
Compensation Report

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Introduction

The Compensation Report describes the compensation policy and programmes of Zehnder Group AG as well as the methods determining 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 2021.

The Compensation Report was prepared in accordance with the Ordinance against Excessive Compensation in Listed Companies (ERCO) and is in line with the principles of the Corporate Governance Directive issued by SIX Exchange Regulation AG and 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 2021.

1. Governance and methods determining 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 up 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 to the Board of Directors (Articles 32 and 34);
- Principles of compensation and the allocation of listed shares to the members of 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 Nomination and Compensation Committee

According to the Articles of Association, the Annual General Meeting elects annually and individually at least two and a maximum of four members of the Board of Directors to the Nomination and 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 2021 General Meeting, shareholders elected the following members of the Nomination and Compensation Committee:

	Executive/independent/non-independent member of the BoD	Chairman/member
Riet Cadonau	Independent member of the BoD	Chairman
Dr Urs Buchmann	Independent member of the BoD	Member
Milva Zehnder	Non-independent member of the BoD ¹	Member

BoD: Board of Directors

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

The responsibilities of the Committee have been expanded for the term of office starting from the Annual General Meeting 2021. The Nomination and Compensation Committee is now also responsible for dealing with nomination matters. Its responsibilities are set out in the Articles of Association (www.zehndergroup.com/en/investor-relations/corporate-governance; Article 27) and Organisational Regulations (www.zehndergroup.com/en/investor-relations/corporate-governance; Article 4.3.) and include the following:

- 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 determination of compensation-related performance objectives for the Group Executive Committee;
- 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 amendments to the Articles of Association affecting the remuneration system compensating the members of the Group Executive Committee;
- Submission of proposals to the Board of Directors relating to the appropriate size and balanced composition of the Board of Directors, the majority of whose members should be independent, and determining the criteria for independence;
- Development and presentation of criteria for election or re-election to the Board of Directors or the appointment as a member of the Group Executive Committee;
- Evaluation of potential members of the Board of Directors on the basis of the defined criteria and making a statement to the Board of Directors regarding their nomination to the attention of the General Meeting;
- Assessment of proposals from the CEO to the Board of Directors regarding the appointment or dismissal of members of the Group Executive Committee and, if necessary, submission of a statement to the Board of Directors;
- Review of succession and contingency planning at the Group Executive Committee level;
- Provision of information to the Board of Directors on all events relating to the Nomination and Compensation Committee that are not directly within the responsibility of the Board of Directors;
- Submission of proposals to the entire Board of Directors regarding the total amount of compensation 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 Compensation Report;
- Submission of proposals to the entire Board of Directors regarding the approval of external mandates for members of the Group Executive Committee.

The levels of authority between the Nomination and Compensation Committee, the Board of Directors and the Annual General Meeting are summarised by the following table.

Responsibility levels

	CEO	NCC	BoD	AGM
Compensation policy and principles		Proposes	Approves	
Total compensation amounts of 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, NCC: Nomination and Compensation Committee, AGM: Annual General Meeting

The Nomination and Compensation Committee meets as often as business matters require, generally before the meetings of the entire Board of Directors, which take place at least four times a year. In 2021, the Nomination and Compensation Committee held four meetings of two hours each on average, which were attended by all members.

During the year in review, the Nomination and Compensation Committee carried out an analysis of the company pension scheme arrangements for members of the Group Executive Committee, evaluated an adjustment of the compensation model for the Board of Directors and put forward a motion for approval by the Board of Directors. In other respects, the Nomination and Compensation Committee conducted its regular activities, including its annual review of the compensation policies, taking into consideration the feedback by shareholders on the compensation programmes and their disclosure in the Compensation Report, as well as the setting of the compensation of the individual members of the Board of Directors and Group Executive Committee and the preparation of the Compensation Report and remuneration proposals for the Annual General Meeting.

As part of the expanded range of tasks carried out since the Annual General Meeting 2021, the Nomination and Compensation Committee assesses the performance of the CEO and the members of the Group Executive Committee each year and prepares the succession planning for the Board of Directors and Group Executive Committee based on a defined set of criteria.

For specific agenda items, the Chairman of the Board of Directors, the Vice Chairman and/or the CEO attend the meetings in an advisory capacity. The Chairman of the Nomination and 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 parts thereof in case of their own compensation and/or performance being discussed. After each meeting, the Chairman of the Nomination and 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 Nomination and Compensation Committee is entitled to bring in external consultants regarding specific compensation issues. During the year 2021, the Nomination and Compensation Committee appointed Klingler Consultants to review the company pension scheme for the members of the Group Executive Committee. The company does not hold any other mandates from Zehnder Group. The Nomination

and Compensation Committee is also supported by internal experts, such as the Director Group Human Resources.

1.3 Method determining compensation

In order to ensure competitive compensation levels allowing key talent to be attracted and motivated on a long-term basis, the compensation of executives is regularly benchmarked against that of executives from comparable international industrial companies featuring similar market capitalisation, revenue, profitability, headcount and geographical reach as the Zehnder Group. The following companies were used for comparison purposes as regards the CEO and other members of the Group Executive Committee: Arbonia, Belimo, Bobst, Bossard, Burckhardt Compression, Burkhalter, Bystronic (formerly Conzzeta), Daetwyler, Feintool, Forbo, Gurit, Huber+Suhner, Interroll, Komax, Landis+Gyr, Metall Zug, Meier Tobler, Phoenix Mecano, Rieter, Schweiter and Starrag. The universe of companies remains unchanged when compared to the reference companies of the previous year. Executives attaining the defined performance objectives are generally awarded target compensation at a median level of the relevant benchmark data.

In 2020, Willis Towers Watson performed a benchmarking survey for the compensation of the Board of Directors. The report was designed to provide the Nomination and Compensation Committee with a basis for analysing and setting the compensation of the Board of Directors for the 2021/2022 period of office.

Willis Towers Watson also performed a benchmarking review for the compensation of the Group Executive Committee in 2020. For this purpose, the data of industrial benchmark companies (as described above) have 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 forms the basis in setting compensation with regard to aspects such as benchmarking and the definition of the compensation structure and levels. In addition, the grading system is also being used for talent management (succession planning and people development).

The benchmarking data constitutes just one factor taken into consideration by the Nomination and Compensation Committee to determine the compensation of members 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 the responsibilities actually borne by that member. The performance of the company in any given year has a direct impact on the variable compensation actually paid to the members of the Group Executive Committee over the short and long term through the profit-sharing plan.

2. Compensation policy and principles

The Zehnder Group's executives and employees constitute 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 defined compensation principles.

Compensation policy and principles

Alignment to 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 enjoy 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 objective 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 comparability 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, fixed compensation for membership of committees of the Board of Directors and a lump sum expense allowance.

In order to strengthen the alignment to long-term shareholders' interests, payment of the fixed annual retainer for the Board of Directors is made half in cash and half in the form of registered shares A of Zehnder Group AG. From the 2021/2022 term of office, the number of shares awarded is to be determined based on the average, volume-weighted share price during the period between 1 and 31 December of that 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 on a monthly basis and the registered shares A are allocated in January for the current compensation period corresponding to 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 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.

The compensation of the Board of Directors is reviewed regularly. The benchmark analysis performed by Willis Towers Watson in 2020 was used to determine the adjustments to the compensation model in the context of the expanded responsibilities within the Board of Directors (see [3.5 Internal organisational structure](#) in the Corporate Governance Report). The following changes, among others, were made for the 2021/2022 term of office:

- The shares are allocated at market value based on conventional market practice with a view to achieving improved comparability with other companies. Specifically, the discount of 30% on the share price applicable until the Annual General Meeting 2021 was removed. In addition, the reference period for calculating the relevant share price was shortened from three months (October to December of any given year) to one month (December);
- The gross retainer for the Board of Directors was raised for all functions in order to take account of the elimination of the share price discount on the one hand, and to align the level of compensation with market practice on the other;
- The retainer for the Vice Chairman of the Board of Directors was adjusted in line with the increased responsibilities. In addition, the Vice Chairman serves as the responsible contact (alternatively to the Chairman of the Board of Directors) for matters relating to corporate governance and risk management. He also represents the company vis-à-vis shareholders (including the majority shareholders) as well as other external stakeholder groups. The Vice Chairman of the Board of Directors also serves the role of Lead Independent Director;

- The level of fees for committee chairmen was also raised in order to reflect the substantial additional effort involved in their roles;
- According to current market practice, the fees due to committee members are paid out entirely in cash.

The compensation structure of the Board of Directors for the term of office until the Annual General Meeting 2021 and for the period from the Annual General Meeting 2021 onwards is summarised in the following table.

Architecture of compensation of the Board of Directors

CHF	Term of office 2020/2021		Term of office 2021/2022	
	In cash	In shares ¹	In cash	In shares ²
Retainer (gross p.a.)				
Chairman of the Board of Directors	175,000	175,000	210,000	210,000
Vice Chairman of the Board of Directors	50,000	50,000	90,000	90,000
Members of the Board of Directors	40,000	40,000	50,000	50,000
Committee fees (gross p.a.)				
Chairman of the Nomination and Compensation Committee or Audit Committee	15,000	15,000	50,000	
Member of the Nomination and Compensation Committee or Audit Committee	10,000	10,000	25,000	
Expense lump sum (gross) ³	2,000		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 Converted into shares on the basis of the average volume-weighted share price during the period between 1 December and 31 December, without discount.

3 The Chairman and Vice Chairman of the Board of Directors are paid a lump sum expense allowance in line with the company's rules on executives' expenses depending on the work commitment (currently 50% for the Chairman of the Board of Directors and 25% for the Vice Chairman). No lump sum expense allowance is paid for members of the Board of Directors based outside Switzerland or if the actual business expenses exceed CHF 2,000, and the 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 and 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	Role and area of responsibility	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 and the 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 STI enables the Group Executive Committee to participate in the Group's current success. It is disbursed in the form of a cash payment in line with the 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). As of 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. It 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 × (EUR million)	STI amount = (EUR)
Example	2,000	40	80,000

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

The decision to exclusively and directly link the STI to the company's financial result (Group net profit) is based on the conviction that performance management should not be directly linked to compensation. As regard to the STI, the main focus is on the collective performance as a whole. 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. Such reviews take place at the request of the Nomination and Compensation Committee. These performance objectives include financial, strategic and more 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 the pay-out level of the previous year. In case of termination of employment during the second half of the year, the published half-year figures for the pro rata temporis calculation are used. 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 legal provisions or internal regulations having been violated.

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 the 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 date, 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 2021, 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 on the SIX Swiss Exchange during the period from 1 October to 31 December of the year before the grant date.

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

Peer group

The peer group for the relative TSR measure comprises a universe of comparable companies that have already been taken into account for compensation benchmarking purposes and have remained unchanged from the previous year. The Board of Directors confirmed that the following companies were comparable:

Arbonia	Belimo	Bobst
Bossard	Burckhardt Compression	Burkhalter
Bystronic (formerly 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 Nomination and 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
rTSR (50%)	25% percentile rank	Median of the peer group	≥75% percentile rank
EPS growth (50%)	-2 PP of the target value	EPS growth target value	+4 PP of target value

EPS: earnings per share, rTSR: relative 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 blocked 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 legal provisions or relevant internal regulations, the applicable 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 guidelines

To align the interests of the Group Executive Committee more closely with those of the shareholders, shareholding guidelines were introduced from the 2019 fiscal year onwards. Within five years of the introduction of the share ownership provision 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 shown in the table below.

	% of 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 of encouraging 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 by 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 dependants in respect of retirement and as concerns the risks of disability, death or illness/accident.

The members of the Group Executive Committee holding 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 are insured. 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 comparable to the conditions offered by other international industrial companies.

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

In addition, the members of the Group Executive Committee are also eligible for standard perquisites such as a company car, child allowances, access to subsidised staff restaurants 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. They incorporate a notice period of a minimum of six to a maximum of twelve months and feature a non-competition clause, which is limited to two years after termination of the employment relationship while providing 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' except for the accelerated vesting of the PSUs or early unblocking of shares, as described above.

5. Additional information on compensation, guarantees, loans and credits for the business year 2021

5.1 Compensation to the Board of Directors in the business year 2021

In 2021, the members of the Board of Directors received total compensation of CHF 1.4 million (previous year: CHF 1.6 million) in the form of fixed compensation of CHF 0.7 million (previous year: CHF 0.7 million), share-based compensation of CHF 0.6 million (previous year: CHF 0.8 million) and national insurance contributions of CHF 0.1 million (previous year: CHF 0.1 million).

In 2021, the total compensation paid to the Board of Directors was 10.9% lower than during the previous year as a result of the following factors:

- New compensation structure introduced from the 2021/2022 term of office (see [3. Architecture of compensation of the Board of Directors](#));
- Reduction in the Board of Directors by two members.

Compensation for the members of the Board of Directors

✓ PwC Switzerland

	Units 2021	Units 2020	CHF ¹ 2021	CHF ¹ 2020
Dr Hans-Peter Zehnder				
Chairman of the Board of Directors				
Fixed cash compensation for Board activity			201,250	166,250
Lump sum expense allowances			12,000	12,000
Allocated shares for Board activity ²	2,958	5,071	241,818	307,092
Employer national insurance contributions			24,726	27,806
Other payments			13,629	12,935
Total compensation			493,423	526,083
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
Fixed cash compensation for Compensation Committee activity			-	2,500
Allocated shares for Board and Compensation Committee activity ²	-	493	-	21,670
Employer national insurance contributions			-	2,533
Total compensation			-	39,203

	Units 2021	Units 2020	CHF ¹ 2021	CHF ¹ 2020
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 ³			107,500	45,000
Fixed cash compensation for Audit Committee activity			41,250	14,250
Lump sum expense allowances			5,000	2,000
Allocated shares for Board and Audit Committee activity ²	1,198	1,801	98,965	110,390
Cash compensation as per invoiced hours for additional services ⁴			–	164,003
Employer national insurance contributions			19,593	11,468
Total compensation			272,308	347,111

	Units 2021	Units 2020	CHF 2021	CHF 2020
Dr Urs Buchmann				
Member of the Board of Directors, the Nomination and Compensation Committee and the Audit Committee				
Fixed cash compensation for Board activity			47,500	38,000
Fixed cash compensation for Nomination and Compensation Committee activity			21,250	9,500
Fixed cash compensation for Audit Committee activity			21,250	9,500
Allocated shares for Board, Nomination and Compensation and Audit Committee activity ²	830	1,737	66,014	105,148
Employer national insurance contributions			12,952	11,238
Total compensation			168,966	173,386

	Units 2021	Units 2020	CHF 2021	CHF 2020
Riet Cadonau				
Member of the Board of Directors and Chairman of the Nomination and Compensation Committee				
Fixed cash compensation for Board activity			47,500	38,000
Fixed cash compensation for Nomination and Compensation Committee activity			41,250	14,250
Lump sum expense allowances			2,000	2,000
Allocated shares for Board, Nomination and Compensation activity ²	796	1,593	63,716	96,450
Employer national insurance contributions			12,565	10,303
Total compensation			167,031	161,003

	Units 2021	Units 2020	CHF 2021	CHF 2020
Daniel Frutig				
Member of the Board of Directors up to 2 April 2020				
Fixed cash compensation for Board activity			–	10,000
Allocated shares for Board activity ²	–	328	–	14,443
Total compensation			–	24,443

	Units 2021	Units 2020	CHF 2021	CHF 2020
Ivo Wechsler				
Member of the Board of Directors and the Audit Committee				
Fixed cash compensation for Board activity			47,500	38,000
Fixed cash compensation for Audit Committee activity			21,250	9,500
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Audit Committee activity ²	761	1,448	61,384	87,650
Employer national insurance contributions			9,997	8,892
Total compensation			142,131	146,042

	Units 2021	Units 2020	CHF 2021	CHF 2020
Milva Zehnder				
Member of the Board of Directors and member of the Nomination and Compensation Committee since 2 April 2020				
Fixed cash compensation for Board activity			47,500	38,000
Fixed cash compensation for Nomination and Compensation Committee activity			21,250	7,000
Lump sum expense allowances			2,000	2,000
Allocated shares for Board, Nomination and Compensation activity ²	761	1,366	61,384	84,042
Employer national insurance contributions			9,901	7,493
Total compensation			142,035	138,535

	Units 2021	Units 2020	CHF 2021	CHF 2020
Total compensation paid to the members of the Board of Directors in the year of review				
Fixed cash compensation for Board activity			498,750	385,750
Fixed cash compensation for Nomination and Compensation Committee activity			83,750	33,250
Fixed cash compensation for Audit Committee activity			83,750	33,250
Lump sum expense allowances			23,000	20,000
Allocated shares for Board, Nomination and Compensation Committee and Audit Committee activity ²	7,304	13,837	593,281	826,885
Cash compensation as per invoiced hours for additional services			–	164,003
Employer national insurance contributions			89,734	79,733
Other payments			13,629	12,935
Total compensation			1,385,894	1,555,806

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 share price of the share on the respective grant dates.

3 The higher compensation in 2021 can be traced back to the expanded tasks for the role of the Vice Chairman of the Board of Directors from January 2021.

4 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) for the year 2020. Compensation for additional services will be removed from the year 2021 onwards.

The 2021 Annual General Meeting approved a maximum budget of CHF 1.6 million for the Board of Directors during the period of office from the 2021 Annual General Meeting to the 2022 Annual General Meeting. The compensation effectively paid during the period under consideration in this Compensation Report (1 January to 31 December 2021) is within this budget approved by the shareholders. The final reporting for the entire period from the 2021 Annual General Meeting to the 2022 Annual General Meeting is included in the 2022 Compensation Report.

At the Annual General Meeting on 2 April 2020, 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 2020 Annual General Meeting to the 2021 Annual General Meeting. The compensation effectively paid to the members of the Board of Directors over this period was CHF 1.4 million and therefore fell within this approved budget.

5.2 Compensation of the Group Executive Committee in the business year 2021

For 2021, the members of the Group Executive Committee received total compensation of CHF 5.1 million (previous year: CHF 3.9 million) in the form of fixed compensation of CHF 1.9 million (previous year: CHF 1.7 million), variable compensation of CHF 2.1 million (previous year: CHF 1.4 million), other benefits including the value of the discount on the shares of CHF 0.4 million (previous year: CHF 0.3 million) in addition to national insurance and pension contributions of CHF 0.8 million (previous year: CHF 0.5 million).

In 2021, the total compensation paid to the Group Executive Committee increased by 32.2% compared to the previous year as a result of the following factors:

- Regular basic salaries in 2021, compared with voluntary waiving of 10% of the fixed basic salary by all members of the Group Executive Committee from April until September 2020;
- Individual increase in the annual base salaries in order to adjust to the market median. The total increase equates to 3.5% of the total fixed cash compensation for the members of the Group Executive Committee;
- Individual increase in the individual profit-sharing amounts in order to adjust to the responsibilities forming part of the position. The total increase equates to 2.4% of the profit-sharing amounts of all members of the Group Executive Committee;
- Higher STI amounts for 2021 compared with the previous year, due to a higher Group net profit in 2021;
- Extension of grant of long-term share-based incentive plan (LTI) to all members of the Group Executive Committee in 2021.

In 2021, the Group achieved a net profit of EUR 60.3 million. Consequently, in 2021, the variable cash compensation amounted to 2.2% of the net profit for the members of the Group Executive Committee (previous year: 2.1%).

The variable cash for the CEO amounted to 82.5% of the fixed compensation and, for the other members of the Group Executive Committee, a maximum of 75.0% of their fixed compensation.

The PSU allocations made in 2019 as part of the LTI plan (LTI 2019–2021) can be transferred during the 1st quarter of 2022. 50% of the performance condition is based on the relative total shareholder return (rTSR) and the remaining 50% is based on the increase in earnings per share (EPS growth). For payment, the two performance conditions were achieved (rTSR of 150% and EPS growth of 150%), resulting in a combined performance factor of 150%. Accordingly, 16,931 PSUs were converted into 16,931 Zehnder shares.

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 2021, the Annual General Meeting authorised a maximum budget for compensation of the Group Executive Committee of CHF 5.6 million for the fiscal year 2021. The total compensation amount of CHF 5.1 million paid to the Group Executive Committee for the fiscal year 2021 as disclosed in the following table is below this upper limit.

Compensation for the members of the Group Executive Committee

✓ PwC Switzerland

	Units 2021	Units 2020	CHF ¹ 2021	CHF ¹ 2020
Highest-paid member of the Group Executive Committee: Matthias Huenerwadel				
Fixed cash compensation for GEC activity			515,000	475,000
Variable cash compensation			425,113	277,235
Long-term variable compensation (LTI)	5,305	5,750	260,000	262,200
Lump sum expense allowances			24,000	24,000
Employer social security and pension contributions			163,095	142,751
Shares acquired ²	4,373	4,926	88,028	65,023
Other payments			34,535	33,591
Total compensation			1,509,771	1,279,800
	Units 2021	Units 2020	CHF ¹ 2021	CHF ¹ 2020
Total compensation paid to the Group Executive Committee including Matthias Huenerwadel				
Fixed cash compensation			1,793,990	1,607,171
Variable cash compensation			1,342,845	856,839
Long-term variable compensation (LTI)	14,611	11,144	716,000	508,166
Lump sum expense allowances			96,000	87,355
Employer social security and pension contributions			765,081	538,118
Shares acquired ²	13,960	12,961	281,015	171,085
Other payments			116,738	91,687
Total compensation			5,111,669	3,860,421

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 share price of the share at the grant dates, 10 January 2020 and 8 January 2021, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

5.3 Guarantees, loans, credits, etc.

No Zehnder Group company has provided any guarantees, waivers of claims outstanding, credits or loans to present or former members of the Board of Directors, to present or former members of the Group Executive Committee, or to persons closely associated with these individuals. No loans to current or former members of the Board of Directors or Group Executive Committee or related parties existed at the end of the reporting year.

5.4 Compensation to former members of the Board of Directors and of the Group Executive Committee, and to persons closely associated with them, in the business year 2021

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

No compensation was paid to persons closely associated with members of the Board of Directors or 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 2021. 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 61 to 63 and on page 65 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 2021 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, 18 February 2022

PricewaterhouseCoopers AG, Robert-Züind-Strasse 2, Postfach, CH-6002 Luzern
Telefon: +41 58 792 62 00, Telefax: +41 58 792 62 10, www.pwc.ch

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