

Compensation Report

Dear Shareholders

On behalf of the Board of Directors and as Chairman of the Compensation & Nomination Committee, I welcome this opportunity to present the Compensation Report for the financial year 2019.

At the 2015 General Meeting, the requirements of the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (VegüV) – incorporated in the Articles of Association at the 2014 General Meeting – were implemented for the first time. Since then, the General Meeting approves in separate votes the proposals of the Board of Directors for the maximum aggregate compensation for the members of the Board of Directors until the next Annual General Meeting, and for the maximum aggregate compensation for Group Management prospectively for the forthcoming financial year. The Compensation Report for the previous financial year is also submitted to the shareholders for approval by way of an advisory vote.

This Compensation Report is structured as follows:

- I. Compensation governance
- II. Compensation for the Board of Directors
- III. Compensation for Group Management
 - i. Compensation principles
 - ii. Compensation system
 - iii. Compensation elements
 - iv. Compensation
 - v. Supplementary amount
- IV. Employment contracts
- V. Participation
- VI. Additional fees, compensation, and loans to company officers
- VII. Compensation to former members of corporate bodies

The Board of Directors is convinced that this 2019 Compensation Report gives you, our valued shareholders, a comprehensive and integral overview regarding the compensation of the senior management at Lindt & Sprüngli Group.



Dr R. K. Sprüngli
Chairman of the Compensation & Nomination Committee

Compensation Report 2019

This Compensation Report describes the underlying basics, governing principles and elements of the senior management of the Lindt & Sprüngli Group and also contains information on the actual compensation paid to the members of the Board of Directors and Group Management. The information provided refers in each case to the financial year ending on December 31, 2019 (where required with comparative figures for the previous financial year). The Compensation Report also incorporates the disclosure obligations set out in Art. 14 ff. VegüV and Art. 663c paragraph 2 OR, the requirements of Chapter 5 of the Annex to the Corporate Governance Directive of the SIX Swiss Exchange and the recommendations of the “Swiss Code of Best Practice for Corporate Governance” issued by *economiesuisse* in its last published version of February 29, 2016.

I. Compensation Governance

Article 24bis paragraph 2 of the Articles of Association of Chocoladefabriken Lindt & Sprüngli AG allocates the following tasks and competencies to the Compensation Committee, i.e. the Compensation & Nomination Committee (CNC):

“The Compensation & Nomination Committee shall concern itself with compensation policies, particularly at the most senior levels of the company. It shall have the tasks, decision-making powers, and authority to present motions accorded to it by the organizational regulations and the Compensation & Nomination Committee regulations. In particular, it shall assist the Board of Directors in determining and evaluating the remuneration system and the principles of remuneration, and in preparing the proposals to be presented to the General Meeting for approval of remuneration pursuant to Art. 15bis of the Articles of Association. The Compensation & Nomination Committee may submit to the Board of Directors proposals and recommendations in all matters of remuneration.”

Pursuant to the corresponding regulations, the responsibilities of the CNC include inter alia the approval of employment contracts for members of the Group Management and the submission to the Board of Directors of the employment contract for the CEO for approval. The CNC also submits proposals to the Board of Directors for motions to the General Meeting relating to compensation and with respect to potential occupational benefits and pensions outside the scope of occupational benefits or similar schemes abroad, in each case granted by the company or by its subsidiary companies to members of the Board of Directors and Group Management within the limits defined by the Articles of Association. The CNC is also responsible for drawing up a proposal for the Compensation Report for the attention of the Board of Directors.

Within the framework of the compensation principles, the Articles of Association, and the resolutions of the General Meeting regarding compensation, the CNC determines upon proposal by the CEO the amount and composition of the compensation for individual members of Group Management and submits the CNC’s proposals for the individual compensation of the CEO and the members of the Board of Directors to the full Board of Directors. Individual members of the Board of Directors and Group Management are excluded from the deliberations and from voting in the CNC and the Board of Directors, respectively, when it comes to their own compensation. Once a year, the CNC informs the Board of Directors about the procedure for the determination of compensation and the outcome of the compensation process. The CNC meets at least twice each year. Four regular meetings were held in the reporting year. The CNC has general authority to consult external advisors for the performance of its tasks. Last year, the consulting services of a well-known advisor were used in connection with the benchmarking of the compensation paid to the Executive Chairman and the Group Management, this was the only project involving work with this consulting firm.

Pursuant to Article 15bis paragraph 1 of the Articles of Association, the General Meeting annually approves the proposals submitted by the Board of Directors concerning the maximum amounts of remuneration paid to the Board of Directors for the period until the next ordinary General Meeting, and of remuneration paid to Group Management for the coming financial year. The Board of Directors may submit to the General Meeting for approval proposals concerning the maximum total amounts or individual components of remuneration for other time intervals, and/or concerning supplementary amounts for special remuneration components, as well as other, conditional proposals (Article 15bis paragraph 2 of the Articles of Association).

Approval system for the compensation of the Board of Directors, the CEO and the Group Management

	CEO	CNC	Board of Directors	General Meeting
Maximum aggregate compensation Board of Directors		Proposal to BoD	Proposal to GM	Decision (prospective)
Individual compensation Board of Directors		Proposal to BoD	Decision	
Maximum aggregate compensation Group Management	Proposal to CNC	Proposal to BoD	Proposal to GM	Decision (prospective)
Individual compensation CEO		Proposal to BoD	Decision	
Individual compensation for rest of Group Management members	Proposal to CNC	Decision		
Advisory vote on Compensation Report		Proposal to BoD	Proposal to GM	Decision (retrospective)

II. Compensation for the Board of Directors

The non-executive members of the Board of Directors receive compensation in the form of a fixed fee, respectively the monthly compensation for the Executive Chairman. The entire compensation for the preceding term of office is paid out in cash after the Annual General Meeting. This fixed compensation for the Board of Directors ensures that the Board of Directors is free to assess the company's performance. The principles governing the compensation of members of the Board of Directors are set out in Article 21 paragraph 2 of the Articles of Association.

https://www.lindt-spruengli.com/fileadmin/user_upload/corporate/user_upload/Investors/AOA/Articles_of_Association_E_2.5.2019__2.pdf

A fixed flat-rate fee of CHF 145,000 was paid to each non-executive member of the Board for the term of office 2018/2019, and the same amount will be paid for the term of office 2019/2020. The Executive Chairman of the Board of Directors received a flat-rate fee of CHF 3,667,000 for the term of office 2018/2019, whereof CHF 1 million in the form of registered shares with a lock-up period of five years from the allocation date. Under the terms of his contract, no further allotment of registered shares will be made for the term of office 2019/2020 (i.e. as of May 2019), but only a cash settlement. The mutually agreed reduction of the overall compensation paid to the Executive Chairman of the Board of Directors reflects his slightly reduced executive workload.

The following compensation was effectively paid to the members of the Board of Directors in the financial years 2018 and 2019.

Compensation of the Board of Directors (audited)

Function on 31.12.2019		2019		2018	
CHF thousand		Fixed cash compensation ²	Other compensation ³	Fixed cash compensation	Other compensation
E. Tanner	Executive Chairman of the Board of Directors, member of the CSC ⁴	3,000 ¹	22	4,000	22
A. Bulgheroni	Board member, member of the Audit Committee and CNC	145	41	145	43
Dkfm. E. Gürtler	Board member, member of the Audit Committee	145	12	145	12
Dr R. K. Sprüngli	Board member, Chairman of the CNC and the CSC	145	12	145	14
P. Schadeberg-Herrmann ⁴	Board member, member of the Audit Committee	–	–	145	5
Dr T. Rinderknecht	Board member, Chairman of the Audit Committee	145	12	145	14
S. Denz ⁵	Board member, member of the CNC and CSC	145	14	–	–
Total		3,725	113	4,725	110

1 For financial year 2019, total compensation in the form of a fee respectively salary for E. Tanner as member of the Board of Directors and Executive Chairman of the Board of Directors is CHF 3 million (accrual-basis), whereof a compensation of CHF 2,666,667 (January–December) as well as a share-based compensation of CHF 333,333 (January–April 2019). For the term of office 2018/2019 (General Meeting 2018–General Meeting 2019) a total compensation of CHF 3,667 million was effectively paid. As of term of office 2019/2020 (i.e. May 2019) and according to his contract no shares will be paid anymore.

2 The non-executive members of the Board of Directors received an unchanged fixed fee of CHF 145,000.

3 AHV share of the employee on salary respectively fees paid by the employer (including that of the employer, that establishes or increases social insurance or pension contributions). The compensation shown for 2019 paid to E. Tanner includes a lump-sum expense allowance of CHF 18,000 (previous year: CHF 18,000). A. Bulgheroni also received a gross fee of CHF 28,800 (previous year CHF 29,800) for his function as Chairman of the Board of Directors of Lindt & Sprüngli S.p.A and Caffarel S.p.A.

4 CSC: Corporate Sustainability Committee.

5 P. Schadeberg-Herrmann resigned at the General Meeting 2018.

6 Election at General Meeting 2018. Fee was paid for the first time in May 2019.

The amount of CHF 5.3 million approved by the General Meeting of May 3, 2018, as the maximum aggregate amount of compensation for the Board of Directors for the period until the General Meeting 2019 was not exceeded. An amount of CHF 5.3 million was approved by the General Meeting of May 2, 2019, as the maximum aggregate amount of compensation for the Board of Directors for the period until the General Meeting 2020 and will presumably not be exceeded either. The amount effectively paid out for the financial year 2020 will be disclosed in the Annual Report 2020.

No loans and credits were granted to current or past executive or non-executive members of the Board of Directors.

III. Compensation for the Group Management

i. Compensation principles

Compensation plays a central role in recruitment and retention of employees, thus compensation influences the company's future success. Lindt & Sprüngli is committed to performance-based compensation in line with the market standards aligning the long-term interests of shareholders, employees and customers. Therefore, the compensation system at Lindt & Sprüngli pursues the following five goals:

1. Long-term motivation of employees,
2. long-term retention of key personnel in the company,
3. appropriateness of the cost of compensation in relation to the results,
4. ensuring that the activities of the management are aligned with the long-term interests of the owners, and
5. attract talent and be an attractive employer.

Lindt & Sprüngli attaches great importance to employee retention, which manifests itself particularly in the exceptionally low turnover rate over many years. This is of great importance for a premium product manufacturer with a long-term strategy. Compensation principles at Lindt & Sprüngli are meant to have a medium and long-term effect and to be sustainable. Continuity is a high priority.

The principles governing the compensation (including performance-based compensation) of the members of the Group Management and the allocation of equity securities, conversion, and option rights to members of the Group Management are set out in Article 26bis paragraphs 3–7 of the Articles of Association. Regulations governing the amount of pension benefits outside the occupational pension scheme for members of the Group Management are set out in Article 26bis paragraph 8 of the Articles of Association.

 https://www.lindt-spruengli.com/fileadmin/user_upload/corporate/user_upload/Investors/AOA/Articles_of_Association_E_2.5.2019__2.pdf

ii. Compensation system

The compensation of members of Group Management consists of a combination of a fixed compensation (1) (base salary), a short-term performance-based compensation (2) (cash bonus) and a long-term performance-based compensation in the form of options, respectively participation certificates (3) as well as ancillary benefits, in each case consistent with their respective position. The fixed compensation (1) (base salary) essentially reflects the particular functional level, competencies and experience of the members of Group Management. The short-term performance-based compensation (2) (cash bonus) is tied to performance targets for the financial year, while the long-term performance-based compensation in the form of options (3) strengthens the shareholder orientation within the Management of the company and aligns the interests of the Management with those of the shareholders in the long term.

The period between the granting of options and the possibility of exercising or selling them amounts on average to four years and promotes the long-term goal orientation and long-term action which is so important in the consumer goods industry and has been a major pillar of the company's development in recent years.

The following table shows for the short-term performance-based compensation (2) the particular bonus target as a percentage of the base salary, and the accompanying target achievement bandwidth as a percentage of the bonus target. For the long-term performance-based compensation in the form of options (3), the bandwidth for possible option grants is expressed as a percentage of the fixed compensation (base salary) in each case.

Composition of Group Management variable compensation

	Fixed compensation	Variable compensation		
		Short-term performance-based compensation (2) (Cash bonus)	Long-term performance-based compensation (3) (Options) ¹	
	Fixed compensation (1) (Base salary)	Target cash bonus in % of base salary	Target achievement bandwidth as % of target	Value of allocation as % of base salary
CEO	100%	100%	0–200%	0–200%
Group Management	100%	30–90%	0–200%	0–200%

¹ Options on participation certificate.

The amount of total target compensation is based on the requirements and responsibilities of the recipient and is regularly reviewed within the Group by means of horizontal and vertical comparisons. In addition, when new appointments are made, the CNC takes into account comparative data for the consumer goods sector, with respect to the specific vacancy for the appointment.

In the financial year 2019, the compensation for Group Management was reviewed by way of benchmarking. This involved a comparison of the level and structure of compensation with twelve industrial companies from the SMI and SMIM that are similar in terms of market capitalization and sales. In addition, the long-term corporate performance of Lindt & Sprüngli was compared with the peer group in order to obtain an assessment representing a “Pay for Performance” analysis. In addition, a compensation benchmarking exercise was carried out, with the support of specialist consultants, with respect to the position of Executive Chairman.

iii. Compensation elements

Fixed compensation (Base salary) and other compensation/ancillary benefits

The fixed compensation (1) (base salary) is paid out on a monthly basis in twelve or thirteen equal cash installments. In addition, members of Group Management receive other compensation and ancillary benefits, including entitlement to a company vehicle and participation in pension plans.

Short-term performance-based compensation (2) (cash bonus)

The short-term performance-based compensation (2) (cash bonus) is determined within a range of 0–200% of the base salary, depending on target achievement. This variable cash compensation depends on the achievement of clearly defined targets – on the one hand individual, qualitative targets, and on the other hand financial targets at Group level for the respective financial year. It is paid out in cash in spring of the following year, once the achievement of targets has been determined. The amount of the short-term performance-based compensation (2) (cash bonus) is determined by multiplying the individual target cash bonus with a target achievement factor, which is determined based on a scorecard. For the CEO and the members of Group Management, this factor largely depends on the achievement of financial targets for the financial year at Group level and, to a smaller extent, on the achievement of annual personal qualitative targets, which are set by the CNC at its discretion. The financial targets are determined annually and correlate with the long-term strategy, which strives for achieving sustainable organic sales growth accompanied by continuous improvement in profitability. Non-financial targets depend on the individual function and refer to the implementation of the strategy and to defined leadership and conduct criteria.

For those members of Group Management who have responsibility on regional or country level, respectively, financial targets on regional or country level, respectively, are also taken into account, along with Group targets.

As the following illustration shows, the respective target cash bonus for the CEO and the members of Group Management are multiplied by each member’s respective degree of target achievement, which ranges from 0% to 200% (maximum degree of target achievement). In other words, the cash bonus paid out is limited to twice the target cash bonus.

Calculation of the short-term performance-based compensation (cash bonus) for the CEO and Group Management



Long-term performance-based compensation (option plan)

The long-term performance-based compensation (3) consists of an option plan. Thereby, the compensation of Group Management is linked to the long-term increase of the value of the company due to deferral of the payment. By way of the option plan, Group Management as well as selected key employees with expert knowledge participate in the long-term increase of the value of the company. The grant serves as an incentive for a future increase in value and depends not primarily on previous year's performance, but on the employee's position and his influence on the long-term success of the company. The CNC makes the final decision regarding the value of the granted options for each participant based on mentioned criteria, whereby for the Group Management the allocated value may amount to up to 200% of the respective basic salary. Each option carries the right to subscribe to one participation certificate (subscription ratio 1:1). The option exercise price corresponds to the average amount of the closing price of the participation certificates of Chocoladefabriken Lindt & Sprüngli AG on the five trading days on the SIX Swiss Exchange prior to grant.

Option rights have an exercise period of up to seven years from grant and have vesting periods for the exercise of three (35%), four (35%), or five (30%) years.

iv. Compensation

Compensation of the members of Group Management for the year 2019 as well as 2018 is shown in the following table. The valuation of the option-based compensation for 2019 and 2018 is based on market values at the time of grant.

Compensation for the Group Management (audited)

CHF thousand	Fixed gross compensation ¹	Variable cash compensation ²	Options ³	2019 market value
				Total compensation
Dieter Weisskopf, CEO	1,271	1,000	1,222	3,493
Other members of Group Management ⁴	3,279	2,325	2,810	8,414
Total	4,550	3,325	4,032	11,907

CHF thousand	Fixed gross compensation ¹	Variable cash compensation ²	Options ³	2018 market value
				Total compensation
Dieter Weisskopf, CEO	1,265	1,000	1,548	3,813
Other members of Group Management ⁵	4,892	2,259	4,179	11,330
Total	6,157	3,259	5,727	15,143

1 Total of paid-out compensation, including pension fund and social insurance contributions paid by the employer, that establishes or increases employee benefits.

2 Expected pay-out (accrual basis) in April of following year according to the proposal of the CNC to the BoD (excluding social charges paid by employer).

3 Option grants on Lindt & Sprüngli participation certificates under the terms and conditions of the Lindt & Sprüngli employee share option plan (see also note 26).

The valuation reflects the market value at the time granted. The total number of granted options in 2018 to D. Weisskopf was 2,000 options (2,000 options in 2018) and in total to all other members of the Group Management 4,600 options (5,400 options in 2018).

4 There have been five other Group Management members as of December 31, 2019.

5 There have been six other Group Management members as of December 31, 2018. A. Pfluger resigned on December 31, 2018, on reaching retirement age.

The amount of CHF 18 million approved by the General Meeting of May 3, 2018, as the maximum aggregate amount of compensation for 2019 for the Group Management was complied with at CHF 12 million; no use was made of the supplementary amount pursuant to Article 15bis paragraph 5 of the Articles of Association.

No loans and credits were granted to current or past executive and non-executive members of Group Management.

v. Supplementary amount

Pursuant to Article 15bis paragraph 5 of the Articles of Association, the company or its Group affiliates are authorized to make payment to any member of Group Management who enters the Group Management during a period for which approval of the remuneration due to the Group Management has already been given, of a supplementary amount for that period, where the total amount already approved is not sufficient for such remuneration; such supplementary amount shall not exceed 40% of the maximum total amount already approved for the remuneration of Group Management.

IV. Employment contracts

The employment contracts of the Group Management stipulate a maximum notice period of twelve months and make no provision for a severance payment. Maximum duration for a prohibition on competition for members of Group Management is twelve months, provided that the agreed consideration may not exceed the amount of the basic salary paid for the preceding twelve months. In case of option- or share-based compensation, neither vesting periods nor exercise periods are shortened upon departure.

V. Participation

The following table provides information on the registered shares and participation certificates, respectively, of Chocolade-fabriken Lindt & Sprüngli AG and options on participation certificates held by members of the Board of Directors and the Group Management as of December 31, 2019.

		Number of registered shares (RS)		Number of participation certificates (PC)		Number of options	
		2019	2018	2019	2018	2019	2018
E. Tanner	Executive Chairman	3,067	3,055	9,800	12,000	4,725	4,725
A. Bulgheroni	Member of the Board	1,000	1,000	165	165	–	–
Dkfm E. Gürtler	Member of the Board	1	1	50	50	–	–
Dr R. K. Sprüngli	Member of the Board	1,092	1,092	–	–	–	–
Dr T. Rinderknecht	Member of the Board	–	–	–	–	–	–
S. Denz	Member of the Board	11	11	–	–	–	–
Dr D. Weisskopf	Group Management	7	7	2,400	2,400	6,925	6,350
A. Pfluger ¹	Group Management	–	5	–	30	–	4,613
R. Fallegger	Group Management	5	5	869	100	4,550	4,548
A. Germiquet	Group Management	7	4	400	400	3,053	2,610
Dr A. Lechner	Group Management	7	7	56	56	4,500	4,195
M. Hug	Group Management	–	–	200	–	2,675	2,075
G. Steiner	Group Management	2	2	–	–	2,900	2,380
Total		5,199	5,189	13,940	15,201	29,328	31,496

¹ Mr. A. Pfluger stepped down from Group Management on December 31, 2018, therefore no participation reported in 2019.

VI. Additional fees, compensation, and loans to company officers

Apart from the benefits listed in this report, no other compensation was provided in the reporting year 2019 – neither directly nor indirectly – to the executive and non-executive members of the Board of Directors or to the members of Group Management, to former members of Group Management or the Board of Directors as well as to related persons of the aforementioned persons. In addition, as per December 31, 2019, no loans, advances or credits were granted by the Group or by any of its subsidiary companies to this group of persons.

VII. Compensation to former members of corporate bodies

No other compensation, apart from the benefits listed in this report, was paid in 2019 to former member of corporate bodies officers of the company.



Report of the statutory auditor

to the General Meeting of Chocoladefabriken Lindt & Sprüngli AG

Kilchberg

We have audited the remuneration report of Chocoladefabriken Lindt & Sprüngli AG for the year ended 31 December 2019. 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 labeled 'audited' on pages 42 and 46 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 Chocoladefabriken Lindt & Sprüngli AG for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Häfliger
Audit expert
Auditor in charge

Josef Stadelmann
Audit expert

Zürich, 2 March 2020