity			33,250	35,000
Fixed cash compensation for Audit Committee activity			33,250	32,500
Lump sum expense allowances			20,000	19,500
Allocated shares for Board, Compensation Committee and Audit Committee activity ²	13,837	17,587	826,885	734,494
Fixed cash compensation for additional services			-	60,000
Cash compensation as per invoiced hours for additional services			164,003	200,427
Employer national insurance contributions			79,733	110,666
Other payments			12,935	12,475
Total compensation			1,555,806	1,650,062

1 The amounts are gross amounts including national insurance contributions of the members of the Board of Directors, with the exception of one member whose national insurance contributions are settled by the employer due to the employment contract in question.

2 The shares are disclosed at the closing price of the shares on the respective grant dates.

3 A one-off payment of CHF 60,000 to the Chairman of the Board of Directors in the reporting year 2019 for the onboarding of the CEO.

4 Additional services of the Chairman of the Board relate to the support of the Group Executive Committee in strategic projects as well as to extra efforts within the BoD's ad hoc workgroups and is compensated with an annual maximum of CHF 20,000.

5 Additional services relate to legal services for specific projects (commercial and contract law, compliance, etc.) and to extraordinary expenses incurred within the BoD's ad hoc committees (Corporate Governance, M&A).

The 2020 Annual General Meeting approved a maximum budget of CHF 1.8 million for the Board of Directors during the period of office from the 2020 Annual General Meeting to the 2021 Annual General Meeting. The compensation effectively paid during the period under consideration in this Compensation Report (1 January to 31 December 2020) is within this budget approved by the shareholders. The final reporting for the entire period from the 2020 Annual General Meeting to the 2021 Annual General Meeting is included in the 2021 Compensation Report.

At the Annual General Meeting on 28 March 2019, the shareholders approved a maximum total compensation figure of CHF 1.8 million for the Board of Directors during the period of office from the 2019 Annual General Meeting to the 2020 Annual General Meeting. The compensation effectively paid to the members of the Board of Directors over this period was CHF 1.6 million and therefore fell within this approved budget.

5.2 Compensation for the Group Executive Committee in the business year 2020

For 2020, the members of the Group Executive Committee received a total compensation of CHF 3.9 million (2019: CHF 3.7 million) in the form of fixed compensation of CHF 1.7 million (2019: CHF 1.8 million), variable compensation of CHF 1.4 million (2019: CHF 1.2 million), other benefits including the value of the discount on the shares of CHF 0.3 million (2019: CHF 0.2 million), and national insurance and pension contributions of CHF 0.5 million (2019: CHF 0.5 million).

In 2020, the total compensation paid to the Group Executive Committee was slightly higher than the previous year due to the following factors:

- All members of the Group Executive Committee voluntarily waiving 10% of their fixed compensation from April to September 2020 as a demonstration of solidarity; the personal STI factors and allocated LTI amounts were not reduced as they are affected by the company's financial development,
- Individual increases in the annual base salaries in order to adjust to the market median. The total increase equates to 2.0% of the total fixed cash compensation for the members of the Group Executive Committee,
- Individual increases in the individual profit-sharing amounts in order to adjust to the responsibility of the position. The total increase equates to 5.0% of the profit-sharing amounts of all members of the Group Executive Committee,
- Compensation for Jörg Metzger as the new Head of the Competence Center Radiators since 11 May 2020, plus compensation for the former Head of the Competence Center Radiators, Tomasz Juda, within the same period (because of payments due under contract during the notice period),
- Higher STI amounts for 2020 compared with the previous year, due to a higher Group net profit in 2020.

In 2020, the Group achieved a net profit of EUR 39.9 million. Consequently, in 2020, the variable cash compensation amounted to 2.1% of the net profit for the members of the Group Executive Committee (2019: 2.4%).

The variable cash compensation for the CEO amounted to 58.4% of the fixed compensation and, for the other members of the Group Executive Committee, a maximum of 60.5% of the fixed compensation.

The highest compensation for a member of the Group Executive Committee was paid to CEO Matthias Huenerwadel in the reporting year and in the previous year.

In 2020, the Annual General Meeting authorised a maximum budget for compensation of the Group Executive Committee of CHF 5.3 million for fiscal year 2020. The total compensation amount of CHF 3.9 million paid to the Group Executive Committee for fiscal year 2020 as disclosed in the following table is below this upper limit.

Compensation for the members of the Group Executive Committee



	Units 2020	Units 2019	CHF ¹ 2020	CHF ¹ 2019
Highest-paid member of the Group Executive Committee: Matthias Huenerwadel				
Fixed cash compensation for GEC activity			475,000	500,000
Variable cash compensation			277,235	213,206
Long-term variable compensation (LTI)	5,750	6,950	262,200	231,783
Lump sum expense allowances			24,000	24,000
Employer social security and pension contributions			142,751	127,201
Shares acquired ²	4,926	–	65,023	–
Other payments			33,591	33,104
Total compensation			1,279,800	1,129,294
	Units 2020	Units 2019	CHF ¹ 2020	CHF ¹ 2019
Total compensation paid to the Group Executive Committee including Matthias Huenerwadel³				
Fixed cash compensation			1,607,171	1,755,097
Variable cash compensation			856,839	784,896
Long-term variable compensation (LTI)	11,144	11,287	508,166	376,421
Lump sum expense allowances			87,355	65,800
Employer social security and pension contributions			538,118	515,223
Shares acquired ²	12,961	10,551	171,085	111,102
Other payments			91,687	91,060
Total compensation			3,860,421	3,699,599

1 The amounts are gross amounts including employee national insurance contributions.

2 The members of the Group Executive Committee are eligible to purchase shares under the Zehnder Group Management Share Plan. The value disclosed includes the value of the discount on the shares purchased, determined at the closing price of the shares at the grant date, 11 January 2019 and 10 January 2020, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

3 There were five serving members of the Group Executive Committee on 31 December 2020. The total compensation paid to the Group Executive Committee for 2020 includes the pro rata compensation for Jörg Metzger (since 11 May 2020) and the pro rata compensation for Tomasz Juda up to the end of the normal notice period on 31 May 2020. There were five serving members of the Group Executive Committee on 31 December 2019. The total compensation paid to the Group Executive Committee for 2019 includes the pro rata compensation for Johannes Bollmann (since 4 April 2019) and the pro rata compensation for Olaf Schulte up to the end of the normal notice period on 31 August 2019. The pro rata compensation for Dominik Berchtold up to the end of the normal notice period on 28 February 2019 is included in the total compensation paid to the Group Executive Committee for 2019.

5.3 Guarantees, loans, credits, etc.

No Zehnder Group company has given guarantees, waivers of claims outstanding, credits or loans to current or former members of the Board of Directors, to present or former members of the Group Executive Committee, or to persons closely associated with them.

5.4 Compensation for former members of the Board of Directors and of the Group Executive Committee, and for persons closely associated with them, in the business year 2020

No compensation was paid to former members of the Board of Directors and of the Group Executive Committee in the reporting year.

No compensation was paid to persons closely related to members of the Board of Directors or to the Group Executive Committee.

Report of the statutory auditor

Report of the statutory auditor

to the General Meeting of Zehnder Group AG

Gränichen

We have audited the remuneration report of Zehnder Group AG for the year ended 31 December 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labelled «✓PwC Switzerland» on pages 54 to 57 and on page 59 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Zehnder Group AG for the year ended 31 December 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Ebinger
Audit expert
Auditor in charge

Korbinian Petzi
Audit expert

Luzern, 23 February 2021

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