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# Compensation Report

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# Introduction

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The Compensation Report describes the compensation policy and programmes of Zehnder Group AG and the methods to determine 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 2022.

The Compensation Report is 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*.

# Introductory notes from the Chairman of the Nomination and Compensation Committee

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Dear Shareholders,

On behalf of the Board of Directors and the Nomination and Compensation Committee of Zehnder Group, I am pleased to present the Compensation Report 2022.

The fiscal year 2022 was significantly affected by the consequences of the war in Ukraine, continued supply chain disruptions and rising material, transport, energy and operating costs. This challenging market environment called for a high degree of flexibility and responsiveness. Thanks to acquisitions and operational performance improvements, we succeeded in expanding our market presence and securing our profitability. This Compensation Report highlights, inter alia, how the business results in 2022 impact the performance-related compensation awarded to the members of the Group Executive Committee.

As part of its expanded responsibilities since the Annual General Meeting 2022, the Nomination and Compensation Committee assesses the succession planning for the Board of Directors based on defined criteria to ensure that the composition of the Board of Directors remains balanced. With the election of Sandra Emme at the Annual General Meeting on 7 April 2022, the Board of Directors gained a new, independent member with extensive expertise in digitalisation. Following her election, the gender ratio of the Board of Directors was increased from 16.7% (term of office 2021/2022) to 28.6% (term of office 2022/2023). The Board of Directors seeks to further increase the proportion of women when the next vacancy occurs.

During the year, the Nomination and Compensation Committee carried out an analysis of the company pension scheme arrangements for members of the Group Executive Committee and submitted the corresponding market-oriented adjustments for approval to the Board of Directors. Another aspect reviewed for the Group Executive Committee was the standard market cap for variable short-term compensation (short-term incentive, STI), as well as the definition of the key performance indicators for variable long-term compensation (long-term incentive, LTI). The addition of an ESG-based performance indicator is intended to be introduced as soon as the data basis has been created and clearly measurable targets have been defined.

In other respects, the Nomination and Compensation Committee conducted its regular activities, including its annual performance review of the CEO and the other members of the Group Executive Committee, the succession planning for the Group Executive Committee, the annual review of the compensation policies, taking into consideration feedback from shareholders on the compensation programmes and their disclosure in the Compensation Report, setting of the compensation amounts for members of the Board of Directors and the Group Executive Committee, elaboration of the Compensation Report and the remuneration proposals for the Annual General Meeting.

Binding votes on the maximum total compensation for the Board of Directors and the Group Executive Committee and an advisory vote on the Compensation Report were held at the Annual General Meeting 2022, allowing shareholders to express their views on the compensation system in an unambiguous manner. Approvals were granted at a very high consent rate of 98% for the total compensation of the Board of Directors and the Group Executive Committee for 2022 and 94% for the Compensation Report for 2021, serving as proof of our constructive ongoing dialogue with investors.

In future, we will continue to review the compensation programmes on a regular basis, maintaining an open exchange with you to ensure that the compensation programmes are in line with the sustainable development of the business and your interests. We would like to take this opportunity to thank you for your feedback on the topic of compensation and for the trust and support you have placed in us.

Kind regards,

A handwritten signature in black ink, appearing to be 'Riet Cadonau', written in a cursive style.

**Riet Cadonau**  
Chairman of the Nomination and  
Compensation Committee

# 1. Governance and methods to determine compensation

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## 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 ([www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance); Article 16) envisages 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 Zehnder Group ([www.zehndergroup.com/en/investor-relations/corporate-governance](http://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 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).

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## 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. Dr Urs Buchmann did not stand for re-election. At the Annual General Meeting 2022, the 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 (up to 7 April 2022)	Independent member of the BoD	Member
Sandra Emme (since 7 April 2022)	Independent member of the BoD	Member
Milva Inderbitzin-Zehnder	Non-independent member of the BoD <sup>1</sup>	Member

BoD: Board of Directors

<sup>1</sup> Related to the representative of the controlling majority shareholder; holds directly and indirectly less than 0.05% of the share capital of Zehnder Group

The responsibilities of the Nomination and Compensation Committee are set out in the Articles of Association ([www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance); Article 27) and Organisational Regulations ([www.zehndergroup.com/en/investor-relations/corporate-governance](http://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 that affect the remuneration system for 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 determination of 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 submission of a statement to the Board of Directors regarding their nomination for the attention of the Annual 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 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 a 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 takes place at least four times a year. In 2022, the Nomination and Compensation Committee held four meetings of one and a half hours each on average, which were attended by all members.

In general, 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 if their own compensation and/or performance is under discussion. 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 involve external consultants regarding specific compensation issues. In 2022, the Nomination and Compensation Committee appointed Klingler Consultants to reevaluate the company pension scheme for the members of the Group Executive Committee and to assess potential providers in the market. It also mandated Willis Towers Watson to provide a compensation benchmark for the functions of the Group Executive Committee, including the assessment of the market caps for short-

term incentives. Neither company holds any other mandates from Zehnder Group.

During the reporting year, Agnès Blust Consulting AG was mandated to provide data on the standard market structure for performance conditions for the long-term incentive of the Group Executive Committee, in particular regarding ESG performance indicators. The data provided was based on the practices of the defined peer group for the Group and common market practices within the SMI and SMIM. At the time the mandate was granted, Agnès Blust Consulting AG was not performing any other mandates for Zehnder Group. Since April 2022, Agnès Blust Consulting AG has been part of PricewaterhouseCoopers AG, which has served as the external auditor for the Group since 2019. In order to ensure independence between the audit of the financial statements and other mandates of PricewaterhouseCoopers AG, clear rules have been defined that have been consistently applied to this mandate.

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

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### 1.3 Method to determine compensation

In order to ensure competitive compensation levels that enable 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 Zehnder Group. The following companies were used for comparison purposes for the CEO and other functions of the Group Executive Committee: Arbonia, Belimo, Bobst<sup>1</sup>, Bossard, Burckhardt Compression, Burkhalter, Bystronic, 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 compared with the reference companies of the previous year. Executives who attain the defined performance objectives are generally awarded target compensation at a median level of the relevant benchmark data.

In 2022, the consulting firm Willis Towers Watson performed a benchmarking survey for the compensation of the Group Executive Committee. For this purpose, the data of industrial benchmark companies (as described above) was compiled by Willis Towers Watson from its existing database for each function of the Group Executive Committee in the country of employment of the respective member and through use of its job grading methodology. 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.

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 paid to the members of the Group Executive Committee over the short and long term through the profit-sharing plan.

<sup>1</sup> The delisting of Bobst shares from the SIX Swiss Exchange took place on 30 December 2022. Bobst remains in the peer group for 2022.



## 2. Compensation policy and principles

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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 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 for executives and employees

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 market practice. The objective is to target median compensation of the relevant benchmark considering the 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

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In order to guarantee their independence in their supervisory position for the Group Executive Committee, the members of the Board of Directors receive a fixed compensation only, consisting of a fixed annual retainer, fixed cash compensation for their membership of committees of the Board of Directors and an expense lump sum.

In order to strengthen the alignment to long-term shareholder interests, payment of the fixed annual retainer for the Board of Directors is made half in cash and half in form of registered shares A of Zehnder Group. The number of shares awarded is determined based on the average volume-weighted share price during the period 1 December 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 the case of termination of the mandate, except in case of death or change of control, 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 members of the Board of Directors 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 reflected 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 every two to three years. 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. Since the term of office 2021/2022, shares have been allocated at market value based on common market practice. The discount of 30% on the share price applicable until the Annual General Meeting 2021 was removed and the reference period for calculation of the relevant share price was shortened to one month (December).

The compensation structure of the Board of Directors is summarised in the following table.

### Architecture of compensation of the Board of Directors

CHF	In cash	In shares <sup>1</sup>
<b>Retainer (gross p.a.)</b>		
Chairman of the Board of Directors	210,000	210,000
Vice Chairman of the Board of Directors	90,000	90,000
Members of the Board of Directors	50,000	50,000
<b>Committee fees (gross p.a.)</b>		
Chairman of the Nomination and Compensation Committee or Audit Committee	50,000	
Member of the Nomination and Compensation Committee or Audit Committee	25,000	
Expense lump sum (gross) <sup>2</sup>	2,000	

1 Converted into shares on the basis of the average volume-weighted share price during the period 1 December to 31 December, without discount.

2 The Chairman and Vice Chairman of the Board of Directors are paid an expense lump sum 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 expense lump sum is paid to members of the Board of Directors based outside Switzerland. If the actual business expenses exceed CHF 2,000, then they 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 the management share plan and occupational pension benefits and perquisites.

### Architecture of compensation of the Group Executive Committee

	Purpose	Drivers	Performance measures	Vehicle
Annual base salary (ABS)	Attract and retain	Position, experience, and qualifications		Monthly cash payments
Variable short-term compensation (short-term incentive, STI)	Pay for performance	Role and area of responsibility	Group net profit	Annual cash payment
Variable long-term compensation (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, and 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, 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 (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, implementation of company strategy and responsibilities. The STI amount paid for the fiscal year corresponds to the profit-sharing amount multiplied by the Group net profit (in EUR million). The STI is paid only if a Group net profit of at least 80% of the budget value is achieved (threshold, adjusted for non-budgeted one-off effects such as company acquisitions). This aligns with the STI principles of the other executives of Zehnder Group. Considering the profit-sharing characteristic of the formula, there is no formal target level for the STI. However, there is a contractually agreed cap for the STI amount, which 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)
<b>Example</b>	2,000	50	100,000

The STI amount for any given fiscal year is paid in the spring of the following year. In the event of significant inorganic effects (investments, divestments) or other one-off special effects amounting to  $\geq 2\%$  of the Group net profit, the Board of Directors reserve the right to adjust the STI payment.

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. The main focus for the STI 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 strategic, quantitative, 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 the payout 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 case the company is required to prepare a relevant accounting/financial restatement or in the event of violation of legal provisions or relevant internal regulations.

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

As part of a long-term plan, the LTI is granted in 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 the attainment of the predefined performance objectives (performance conditions) and the 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, the LTI target amount is determined for each member of the Group Executive Committee, taking the relevant benchmark for the individual total compensation into account.

In 2022, the allocation of the LTI target amount was 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 LTI target amount is converted into the relevant number of PSUs based on the average volume-weighted share price of Zehnder Group on the SIX Swiss Exchange during the period 1 October to 31 December of the year before the grant date.

Of the performance conditions, 50% 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 (i.e. the share price performance plus dividend) in comparison with a peer group. These financial targets were selected because they are key value drivers for Zehnder Group in measuring the profitable growth and ensuring that the shareholders' interests are taken into account.

#### Peer group

The peer group for the relative TSR (rTSR) 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 <sup>1</sup>
Bossard	Burckhardt Compression	Burkhalter
Bystronic	Daetwyler	Feintool
Forbo	Gurit	Huber+Suhner
Interroll	Komax	Landis+Gyr
Metall Zug	Meier Tobler	Phoenix Mecano
Rieter	Schweiter	Starrag

<sup>1</sup> The delisting of Bobst shares from the SIX Swiss Exchange took place on 30 December 2022. Bobst remains in the peer group for 2022.

## 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% (rTSR) vesting	Target value 100% vesting	Cap 150% vesting
rTSR (50%)	25% percentile rank	Median of the peer group	≥75% percentile rank
EPS growth (50%)	-1.5 PP of the target value	EPS growth target value	+2 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 Zehnder Group reports a loss from ongoing business activities during the last year of the three-year vesting period or in other special cases, the Board of Directors reserve the right to specify whether and to what extent the PSUs will lapse for this period, regardless of the combined performance factor achieved.

In the 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 plan are subject to the same clawback and malus provisions 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 fiscal year 2019. 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 base salary in Zehnder Group 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 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 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 in 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 the case of death or a change of control, where the restriction immediately lapses.

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



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## 4.5 Benefits

As the Group Executive Committee is international by nature, the members participate in the benefit plans available in the country of main residence (social insurance payment obligation). Benefits consist mainly of retirement, insurance and, where customary in the market, healthcare plans. These benefits are designed to provide a reasonable level of protection for the employees and their dependents in respect of retirement, the risks of disability, death, or illness/accident.

For members of the Group Executive Committee subject to social security contributions in Switzerland, the salary, which is subject to AHV pension contributions, is insured up to 450% of the maximum AHV retirement pension in the pension fund (currently the mandatory part is set at CHF 129,060). This solution is offered to all employees in Switzerland. Since October 2022, the supplementary part has been insured up to a maximum of 3,000% of the AHV retirement pension (currently CHF 860,400) for members of the Group Executive Committee by a 1e pension solution. Zehnder Group covers 50% of the saving contributions as before. The 1e solution gives the members of the Group Executive Committee more flexibility in investing their retirement savings and at the same time allows the risk of the investment to be fully borne by them. 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 with the conditions offered by other international industrial companies.

Members of the Group Executive Committee subject to social security contributions outside Switzerland are insured in line with the local legal requirements and based on local market practice and their position. Each plan may vary depending on the respective 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 local market practice. The monetary value of these other compensation elements is evaluated at market value and is included in the compensation tables.

Expenses that are not covered by the expense lump sum in accordance with the company's expenses regulations are compensated on 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.

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## 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 and 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 withdrawal payments or severance compensation in connection with leaving the company or in the case of 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 2022

### 5.1 Compensation to the Board of Directors in the business year 2022

In 2022, the members of the Board of Directors received a total compensation of CHF 1.4 million (previous year: CHF 1.4 million) in the form of fixed compensation of CHF 0.8 million (previous year: CHF 0.7 million), share-based compensation of CHF 0.6 million (previous year: CHF 0.6 million) and national insurance contributions of CHF 0.1 million (previous year: CHF 0.1 million).

In 2022, the total compensation paid to the Board of Directors was 2.5% higher than during the previous year as a result of the following factors:

- New compensation structure introduced as of the term of office 2021/2022;
- Expansion of the Board of Directors by one member from the term of office 2022/2023 to a total of seven members.

### Compensation for the members of the Board of Directors

#### ✓ PwC Switzerland

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Dr Hans-Peter Zehnder</b>				
Chairman of the Board of Directors				
Fixed cash compensation for Board activity			210,000	201,250
Expense lump sum			12,000	12,000
Allocated shares for Board activity <sup>2</sup>	3,419	2,958	218,309	241,818
Employer national insurance contributions			26,319	24,726
Other payments			14,269	13,629
<b>Total compensation</b>			<b>480,897</b>	<b>493,423</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Jörg Walther</b>				
Vice Chairman of the Board of Directors and Chairman of the Audit Committee				
Fixed cash compensation for Board activity			90,000	107,500
Fixed cash compensation for Audit Committee activity			50,000	41,250
Expense lump sum			6,000	5,000
Allocated shares for Board activity <sup>2</sup>	1,465	1,198	93,521	98,965
Employer national insurance contributions			17,417	19,593
<b>Total compensation</b>			<b>256,938</b>	<b>272,308</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Dr Urs Buchmann</b>				
Member of the Board of Directors, the Nomination and Compensation Committee (up to 7 April 2022) and the Audit Committee				
Fixed cash compensation for Board activity			50,000	47,500
Fixed cash compensation for Nomination and Compensation Committee activity			6,250	21,250
Fixed cash compensation for Audit Committee activity			25,000	21,250
Allocated shares for Board activity <sup>2</sup>	814	830	51,946	66,014
Employer national insurance contributions			5,962	12,952
<b>Total compensation</b>			<b>139,157</b>	<b>168,966</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Riet Cadonau</b>				
Member of the Board of Directors and Chairman of the Nomination and Compensation Committee				
Fixed cash compensation for Board activity			50,000	47,500
Fixed cash compensation for Nomination and Compensation Committee activity			50,000	41,250
Expense lump sum			2,000	2,000
Allocated shares for Board activity <sup>2</sup>	814	796	51,946	63,716
Employer national insurance contributions			10,485	12,565
<b>Total compensation</b>			<b>164,430</b>	<b>167,031</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Sandra Emme</b>				
Member of the Board of Directors and member of the Nomination and Compensation Committee (since 7 April 2022)				
Fixed cash compensation for Board activity			37,500	
Fixed cash compensation for Nomination and Compensation Committee activity			18,750	
Expense lump sum			1,500	
Allocated shares for Board activity <sup>2</sup>	675		39,218	
Employer national insurance contributions			6,260	
<b>Total compensation</b>			<b>103,228</b>	

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Milva Inderbitzin-Zehnder</b>				
Member of the Board of Directors and member of the Nomination and Compensation Committee				
Fixed cash compensation for Board activity			50,000	47,500
Fixed cash compensation for Nomination and Compensation Committee activity			25,000	21,250
Expense lump sum			2,000	2,000
Allocated shares for Board activity <sup>2</sup>	814	761	51,946	61,384
Employer national insurance contributions			9,043	9,901
<b>Total compensation</b>			<b>137,988</b>	<b>142,035</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Ivo Wechsler</b>				
Member of the Board of Directors and the Audit Committee				
Fixed cash compensation for Board activity			50,000	47,500
Fixed cash compensation for Audit Committee activity			25,000	21,250
Expense lump sum			2,000	2,000
Allocated shares for Board activity <sup>2</sup>	814	761	51,946	61,384
Employer national insurance contributions			9,043	9,997
<b>Total compensation</b>			<b>137,988</b>	<b>142,131</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Total compensation paid to the members of the Board of Directors in the year of review</b>				
Fixed cash compensation for Board activity			537,500	498,750
Fixed cash compensation for Nomination and Compensation Committee activity			100,000	83,750
Fixed cash compensation for Audit Committee activity			100,000	83,750
Expense lump sum			25,500	23,000
Allocated shares for Board activity <sup>2</sup>	8,814	7,304	558,830	593,281
Employer national insurance contributions			84,528	89,734
Other payments			14,269	13,629
<b>Total compensation</b>			<b>1,420,626</b>	<b>1,385,894</b>

1 These are gross amounts including national insurance contributions of the members of the Board of Directors.

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

The Annual General Meeting 2022 approved a maximum budget of CHF 1.7 million for the Board of Directors for the period of office from the Annual General Meeting 2022 to the Annual General Meeting 2023. The compensation effectively paid during the period under consideration in this Compensation Report (1 January to 31 December 2022) is within this budget approved by the shareholders. The final reporting for the entire period from the Annual General Meeting 2022 to the Annual General Meeting 2023 is included in the Compensation Report 2023.

At the Annual General Meeting on 26 March 2021, the shareholders approved a maximum total compensation of CHF 1.6 million for the Board of Directors during the period of office from the Annual General Meeting 2021 to the Annual General Meeting 2022. The compensation effectively paid to the members of the Board of Directors over this period was CHF 1.3 million and therefore is within this approved budget.

## 5.2 Compensation of the Group Executive Committee in the business year 2022

For 2022, the members of the Group Executive Committee received a total compensation of CHF 4.8 million (previous year: CHF 5.1 million) in the form of fixed compensation of CHF 1.9 million (previous year: CHF 1.9 million), incentives of CHF 1.9 million (previous year: CHF 2.1 million), other payments including the value of the discount on the shares of CHF 0.3 million (previous year: CHF 0.4 million) and employer national insurance contributions for social security and pension funds of CHF 0.7 million (previous year: CHF 0.8 million).

The total compensation paid to the Group Executive Committee in 2022 was 6.7% lower than during the previous year as a result of the following factors:

- STI amounts for 2022 compared with the previous year due to a lower Group net profit in 2022;
- Difference between daily share price and volume-weighted average share price less discount of purchased shares on the grant date;
- EUR/CHF exchange rate differences compared with the previous year;

In 2022, the Group achieved a net profit of EUR 56.7 million. Consequently, the variable cash compensation in 2022 amounted to 2.0% of the net profit for the members of the Group Executive Committee (previous year: 2.2%).

The variable cash compensation for the CEO amounted to 70% of the fixed compensation and, for the other members of the Group Executive Committee, a maximum of 72% of their fixed compensation.

The PSU allocations made in 2020 as part of the LTI plan (LTI 2020-2022) can be transferred during the first quarter of 2023. Of the performance conditions, 50% 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 two performance conditions were achieved, rTSR at 143.4% and EPS growth at 149.3%, resulting in a combined performance factor of 146.4% for the payment. Accordingly, 16,316 PSUs were converted into 16,316 Zehnder shares.

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

The Annual General Meeting 2022 authorised a maximum budget for the compensation of the Group Executive Committee of CHF 5.7 million for the financial year 2022. The total compensation amount of CHF 4.8 million paid to the Group Executive Committee for the fiscal year 2022 as disclosed in the following table is below this upper limit.

## Compensation for the members of the Group Executive Committee



	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Highest-paid member of the Group Executive Committee: Matthias Huenerwadel</b>				
Fixed cash compensation for GEC activity			527,500	515,000
Variable cash compensation (STI)			370,673	425,113
Long-term variable compensation (LTI)	2,815	5,305	265,000	260,000
Expense lump sum			24,000	24,000
Employer social security and pension contributions			158,903	163,095
Shares acquired <sup>2</sup>	2,344	4,373	61,178	88,028
Other payments			34,369	34,535
<b>Total compensation</b>			<b>1,441,623</b>	<b>1,509,771</b>

	Units 2022	Units 2021	CHF <sup>1</sup> 2022	CHF <sup>1</sup> 2021
<b>Total compensation paid to the Group Executive Committee including Matthias Huenerwadel</b>				
Fixed cash compensation			1,779,415	1,793,990
Variable cash compensation (STI)			1,140,532	1,342,845
Long-term variable compensation (LTI)	7,899	14,611	743,500	716,000
Expense lump sum			96,000	96,000
Employer social security and pension contributions			694,080	765,081
Shares acquired <sup>2</sup>	7,452	13,960	194,497	281,015
Other payments			121,704	116,738
<b>Total compensation</b>			<b>4,769,728</b>	<b>5,111,669</b>

<sup>1</sup> These are gross amounts including employee national insurance contributions.

<sup>2</sup> 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, based on the closing share price at the grant dates, 8 January 2021 and 10 January 2022, 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.

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**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 2022**

No compensation was paid to former members of the Board of Directors or 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

### Report on the audit of the remuneration report

#### Opinion

We have audited the remuneration report of Zehnder Group AG (the Company) for the year ended 31 December 2022. The audit was limited to the information on remuneration, loans and advances pursuant to Art. 14 to 16 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance) in the tables marked 'audited' on pages 67 to 69 and page 71 of the remuneration report.

In our opinion, the information on remuneration, loans and advances in the remuneration report (pages 67 to 69 and page 71) complies with Swiss law and article 14 to 16 of the Ordinance.

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities for the audit of the remuneration report' section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the tables marked 'audited' in the remuneration report, the consolidated financial statements, the financial statements and our auditor's reports thereon.

Our opinion on the remuneration report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the remuneration report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the audited financial information in the remuneration report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Board of Directors' responsibilities for the remuneration report

The Board of Directors is responsible for the preparation of a remuneration report in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of a remuneration report that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

#### Auditor's responsibilities for the audit of the remuneration report

Our objectives are to obtain reasonable assurance about whether the information on remuneration, loans and advances pursuant to article 14 to 16 of the Ordinance is free from material misstatement, whether due to fraud or error, and to

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issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this remuneration report.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the remuneration report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

PricewaterhouseCoopers AG

Thomas Ebinger  
Licensed audit expert  
Auditor in charge

Fabian Stalder  
Licensed audit expert

Luzern, 27 February 2023

