

The compensation report contains information on the compensation of the members of the Board of Directors and the Corporate Executive Committee. It substantially adheres to the provisions set forth in Bachem's Articles of Incorporation, the transparency requirements of the Swiss Code of Obligations as specified in Art. 663b<sup>bis</sup> and Art. 663c OR, and the Ordinance Against Excessive Compensation in Listed Companies (OAEC) Articles 14–16 and 20.

## Basic compensation policy

The steadfast focus on peptides, adherence to the most stringent of quality standards and a distinctive capacity for innovation attest to the skills and many years of experience that Bachem employees possess. In acknowledgment thereof, the central objectives of Bachem's compensation policy are to ensure a sustainable, positive business development and to recruit and retain the best specialists. The compensation system is rooted in the principles of transparency, performance-oriented pay, and lasting value creation. It is aimed to attract, incentivize and retain employees committed to the successful development of the company by offering comprehensive pay packages competitive with peer market practice. Besides the requisite skills and knowledge, a high level of motivation and strong commitment are expected in return.

The foundation for Bachem's compensation model is provided by the binding, Group-wide Bachem Incentive Plan. It sets the overall compensation mechanisms for all employees at Bachem Group, including the members of the Corporate Executive Committee.

The basic principles underlying the system of compensation described in the Bachem Incentive Plan are:

- Total compensation is understood as compensation for total performance
- Total compensation and total performance are focused on sustainable corporate success and therefore further the long-term interests of all stakeholders
- Targets and objectives pertinent to the expected total performance are assigned and/or agreed upon
- The subsequent assessment of total performance takes into consideration internal and individual factors as well as general and external forces and factors of consequence
- All employees have a stake in the company's success within the scope of their roles and responsibilities
- All employees are assigned individual, mutually agreed upon objectives that have a positive impact on the company
- Senior management receives part of its total compensation in the form of blocked company shares

The Bachem Incentive Plan is not utilized to determine the compensation paid to the (non-executive) members of the Board of Directors. To ensure true independence, neither performance-oriented nor individual objectives are applied in setting the overall compensation of the members of the Board of Directors.

### **Management and control of compensation**

The remuneration and share-based payment plans offered to the Board of Directors and the Corporate Executive Committee are determined annually by the Board of Directors acting on a proposal by the Compensation Committee, which shall consist of three members of the Board of Directors. Compensation shall be determined in compliance with all applicable legal, statutory and contractual requirements and, at the Board's own discretion, subject to subsequent approval by the General Meeting.

The General Meeting shall cast a prospective vote on and set with binding force the aggregate compensation of the Board of Directors for the period extending to the close of the next Annual General Meeting.

The resolutions of the Board of Directors on the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee for the next fiscal year will also be submitted for approval at the Annual General Meeting. If a new individual is appointed to the Corporate Executive Committee or an existing Corporate Executive Committee member is promoted after the aggregate amount of compensation for the period has been approved, the Board of Directors shall be entitled to provide an additional amount of compensation should the approved amount of aggregate compensation not be sufficient. The additional compensation provided per member of the Corporate Executive Committee shall not exceed 25% of the aggregate amount approved by the General Meeting.

The Compensation Committee supports the Board of Directors in determining and periodically reviewing the compensation strategy and guidelines as well as in formulating the resolutions to be submitted for approval at the General Meeting. Furthermore, the Compensation Committee submits proposals to the Board of Directors regarding key performance criteria to be used in setting individual total compensation for the members of the Corporate Executive Committee. The Committee shall also submit proposals to the Board of Directors for

establishing or revising individual performance- and/or profit-based variable compensation and stock award plans.

Based on the guidelines approved by the full Board of Directors, the Compensation Committee measures the extent to which the financial and non-financial targets of the members of the Corporate Executive Committee have been achieved and makes specific recommendations regarding compensation. These recommendations and the proposals for the compensation of the members of the Board of Directors are presented to the Board of Directors for review and approval.

The Compensation Committee meets as often as necessary to carry out its responsibilities, but at least once every year. It held one one-hour meeting in 2019. No external specialists were called in during the period under review.

The Board of Directors discloses the actual compensation paid to members of the Board of Directors and the Corporate Executive Committee in the compensation report. This report is audited annually by the auditors.

### **Compensation of the Board of Directors**

Compensation paid to the (non-executive) members of the Board of Directors consists of a fixed base fee set independently of the operating results, meeting fees, and an appropriate amount of unrestricted company shares.

The amount of the base fee is determined by the given roles and responsibilities and the associated requirements in terms of time and tasks assigned. In 2019, a gross amount of 30 kCHF per quarter was set for the Chairman and 9 kCHF per quarter for the other members of the Board of Directors. For the year under review, every member of the Board of Directors was awarded 300 BANB shares. Meeting fees amounted to 1200 CHF per day and per meeting participant.

The company may assign individual members additional tasks that go beyond the nature and scope of their given mandate. Compensation of such work shall be paid separately as invoiced. Legal counsel obtained by Thomas Burckhardt, Secretary and member of the Board of Directors, is cited in this regard, for which an invoice of 7 kCHF was issued by law firm and notary office Simonius & Partner.

In congruence with the company's compensation philosophy, there are no agreements between Bachem and the members of the Board of Directors granting entitlement to severance payments, any other benefits on separation from service or loans and borrowings.

**Compensation of the Corporate Executive Committee**

Compensation of members of the Corporate Executive Committee consists of fixed and variable elements. The short-term variable compensation elements are based on performance metrics that primarily reflect

the company's bottom-line results. Variable compensation is paid both in cash and as blocked company shares. During the first three years after grant, the shares have full voting and dividend rights commencing on the date of grant, but they may not be sold during this time. By imposing a minimum holding period, Bachem adds a long-term perspective to the variable compensation component so as to direct the actions and behavior of Corporate Executive Committee members toward sustainable corporate development.

**OVERVIEW OF DUTIES AND RESPONSIBILITIES**

BODY/FUNCTION	DUTIES AND RESPONSIBILITIES
<b>ANNUAL GENERAL MEETING</b>	<ul style="list-style-type: none"> <li>- Elect and remove the members of the Board of Directors and the Compensation Committee</li> <li>- Prospectively set the aggregate amount of annual compensation of the Board of Directors</li> <li>- Prospectively approve the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee</li> </ul>
<b>BOARD OF DIRECTORS</b>	<ul style="list-style-type: none"> <li>- Determine and periodically review Bachem's compensation policy and guidelines</li> <li>- Submit proposals at the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee</li> <li>- Set performance targets and objectives for short- and long-term variable compensation components within the overall compensation of the Corporate Executive Committee members and determine target achievement levels</li> <li>- Establish performance-based variable compensation and stock award plans</li> <li>- Prepare the compensation report</li> </ul>
<b>COMPENSATION COMMITTEE</b>	<ul style="list-style-type: none"> <li>- Support the Board of Directors in setting and periodically reviewing Bachem's compensation policy and guidelines</li> <li>- Submit proposals to the Board of Directors on the compensation of the members of the Board of Directors</li> <li>- Support the Board of Directors in determining the key financial and non-financial performance criteria used to set the individual total compensation of the members of the Corporate Executive Committee</li> <li>- Submit proposals to the Board of Directors for establishing or revising performance- and/or profit-based variable compensation and stock award plans</li> <li>- Preparing proposals put to the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee</li> </ul>
<b>AUDITORS</b>	<ul style="list-style-type: none"> <li>- Audit of quantitative information on compensations, loans and borrowings in the compensation report (acc. to Art. 17 OAEC)</li> </ul>

## COMPENSATION REPORT

Total compensation (TC) paid to members of the Corporate Executive Committee consists of a guaranteed base salary (BS) specified by contract and a variable component (IP) as detailed in the “Bachem Incentive Plan,” which is applicable throughout the Group. The achievement scores are weighted with a factor (TF) in the compensation equation.

<b>Total compensation:</b>	$TC = BS + IP$
<b>Variable compensation:</b>	$IP = BS \times 0.69 \times TF$
<b>Factor:</b>	$TF = PTI \times 0.2 + GTI \times 0.8$

Variable compensation is calculated by multiplying 69% of the base salary by a factor derived from the weighted achievement scores for the Bachem Group financial targets (Group Target Incentives/GTI), which are typically based on sales and profits, and with respect to three to five individual objectives (Personal Target Incentives/PTI). The Board of Directors assesses the overall achievement scores with respect to Group-wide and individual targets based on a proposal by the Compensation Committee. The achievement of individual objectives is divided into four achievement levels: 0%, 80%, 100% and 120%.

30% of variable compensation will be paid out as company shares. These shares will be blocked for three years after grant and disclosed in the compensation report at discounted value in accordance with applicable tax laws. The aforementioned proportion of variable

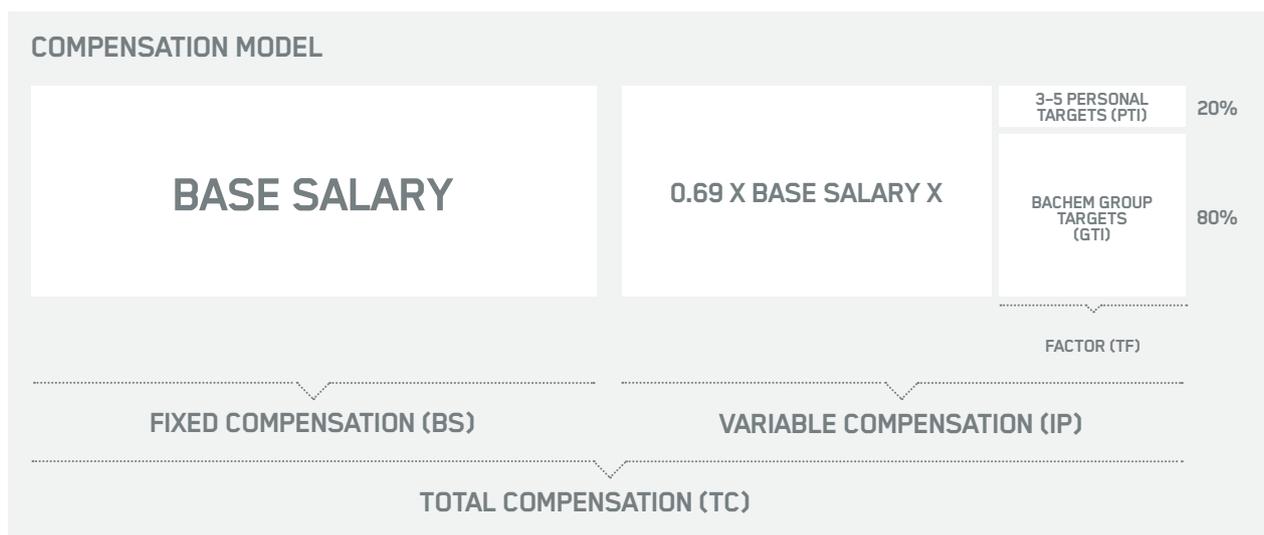
compensation is converted into a specific number of awarded shares using the average daily closing price for the corresponding fiscal year.

The Group targets set for the 2019 fiscal year were achieved in full and in some cases exceeded. In view of the assessment of the total performance, the Board of Directors has set the Group Target Incentive rate at 110% as proposed by the Compensation Committee. In the year under review, the variable compensation of the Corporate Executive Committee members based on tax values therefore corresponded in total to approximately 70% of base salary.

In congruence with the company’s compensation philosophy, there are no agreements between Bachem and the members of the Corporate Executive Committee granting entitlement to severance payments, any other benefits on separation from service or loans and borrowings.

The shares held by the Board of Directors and the Corporate Executive Board are detailed in note 9 on page 103 of the notes to the consolidated financial statements of Bachem Holding AG.

Further information on Bachem Group’s share plans is given in the notes to the consolidated financial statements on pages 76, 77 and 92.



**Compensations to the Board of Directors and the Corporate Executive Committee**

The compensations to the Board of Directors and the Corporate Executive Committee are based on tax values and are composed of as follows:

<b>2019</b> in 1 000 CHF	Fix salaries, fees	Variable salaries	Share- based payments	Pension plan contri- bution	Other social security expenses	Total
Kuno Sommer (Chairman)	126		47		12	<b>185</b>
Nicole Grogg Hötzer (Vice-Chairwoman)	44		47		6	<b>97</b>
Jürgen Brokatzky-Geiger (Member)	44		47		5	<b>96</b>
Thomas Burckhardt (Secretary)	42		47		5	<b>94</b>
Rolf Nyfeler (Member)	44		47		5	<b>96</b>
Helma Wennemers (Member)	41		47		6	<b>94</b>
<b>Total Board of Directors</b>	<b>341</b>	<b>0</b>	<b>282</b>	<b>0</b>	<b>39</b>	<b>662</b>
Thomas Früh (CEO)	289	151	54	65	34	<b>593</b>
Rest of the Corporate Executive Committee	812	416	149	157	107	<b>1 641</b>
<b>Total Corporate Executive Committee</b>	<b>1 101</b>	<b>567</b>	<b>203</b>	<b>222</b>	<b>141</b>	<b>2 234</b>
<b>Total</b>	<b>1 442</b>	<b>567</b>	<b>485</b>	<b>222</b>	<b>180</b>	<b>2 896</b>

<b>2018</b> in 1 000 CHF	Fix salaries, fees	Variable salaries	Share- based payments	Pension plan contri- bution	Other social security expenses	Total
Kuno Sommer (Chairman)	126		36		13	<b>175</b>
Nicole Grogg Hötzer (Vice-Chairwoman)	43		36		6	<b>85</b>
Jürgen Brokatzky-Geiger (Member)	43		36		4	<b>83</b>
Thomas Burckhardt (Secretary)	42		36		4	<b>82</b>
Rolf Nyfeler (Member)	43		36		4	<b>83</b>
Helma Wennemers (Member)	42		36		6	<b>84</b>
<b>Total Board of Directors</b>	<b>339</b>	<b>0</b>	<b>216</b>	<b>0</b>	<b>37</b>	<b>592</b>
Thomas Früh (CEO)	280	135	49	60	35	<b>559</b>
Rest of the Corporate Executive Committee	803	387	139	142	92	<b>1 563</b>
<b>Total Corporate Executive Committee</b>	<b>1 083</b>	<b>522</b>	<b>188</b>	<b>202</b>	<b>127</b>	<b>2 122</b>
<b>Total</b>	<b>1 422</b>	<b>522</b>	<b>404</b>	<b>202</b>	<b>164</b>	<b>2 714</b>

Lump-sum allowances to the Board of Directors and the Corporate Executive Committee are not part of the compensations, since they compensate for expenses.

## Report of the statutory auditor to the General Meeting of Bachem Holding AG, Bubendorf

We have audited the compensation report of Bachem Holding AG for the year ended December 31, 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 on page 58 of the compensation report.

### Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

### Auditor's Responsibilities

Our responsibility is to express an opinion on the compensation 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 compensation 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 compensation 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 compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation 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 compensation report for the year ended December 31, 2019 of Bachem Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

### Other Matter

The compensation report of Bachem Holding AG for the year ended December 31, 2018 was audited by another auditor who expressed an unmodified opinion on that compensation report on February 20, 2019.

Zurich, February 19, 2020

MAZARS AG

Cyprian Bumann  
Licensed Audit Expert  
Auditor in Charge

Roger Leu  
Licensed Audit Expert