

Compensation Report

The Compensation Report describes the compensation principles, governance framework and compensation system of Zur Rose Group AG. It also contains detailed information on the compensation of the members of the Board of Directors and Group Management for the 2018 financial year (the “reporting year”). This report complies with the requirements of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance) of 1 January 2014 and with Section 5 of the Annex to the Directive on Information relating to Corporate Governance (DCG) issued by the SIX Swiss Exchange on 13 December 2016.

1 Principles

The value and success of the Zur Rose Group largely depends on the quality and commitment of its employees. Its compensation policy supports the goal of recruiting, motivating and retaining qualified individuals for the Group. The performance-related and share-based components are also designed to align the way of thinking and acting with shareholders’ interests.

The compensation system is based on the following principles:

- (a) the compensation system anchors the strategic growth targets;
- (b) the compensation is fair, market consistent and transparent; and
- (c) it supports the recruitment, motivation and retaining of talented and motivated employees.

2 Governance

2.1 Role of Shareholders and Compensation Provisions in the Articles of Association

Under the Swiss “say on pay” provisions, shareholders of companies listed in Switzerland have a significant influence on the compensation of the Board of Directors and Group Management. For one, the shareholders annually approve the maximum total amounts of compensation for the members of the Board of Directors and Group Management. In addition, the principles governing compensation are defined in the Articles of Association, which are also subject of the approval of the shareholders. The Articles of Association can be viewed online at <https://zurrosegroup.com/websites/zurrosegroup/English/2080/corporate-governance.html>. These include the rules for voting on compensation by the General Meeting of Shareholders (Art. 25), the principles of compensation and rules concerning the principles of performance-related compensation (Art. 27), the supplementary amount (Art. 26) and the granting of loans and credits (Art. 30). The key provisions of the Articles of Association are summarized below:

Approval of compensation: The General Meeting of Shareholders approves the proposals of the Board of Directors in relation to the aggregate amounts of the maximum fixed compensation of the Board of Directors for the following financial year, the variable compensation of the Board of Directors for the preceding financial year, the maximum fixed compensation of the Group Management for the following financial year, and the variable compensation of the Group Management for the preceding financial year.

Supplementary amount for changes to Group Management: If the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient also to cover new members of the Group Management, the Company may pay a supplementary amount, which may not exceed 50 percent of the last aggregate compensation amount approved.

Principles of compensation of the members of the Board of Directors and Group Management: The compensation of the non-executive members of the Board consists of fixed compensation, variable compensation elements as well as further compensation elements and benefits. The compensation of the executive members of the Board of Directors and the members of the Group Management consists

of fixed and variable compensation elements as well as further compensation elements and benefits. Total compensation takes into account the position and level of responsibility of the recipient. Fixed compensation comprises the base salary or director's fees, as applicable, and may comprise other compensation elements and benefits. Variable compensation takes into account the achievement of specific performance targets and may be awarded in cash or in equity-based instruments. The Board of Directors determines grant, vesting, exercise, restriction and forfeiture conditions and periods.

Loans and credits: Loans and credits to members of the Board of Directors and Group Management may be granted under market conditions. The total amount of such outstanding loans and credits may not exceed the total annual compensation of that member.

2.2 Compensation Committee

Under the Articles of Association, the Compensation Committee (CC) comprises three members of the Board of Directors. The CC supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines, and in preparing the proposals to the General Meeting of Shareholders on the compensation of the Board of Directors and Group Management. It also makes recommendations regarding the appointment of members of the Group Management for the attention of the Board of Directors.

LEVELS OF RESPONSIBILITY			
Decision on:	Compensation Committee	Board of Directors	General Meeting of Shareholders
Compensation policy, including the structuring of variable compensation and definition of performance targets	Recommendation	Approval	
Maximum total compensation of the Board of Directors and Group Management	Recommendation	Proposal	Binding vote
Individual compensation of the members of the Board of Directors and Group Management	Proposal	Approval	
Compensation Report	Recommendation	Approval	Consultative vote

The CC consists of Dr. Thomas Schneider, Prof. Stefan Feuerstein and Vanessa Frey. The members are elected by shareholders at the Annual General Meeting of Shareholders for the reporting year. The members of the CC serve for a term of one year ending at the end of the next Annual General Meeting of Shareholders (term of office). They are eligible for re-election.

As a rule, the meetings of the CC are held before the meetings of the Board of Directors, so that the proposals can be formulated and approved by the full Board. In addition, the chairman of the CC reports to the Board of Directors on the Committee's activities after each meeting. The minutes of the Committee meetings are provided to the members of the Board of Directors. Members of the Group Management may attend the meetings in an advisory capacity upon invitation, but are not present during the discussion and determination of their own compensation. The CC met four times and held a conference call during 2018. All members attended all meetings.

The CC may engage the services of an external consultant in compensation matters from time to time. No external consultants were engaged in 2018. In addition, the CC may also seek advice from internal specialists in compensation matters, such as the Head of Human Resources.

2.3 Determination Procedure and Disclosure of Compensation

The CC benchmarks the compensation of the members of the Board of Directors and Group Management every two to four years against the compensation paid by comparable listed companies and European e-commerce companies. Companies with comparable market capitalization and revenue are taken into account. The peer group includes AO World, APG SGA, Arbonia, Ascom, Bobst Group, Bossard, Burckhardt, Burkhalter, Comet, Conzzeta, Datwyler, Delticom, Hawesko, Huber+Suhner, Inficon, Interroll, Kardex, Komax, Kudelski, Metall Zug, Rieter, Schweiter, Siegfried, SRP, u-blox and Zooplus.

The comparison data of similar companies are only one factor to be taken into account by the CC in determining the target compensation of the individual members of the Group Management. The actual compensation of the individual members of the Group Management is based on their personal performance and the Company's success. Personal performance is assessed as part of the annual performance management process. In determining personal performance, the achievement of individual goals and the fulfilment of tasks within the framework of the corporate values and the expected management skills are taken into account. The individual performance assessment and the Company's success form the basis for determining the variable compensation.

3 Compensation of the Members of the Board of Directors

3.1 Compensation Structure

The members of the Board of Directors are expected to act independently in exercising their supervisory activities. They therefore receive a fixed base fee for their services for each term of office (retainer), 70 percent of which is paid in cash and 30 percent comprising registered shares of the Company with a three-year vesting period. The amount of compensation is not linked to a performance component, and no variable compensation is paid. Depending on the role, the following compensation is paid (gross p.a.):

In CHF 1,000	Total compensation	of which in cash	of which in shares
Chairman	300	210	90
Vice Chairman	130	91	39
Director	100	70	30

The following (gross p.a.) compensation is paid exclusively in cash for serving on Committees:

In CHF 1,000	Cash compensation
Committee chairman	20
Committee member	10

The Chairman of the Board of Directors does not receive a fee for serving on the Committees. The Executive Director and CEO is remunerated for his services as part of his ordinary compensation as a member of the Group Management and does not receive any additional compensation for serving on the Board of Directors. The cash payment is made after the Annual General Meeting of Shareholders and the shares are transferred shortly afterwards. The Company may reimburse members of the Board of Directors for expenses in the form of reimbursement of actual expenses incurred and / or an expense allowance within the amounts allowed for tax purposes. This reimbursement of expenses does not count as compensation. The members of the Board of Directors do not participate in the pension plan of Zur Rose Group AG.

3.2 Compensation paid to the Board of Directors in the 2018 financial year

This section was audited by the auditors in accordance with Article 17 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance).

For the 2018 financial year, the members of the Board of Directors received fixed compensation of CHF 781,000 (2017: CHF 802,000), compensation of CHF 74,000 for serving on Committees (2017: CHF 60,000), and social security contributions of CHF 60,000 (2017: CHF 61,000). Of the total compensation of CHF 915,000 (2017: CHF 923,000), CHF 241,000 (2017: CHF 245,000) was awarded in the form of shares with a vesting period of three years. The table below shows the compensation paid to members of the Board of Directors in 2018.

Name, function ¹⁾	Fixed gross compensation in cash		Fixed gross compensation in shares ²⁾		Committee fee in cash		Social security contributions		Total ³⁾	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
In CHF 1,000										
Prof. Stefan Feuerstein (Chairman)	210	210	94	92	-	-	21	21	325	323
Dr. Thomas Schneider (Vice Chairman)	91	91	41	40	20	20	11	11	163	162
Prof. Dr. Volker Amelung (Director) ⁴⁾	70	70	31	31	34	20	10	9	145	130
Dr. Heinz Baumgartner (Director) ⁵⁾	70	46	31	20	10	7	8	5	119	78
Vanessa Frey (Director)	70	70	31	31	10	13	8	9	119	123
Dr. Lukas Wagner (Director)	29	70	13	31	-	-	2	6	44	107
Non-Executive Directors	540	557	241	245	75	60	60	61	915	923
Walter Oberhänsli (Executive Director and CEO)	-	-	-	-	-	-	-	-	-	-
Board of Directors	540	557	241	245	74	60	60	61	915	923

1) As of 31 December 2018, six members of the Board of Directors were in office. Dr. Lukas Wagner resigned from the Board of Directors at the Annual General Meeting of Shareholders held on 24 May 2018. As of 31 December 2017, seven members of the Board of Directors were in office.

2) The relevant fair value on the day of allocation of CHF 116.60 (2017: CHF 137.80) per share corresponds to the respective daily closing price on the Swiss stock exchange.

3) For disclosure in the Compensation Report, the accrual principle was applied to all compensation elements. Grants are reported in the Compensation Report for the year for which they are awarded.

4) The committee fee paid to Prof. Dr. Volker Amelung includes a director's fee for a subsidiary in the amount of CHF 15,000.

5) Dr. Heinz Baumgartner was elected to the Board of Directors at the Annual General Meeting of Shareholders held on 4 May 2017.

Detailed information on each of the members of the Board of Directors can be found in the Corporate Governance section of the Annual Report.

No compensation was paid to former members of the Board of Directors during the reporting year. No compensation was paid to parties closely associated with members of the Board of Directors. No loans were granted to members of the Board of Directors during the financial year. At the end of the reporting year, there were no loans to members of the Board of Directors, former members of the Board of Directors or related parties.

At the Annual General Meeting held on 24 May 2018, the shareholders approved a maximum total amount of the fixed compensation for the Board of Directors for the 2018 financial year worth CHF 950,000. The compensation for the 2018 financial year granted to the Board of Directors and disclosed in the table above is within the maximum authorised total amount.

4 Compensation of the Members of the Group Management

4.1 Compensation Structure

The compensation system for the Group Management is aligned with the corporate strategy and linked to the relevant key performance indicators for the variable compensation elements. This allows the compensation of the members of the Group Management to be determined transparently and based on performance. The Board of Directors decides on targets.

Criteria such as position, responsibility, experience and market data are used to determine the compensation of the Group Management. The individual compensation of the members of the Group Management consists of a fixed and a performance-related salary component limited in amount, as well as pension and fringe benefits (company car).

The Company may reimburse members of the Group Management for expenses in the form of reimbursement of actual expenses incurred and / or an expense allowance within the amounts allowed for tax purposes. This reimbursement of expenses does not count as compensation.

COMPENSATION STRUCTURE

Element	Purpose	Instrument	Performance criterion	Performance period	Determinants
Fixed annual base salary	Recruitment, retention, motivation	Cash compensation	–	–	Position, qualification, market rates
Short-term variable compensation	Rewarding performance	Cash	Revenue, EBIT, individual targets	1 year	Financial result and qualitative performance
Long-term variable compensation	Rewarding sustainable value creation, Alignment with shareholders' interests	Shares	Revenue, EBIT	3 years	Success of the Group
Pension and fringe benefits	Protection against risks, employee recruitment and retention	Pension plan, insurance plans, fringe benefits	–	–	Market rates and legal requirements

Fixed annual base salary

Base salaries are determined based on the scope and responsibilities of a given position and the qualifications required to perform the job, the market rate of compensation and the personal qualifications, experience and performance of each member of the Group Management. Payment is made monthly in cash.

Short-term variable compensation

Short-term variable compensation is a performance bonus that recognizes both the Group's financial performance and the employees' personal performance in a given financial year. Through this variable compensation, employees participate in the Group's success and are rewarded for their personal performance. The target value of short-term variable compensation is expressed as a percentage of annual base salary and is 40 percent for the CEO and between 35 and 40 percent for the other members of the Group Management. The performance bonus can be a total of 0 to a maximum of 150 percent of the target value.

The targets are set by the Board of Directors at the beginning of each year at the request of the CC and are assessed at the end of the financial year based on the actual results achieved.

For 2018, the targets were refined and the significance of strategic and individual targets more heavily weighted than in the previous year. The financial metrics continue to be revenue and earnings targets.

In the reporting year, between 40 and 60 percent were revenue and earnings targets for the Group or the segments and between 40 and 60 percent were primarily the basis for measuring the short-term variable component. This shift towards qualitative, mainly strategic targets has been undertaken to incorporate the importance of the strategic initiatives in 2018 into compensation.

For each target, an expected level of performance (target) and strategy is defined based on the budget. A minimum threshold of target achievement, below which no variable compensation is paid, and a maximum threshold of target achievement, above which the variable compensation is capped, are determined as well. The payout amount between the minimum threshold, target and maximum threshold is interpolated linearly. It is at the discretion of the Board of Directors to adjust variable compensation upwards and downwards, if necessary, on the basis of individual, qualitative performance of the individual members of the Group Management.

	CEO	CFO	Other Group Management members
Revenue	30%	0%	30 to 40%
EBIT	30%	40%	20 to 30%
Individual targets (incl. net working capital, costs, cash flow, strategic initiatives)	40%	60%	40%

The short-term variable compensation is paid in cash after approval by shareholders at the Annual General Meeting of Shareholders for the reporting year.

Long-term variable compensation (performance-based share plan)

The performance-based share plan is designed to enable selected executives of Zur Rose Group AG and its subsidiaries to participate in the Company's sustainable, long-term growth.

The performance-based share plan

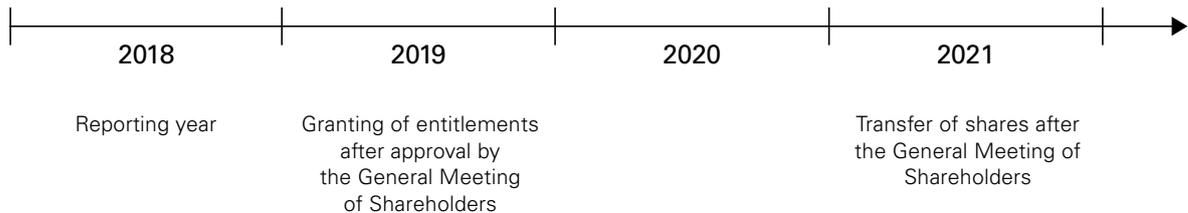
- a) supplements the short-term variable compensation component, which is based on the annual achievement of targets, with a long-term compensation component;
- b) helps align the interests of executives with those of shareholders;
- c) anchors the strategic growth targets in compensation; and
- d) is intended to be an attractive incentive instrument compared with competitors and to have a strong retention impact.

At the request of the CC, the Board of Directors determines the amount of individual grants for the past financial year in Swiss francs depending on the role and the influence on long-term success and taking into account individual performance and strategic considerations. These grants are awarded to the participants in the form of contingent rights (performance share units) and vested for a performance period of three years. The total amount granted to members of the Group Management for the grant year is approved by the shareholders at the General Meeting of Shareholders retrospectively for the past year in accordance with the Articles of Association. A grant of entitlements as compensation for a financial year is only awarded after the end of a full financial year. The Board of Directors may, in individual cases, apply different rules for members joining the plan during the year.

At the end of a performance period of three years (starting on 1 January of the reporting year and ending on 31 December three years later), after the General Meeting of Shareholders at which the annual financial statements for the last year of the performance period are approved, the performance shares are converted into shares. At that point, the number of shares to be transferred is calculated by multiplying the number of performance share units granted by the target achievement factor. The target achievement factor is based on the EBIT margin and revenues achieved, equally weighted. The target achievement factor is restricted to a lower limit of 0 and an upper limit of 2. Internal financial targets as a measure of variable compensation are not published. Disclosure of the targets would provide an insight into the Zur Rose Group's forward-looking strategy and thus lead to a competitive disadvantage for

the Group. After transfer, the shares are not subject to a vesting period and the members of the Group Management may freely dispose of them.

Overview of the time limitation for the performance period and the possible transfer of the shares:



In the event of a delisting, change of control or termination of employment due to disability or death of the participant(s), the performance share units are converted and transferred as shares within one month of notification. The performance share units are adjusted on a pro rata temporis basis and multiplied by a target achievement factor of 1. If employment is terminated by the participant or the Zur Rose Group for economic reasons or due to the participant reaching retirement age, the standard provisions regarding the conversion date and target achievement factor remain unchanged. However, the performance share units are adjusted on a pro rata temporis basis. In the event of termination of employment by the Zur Rose Group or a subsidiary without notice and for good cause, or in the event of termination of employment for reasons other than those mentioned above, the performance share units are forfeited without any compensation.

Pension benefits

The purpose of pension benefits is to provide security for employees and their dependants in the event of retirement, sickness, inability to work and death. The members of the Group Management participate in the social insurance and pension plans in the countries where their employment contracts were entered into. The plans vary according to local competition and legal conditions; they at least meet the legal requirements of the countries concerned.

Fringe benefits

Members of the Group Management also receive a company car as a fringe benefit. Its value is estimated at fair market value and included in the compensation tables. Any gifts or Board of Directors fees of subsidiaries are also included in this position.

Employment contracts

The members of the Group Management are employed under permanent employment contracts; they all have individual notice periods up to a maximum of 12 months. The members of the Group Management are not entitled to any contractual severance payments or special change of control provisions, except for the early vesting of the long-term compensation plan as explained above. The Articles of Association of Zur Rose Group AG provide for the possibility of imposing a non-compete agreement of a maximum of one year on outgoing executive members of the Board of Directors or members of the Group Management. Such a non-compete agreement was applicable at the end of the reporting year with the Executive Director and CEO.

4.2 Compensation paid to members of the Group Management in the 2018 financial year

This section was audited by the auditors in accordance with Article 17 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance).

In 2018, the members of the Group Management received total compensation of CHF 3,563,000 (2017: CHF 3,600,000). This amount includes fixed base salaries of CHF 1,792,000 (2017: CHF 1,731,000), short-term variable compensation of CHF 561,000 (2017: CHF 701,000), long-term compensation of CHF 620,000 (2017: CHF 620,000), fringe benefits of CHF 80,000 (2017: CHF 46,000) and pension benefits of CHF 510,000 (2017: CHF 502,000).

The table below shows the fixed and variable compensation and the total compensation allocated to the members of the Group Management for 2018 financial year and the previous year 2017.

Gruppenleitung ¹⁾	Fixed compensation in cash		Variable compensation								Total ⁴⁾		
			Short-term in cash		Long-term in shares ²⁾		Fringe benefits ³⁾		Pension benefits				
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	
In CHF 1,000													
Total compensation of the Group Management	1,792	1,731	561	701	620	620	80	46	510	502	3,563	3,600	
Of which:													
Walter Oberhänsli, CEO (highest total compensation)	600	600	191	280	240	240	44	13	247	244	1,323	1,377	

1) On 31 December 2018 and 31 December 2017, four members of the Group Management were in office.

2) Target value of the performance-based share plan allocated in 2018 for the 2018 to 2020 performance period and in 2017 for the 2017 to 2019 performance period.

3) Including all other compensation and benefits, such as company cars, gifts or Board of Directors fees of subsidiaries.

4) For disclosure in the Compensation Report, the accrual principle was applied to all compensation elements.

Notes on the compensation table

The total compensation of the Group Management for 2018 was CHF 3,563,000. This represents a decrease of 1.0 percent compared to the previous year. The fixed gross compensation for 2018 is 3.5 percent higher than the previous year. The expiry of a ten-year tax scheme period resulted in 2018 in a decline in net income, which was partially offset by an increase in the fixed salary.

In the 2018 financial year, the Zur Rose Group pushed ahead with its dynamic growth strategy, and in doing so bolstered its position as the largest e-commerce pharmacy in Europe. The Group played an active role in the consolidation of Germany's largest mail-order market and has acquired four online pharmacies since the IPO. In addition, it expanded its business model to include the Spanish marketplace PromoFarma, which it had acquired. With revenue of CHF 1,207.1 million, it significantly exceeded the billion Swiss franc threshold and grew by 22.8 percent. Growth-related expenses, acquisition and integration costs, and costs related to capital market transactions affected earnings. EBIT is minus CHF 31.4 million; net income / (loss) is minus CHF 39.1 million.

The measurement of short-term variable bonus payments is largely based on the increase in revenue and the development of EBIT at Group and regional level compared with the budget. As a result, the percentage of target achievement of the total bonus payments for 2018 ranges from 70 to 103 percent (2017: 75 to 115 percent) for the Group Management and is 80 percent (2017: 117 percent) for the CEO.

The variable component of the fixed compensation for the reporting year corresponds to 59 to 71 percent for the Group Management and 72 percent for the CEO. The degree of target achievement of the short-term variable compensation for 2018 decreased year-on-year and amounted to 81 percent in the

reporting year (previous year: 102 percent). The effective short-term variable compensation for 2018 has been adjusted downwards accordingly.

At the Annual General Meeting held on 24 May 2018, the shareholders approved a maximum total amount of the fixed compensation for the Group Management for the 2018 financial year worth CHF 2,400,000. This amount consists of the fixed basic salary, the fringe benefits and the pension benefits. The compensation for the 2018 financial year granted to the Group Management and disclosed in the table above is within the maximum authorised total amount.

The Board of Directors granted an allocation of the performance-based share plan for the 2018 financial year to the same extent as for the 2017 financial year.

No compensation was paid to former members of the Group Management in the reporting year. No compensation was paid to parties closely associated with the members of the Group Management. No loans were granted to members of the Group Management during the financial year. At the end of the reporting year, there were no loans to members of the Group Management, former members of the Group Management or related parties.

Information on the shares held by members of the Board of Directors and Group Management can be found in the Financial Report on page 103.



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To the General Meeting of
Zur Rose Group AG, Steckborn

Zurich, 19. March 2019

Report of the statutory auditor on the remuneration report

We have audited the accompanying remuneration report of Zur Rose Group AG for the year ended 31. December 2018. 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 38 and 42 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. 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 for the year ended 31. December 2018 of Zur Rose Group AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Martin Gröli
Licensed audit expert
(Auditor in charge)

Michael Britt
Licensed audit expert