

# Compensation Report

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## Dear Shareholders

On behalf of the Compensation & Nomination Committee, I welcome this opportunity to present the Compensation Report for the financial year 2017.

At the 2015 General Meeting, the Ordinance against Excessive Compensation in Listed Companies Limited by Shares (VegüV) – incorporated in the Articles of Association at the 2014 General Meeting – was implemented for the first time. Since then, separate votes are taken on the maximum combined compensation for Board of Directors members up to the next scheduled General Meeting, and the maximum compensation for Group Management is approved prospectively for the forthcoming financial year. In a consulting vote, the Compensation Report is also submitted to shareholders for approval.

Ernst Tanner (previously CEO) took over the role of Executive Chairman on October 1, 2016. The Board appointed Dr Dieter Weiskopf (previously CFO) to succeed Mr. Tanner as CEO. In a move to simplify the management structure, Group Management and Extended Group Management were merged on January 1, 2017. Following a number of personnel changes, Group Management now has eight members.

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
- IV. Employment contracts
- V. Participation
- VI. Additional fees, compensation, and loans to company officers

The Board of Directors is convinced that this 2017 Compensation Report gives you, our valued shareholders, a comprehensive and integral overview of compensation for upper management at Lindt & Sprüngli Group.



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

## Compensation report 2017

This Compensation Report describes the underlying principles governing compensation for the senior management of the Lindt & Sprüngli Group. The information provided refers to the financial year ending December 31, 2017. The Compensation Report also incorporates the disclosure obligations set out in Art. 14 ff. VegüV and Art. 663c OR, the revised provisions of Chapter 5 of the Corporate Governance Directive of the SIX Swiss Exchange and the revised recommendations of Economie-suisse “Swiss Code of Best Practice for Corporate Governance” in its last published version, February 29, 2016.

### I. Compensation Governance

Article 24<sup>bis</sup> of the Articles of Association of Lindt & Sprüngli allocates the following tasks and competencies for 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 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. 15<sup>bis</sup> of the Articles of Association. The Compensation & Nomination Committee may submit to the Board of Directors proposals and recommendations in all matters of remuneration.”*

Governed by the corresponding bylaw, the responsibilities of the CNC thus also include the approval of employment contracts for Group Management members and the submission of proposals to the Board of Directors on the employment contract for the CEO for approval. The CNC also submits proposals to the Board of Directors for motions relating to compensation to be approved by the General Meeting and for any occupational benefits and pensions of the company or of its subsidiary companies – outside the scope of occupational benefits and similar schemes abroad – granted 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 proposed Compensation Report text to be reviewed and approved by the Board of Directors.

Within the framework of the compensation principles, Articles of Association, and resolutions of the General Meeting, the CNC determines the amount and composition of compensations for individual members of Group Management and submits proposals to the full Board on the individual compensation of the CEO and the members of the Board of Directors. Individual members of the Board of Directors and Group Management are excluded from these negotiations, and from voting, when their own compensation is affected. Once a year, the CNC informs the Board of Directors about the procedure for compensation determination and the outcome of the compensation process. The CNC meets at least twice each year; two regular meetings were held in the year under review. The CNC has general authority to call in external consultants to perform its tasks. Last year, the advisory services of a well-known consultant were used in connection with the benchmarking of the compensation paid to the Executive Chairman and Group Management, this was the only project involving work with this consulting firm.

## Compensation approval system

	CEO	CNC	Board of Directors	General Meeting
Maximum combined compensation Board of Directors		Proposal to BoD	Proposal to GM	Decision (prospective)
Individual compensation Board of Directors		Proposal to BoD	Decision	
Maximum combined 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		
Consultative vote on Compensation Report		Proposal to BoD	Proposal to GM	Decision (retrospective)

## II. Compensation for the Board of Directors

The members of the Board of Directors receive compensation in the form of a fixed fee. The entire compensation for the past term of office is paid out in cash after the General Meeting, in accordance with the table below. This compensation releases the Board of Directors from potential conflicts of interest in the assessment of corporate performance.

The same fixed flat-rate fee was paid to the non-executive members of the Board for the term of office 2016/2017 and is paid for the term of office 2017/2018: CHF 145,000 each. The Chairman of the Board of Directors received an unchanged flat-rate fee of CHF 260,000 for the term of office 2016/2017. The following compensation was effectively paid to the members of the Board of Directors in the financial years 2016 and 2017 (April to December):

## Compensation of the Board of Directors (audited)

Function on 31.12.2017	2017		2016		
	Fixed cash compensation <sup>1</sup>	Other compensation <sup>3</sup>	Fixed cash compensation <sup>1</sup>	Other compensation <sup>3</sup>	
CHF thousand					
E. Tanner	Executive Chairman of the Board since October 1, 2016, and member of the CS Committee <sup>2</sup>	2,260	25	260	13
A. Bulgheroni	Board member, member of the Audit, CNC and CS Committee	145	40	145	40
Dkfm. E. Gürtler	Board member, member of the CNC	145	12	145	12
Dr R. K. Sprüngli	Board member, chairman of the CNC and the CS Committee	145	14	145	14
P. Schadeberg-Herrmann	Board member, member of the Audit Committee	145	13	145	13
Dr T. Rinderknecht <sup>4</sup>	Board member, chairman of the Audit Committee	145	14	–	–
Dr F. P. Oesch <sup>5</sup>		–	–	48	5
<b>Total</b>		<b>2,985</b>	<b>118</b>	<b>888</b>	<b>97</b>

<sup>1</sup> Total compensation in the form of a fee respectively additional compensation for E. Tanner as Executive Chairman of the Board (April-December 2017).

<sup>2</sup> CS Committee: Corporate Sustainability Committee.

<sup>3</sup> AHV share of the employee on fees paid by the employer (including that of the employer, that establishes or increases social insurance or pension contributions). The compensation shown for 2017 paid to E. Tanner includes flat-rate expenses of CHF 12,000 (previous year: CHF 0). Mr. Bulgheroni also received a gross fee of CHF 29,000 (previous year CHF 28,000) for his function as Chairman of the Board of Lindt & Sprüngli SpA and Caffarel SpA. P. Schadeberg-Herrmann received a fee of CHF 13,000 (previous year CHF 13,000) for her consulting function at Lindt & Sprüngli (Austria) GmbH.

<sup>4</sup> Election at the General Meeting 2016. Fee was paid in April 2017.

<sup>5</sup> Up to his decease in August 2015, Dr F. P. Oesch was a member of the Board of Directors and the Audit Committee. Pro rata fee from May until August 2015, paid in April 2016.

The amount of CHF 1.1 million approved by the General Meeting of April 21, 2016, as the maximum combined compensation for the Board of Directors for the period up to the General Meeting of 2017 was not exceeded. The amount of CHF 5.3 million approved by the General Meeting of April 20, 2017, as the maximum combined compensation for the Board of Directors for the period up to the General Meeting of 2018 was approved and will not be exceeded either. The amount effectively paid out will be disclosed in the Annual Report 2018.

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

### III. Compensation for the Group Management

#### i. Compensation principles

Compensation plays a central role in staff recruitment and retention, thus influencing the company's future success. Lindt & Sprüngli is committed to performance-based compensation in line with the market and designed to reconcile the long-term interests of shareholders, employees, and customers. The compensation system at Lindt & Sprüngli has five main aims:

1. long-term staff motivation,
2. creating long-term retention of key employees,
3. establishing an appropriate relationship between the compensation and results,
4. ensuring that management activity reflects owners' long-term interests; and
5. attracting talent and enhancing the company's reputation as a good employer to work for.

Lindt & Sprüngli attaches great importance to staff retention; this manifests itself particularly in the extraordinarily low turnover rate over a period of many years. This is particularly important for a premium product manufacturer with a long-term strategy. Compensation principles at Lindt & Sprüngli are meant to have a medium and long-term impact and be sustainable. Continuity is a high priority.

#### ii. Compensation system

Compensation for members of Group Management consists of a combination of basic salary, cash bonus, participation certificate or option-based compensation and ancillary benefits consistent with their respective position. Fixed compensation essentially reflects the particular grade, powers, and experience of the members of Group Management. The cash bonus is tied to performance targets for the financial year, while compensation in share options or equity-like instruments, strengthens the focus on shareholders within Group Management and reconciles the long-term interests of the Management with those of the shareholders.

Compensation in share options with a vesting period of three years until they can be exercised, promotes the long-term focus 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 the particular bonus target as a percentage of basic salary, and the accompanying target attainment bandwidth as a percentage of the bonus target. The bandwidth for possible option allocations is expressed as a percentage of the fixed compensation in each case.

#### Composition of Group Management variable compensation

	Fixed compensation	Variable compensation		
		Cash bonus		Options <sup>1</sup>
	Base salary	Target bonus in % of base salary	Target attainment range as % of target	Options as % of base salary
CEO	100%	100%	0–200%	0–200%
Group Management	100%	30–90%	0–200%	0–200%

<sup>1</sup> Options on participation certificate

The amount of target compensation is guided by the requirements and responsibility of the beneficiaries and is regularly reviewed within the Group through horizontal and vertical comparisons. When new appointments are made, the CNC also analyses comparable data for the consumer goods sector, with reference to the specific vacancy for the appointment.

In the financial year 2017, compensation for Group Management was reviewed by benchmarking. Here, the compensation level and its structure were compared with twelve industrial companies from the SMI and SMIM that were similar in terms of market capitalization and sales. In addition, the long-term corporate performance of Lindt & Sprüngli was determined by comparison with the peer group to obtain an assessment representing a “Pay for Performance” analysis. In addition, a benchmarking exercise was carried out, with the support of specialist consultants, with respect to the position of Executive Chairman and Group Management compensation.

### iii. Compensation elements

#### **Basic salary and other compensation**

The basic salary is paid out in twelve or thirteen equal monthly 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.

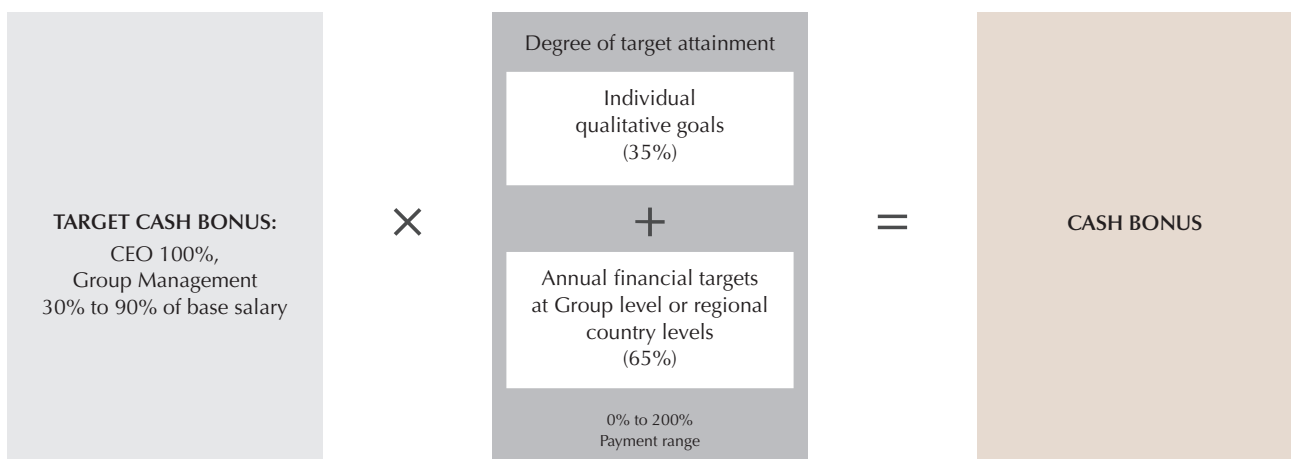
#### **Cash bonus**

The cash bonus is determined by multiplying the individual target cash bonus by a target attainment factor, determined by a scorecard. For the CEO and members of Group Management, this factor is determined largely by the attainment of financial targets for the year at Group level and, to a lesser extent, by the attainment of personal annual qualitative targets set at the CNC’s discretion. The financial targets are determined annually and correlated with the long-term strategy, with the goal of achieving sustainable organic sales growth accompanied by continuous improvement in profitability. Non-financial targets are guided by the individual function and relate to strategy implementation and to defined management and conduct criteria.

For the members of Group Management who have responsibility at regional or national level, regional and national financial targets are also considered, along with Group targets.

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

## Calculation of the cash bonus for the CEO and Group Management



### Option plan

The option plan enables Group Management, as well as selected key employees with expert knowledge, to participate in the long-term increase of the corporate value. The number is not determined primarily by previous year's performance, but by the employee's position and his influence on long-term corporate success. The CNC makes the final decision on option value per participant based on stated criteria; the allocated value may amount to as much as 200% of the specific basic salary for the Group Management. The options are issued in a ratio of one option to one participation certificate (1:1). The option strike price corresponds to the average value of the closing price of the Lindt & Sprüngli participation share over the five previous trading days on the SIX Swiss Exchange prior to grant of the option.

Option rights have a strike period of not more than seven years from grant, with initial vesting periods of three (35%), four (35%), or five (30%) years.

#### iv. Compensation

Compensation for members of Group Management for the year 2017 and 2016 is shown in the following table. The valuation of the option and equity-based compensation for 2017 and 2016 uses market values at the time of grant.

#### Compensation for the Group Management (audited)

CHF thousand	Fixed gross compensation <sup>1</sup>	Variable cash compensation <sup>2</sup>	Other compensation <sup>3</sup>	Options <sup>4</sup>	Registered shares	2017 market value
						Total compensation
Dieter Weisskopf, CEO	1,265	900	–	1,025	–	3,190
Other members of Group Management <sup>5</sup>	6,502	2,050	40	4,067	–	12,659
<b>Total</b>	<b>7,767</b>	<b>2,950</b>	<b>40</b>	<b>5,092</b>	<b>–</b>	<b>15,849</b>

CHF thousand	Fixed gross compensation <sup>1</sup>	Variable cash compensation <sup>2</sup>	Other compensation <sup>3</sup>	Options <sup>4</sup>	Registered shares <sup>5</sup>	2016 market value
						Total compensation
Ernst Tanner, CEO	1,224	1,100	131	1,728	3,232	7,415
Other members of Group Management and Extended Group Management <sup>6</sup>	4,973	3,686	370	5,185	–	14,214
<b>Total</b>	<b>6,197</b>	<b>4,786</b>	<b>501</b>	<b>6,913</b>	<b>3,232</b>	<b>21,629</b>

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 application/resolution of the CNC and BoD (excluding social charges paid by employer).

3 Employees' part of social charges (AHV) related to exercising of options and grant of registered shares, paid by employer.

4 Option grants on Lindt & Sprüngli participation certificates under the terms and conditions of the Lindt & Sprüngli employee share option plan (see also note 27). The valuation reflects the market value at the time granted. The total number of granted share options in 2017 to D. Weisskopf was 1,500 units (1,500 units in 2016) and to all other members of the Group Management 5,950 units (7,500 units in 2016).

5 Group Management and Extended Group Management were consolidated on January 1, 2017. There were seven members of Group Management as at December 31, 2017.

U. Sommer stepped down from Group Management on April 30, 2017, due to retirement, but on leaving received a fee of CHF 100,000 for advisory services under the terms of the consultancy agreement in the financial year 2017. K. Kitzmantel also resigned from Group Management on December 31, 2017, on reaching retirement age.

6 Since July 1, 2016 (departure of T. Linemayr), there have been six other Group Management and Extended Group Management members.

As of October 2016, Dieter Weisskopf took over the CEO role from Ernst Tanner. Taking into account the period of notice in his employment contract and his efforts in helping to hand over operational activity to his successor, Ernst Tanner was paid a fee of CHF 4.2 million in 2017. This fee includes a final, contractually agreed compensation for provided services during the last three years (according to Scorecard) in the form of 50 registered shares (previous year: 50 registered shares with a value of CHF 3.2 million) with a value of CHF 3.2 million and a five-year vesting period. The valuation of the shares is based on their market value when granted.

The amount of CHF 28 million approved by the General Meeting of April 21, 2016, as the maximum combined compensation for 2017 for the Group Management was not exceeded; no use was made of the supplementary amount in accordance with Art. 15bis para. 5 of the Articles of Association.

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

#### IV. employment contracts

The employment contracts stipulate a maximum notice period of twelve months and make no provision for a severance payment. Maximum prohibition on competition for members of Group Management is twelve months. Compensation must not exceed the basic salary for one year. Vesting periods imposed on shares and options do not lapse with departure; vesting periods are not shortened.

#### V. Participation

The following table provides information on the ownership of Lindt & Sprüngli registered shares, participation certificates and options on participation certificates for members of the Board of Directors, Group Management on December 31, 2017.

		Number of registered shares (RS)		Number of participation certificates (PC)		Number of options	
		2017	2016	2017	2016	2017	2016
E. Tanner	Executive Chairman	3,172	3,122	12,060	8,400	8,950	14,750
A. Bulgheroni	Member of the Board	1,000	1,000	–	–	–	1,900
Dkfm E. Gürtler	Member of the Board	1	1	50	50	–	–
Dr R. K. Sprüngli	Member of the Board	1,092	1,090	–	–	–	–
Dr T. Rinderknecht	Member of the Board	–	–	–	–	–	–
P. Schadeberg-Herrmann	Member of the Board	127	127	–	–	–	–
Dr D. Weiskopf	Group Management	7	7	2,400	2,400	6,850	7,650
A. Pfluger	Group Management	5	5	30	30	4,850	6,483
R. Fallegger	Group Management	5	5	100	654	4,048	4,088
A. Germiquet <sup>3</sup>	Group Management	4	–	–	–	2,525	–
Dr A. Lechner	Group Management	7	7	56	56	4,025	5,150
M. Hug <sup>3</sup>	Group Management	–	–	–	–	1,825	–
G. Steiner <sup>3</sup>	Group Management	2	–	–	–	1,840	–
K. Kitzmantel <sup>1</sup>	Group Management	2	5	–	–	3,798	3,838
U. Sommer <sup>2</sup>	Group Management	–	1	–	–	–	5,400
<b>Total</b>		<b>5,424</b>	<b>5,370</b>	<b>14,696</b>	<b>11,590</b>	<b>38,711</b>	<b>49,259</b>

1 Mr. K. Kitzmantel stepped down from Group Management on December 31, 2017 on reaching retirement.

2 Mr. U. Sommer stepped down from Group Management on April 30, 2017 on reaching retirement, therefore no participation as December 31, 2017.

3 Messrs. Germiquet, Hug and Steiner joined Group Management on January 1, 2017, so there was no participation for 2016.

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

Apart from the benefits listed in this report, no other compensation was provided in the reviewed year 2017 – either directly or via consultancy companies – to the executive and non-executive members of the Board of Directors or to the members of Group Management and to former members of Group Management and the Board of Directors as well as related persons. In addition, as per December 31, 2017, 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

No other compensation was paid in 2017 to former 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 2017. 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 46 and 50 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 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'Häfliger'.

Bruno Häfliger

Audit expert  
Auditor in charge

A handwritten signature in black ink, appearing to read 'Stadelmann'.

Josef Stadelmann

Audit expert

Zürich, 5 March 2018