

dorma + kaba Holding AG

# Annual General Meeting

Explanation concerning  
the approval of the compensation  
of the Board of Directors and  
Executive Committee

2016

# Agenda item 8

## Preface

As last year and in line with the Ordinance Against Excessive Compensation in Listed Stock Companies (VegüV), the Board of Directors will submit the maximum total compensation amounts of the Board of Directors and the Executive Committee to shareholders' vote at this year's Annual General Meeting.

The approval of the maximum total compensation amount of the Board of Directors applies to the compensation period from the 2016 Annual General Meeting until the 2017 Annual General Meeting (agenda item 8.1).

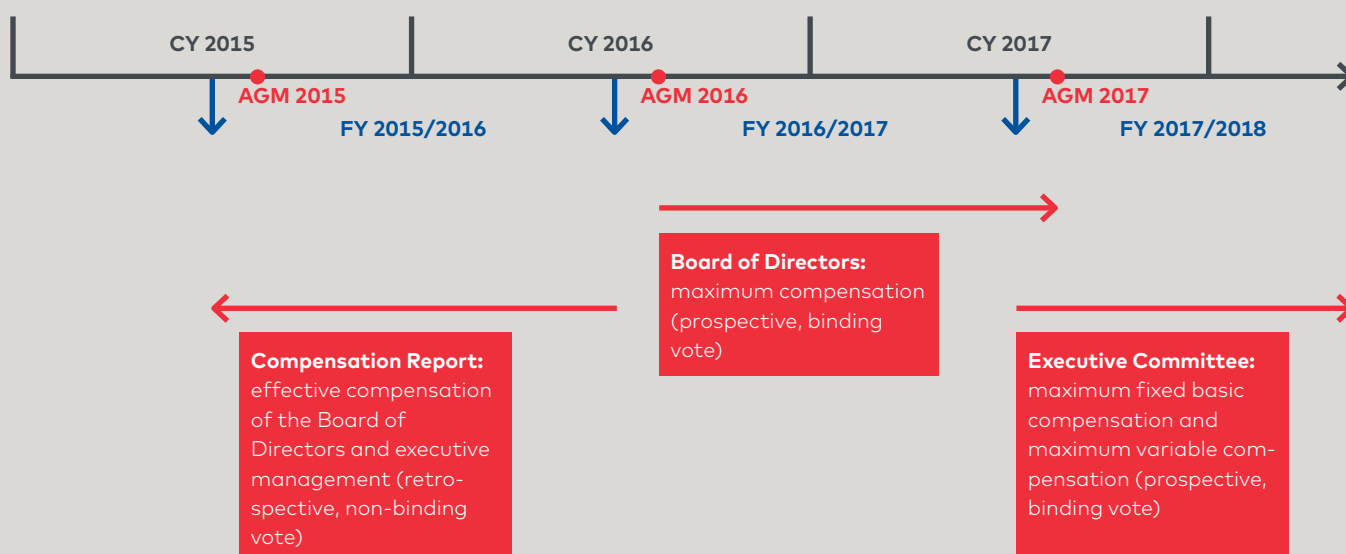
The approval of the maximum total compensation amount of the Executive Committee applies to financial year 2017/2018 and includes fixed and variable compensation elements (agenda item 8.2).

This document provides shareholders of dorma+kaba Holding AG with background information on the requested maximum amounts of compensation of the Board of Directors and the Executive Committee.

Further information about the compensation system and about the compensation awarded for the financial year 2015/2016 can be found in the Compensation Report 2015/2016. Shareholders will have the opportunity to express their opinion on the Compensation Report in a non-binding retrospective vote.

The graphic below illustrates the structure of the shareholders' votes on compensation at the 2016 Annual General Meeting.

## Board of Directors and Executive Committee compensation votes



## Agenda item 8.1 – Approval of the compensation of the Board of Directors

### Request of the Board of Directors

The Board of Directors requests approval of a maximum total compensation amount for the Board of Directors of CHF 2,750,000 for the period from the 2016 Annual General Meeting until the 2017 Annual General Meeting.

The proposal assumes that all proposed Board members (10 members) will be elected by the Annual General Meeting (previous compensation period from 2015 Annual General Meeting until 2016 Annual General Meeting: 10 members).

### Explanation of the fundamentals of compensation for the Board of Directors

The compensation policy applicable to the Board of Directors was reviewed and adjusted in 2014 on the basis of market data of other Swiss listed industrial companies comparable in size and complexity. In order to reinforce their independence, members of the Board of Directors receive only fixed compensation. They receive no variable, or performance-based compensation, no stock options and no additional fees for attending Board or committee meetings. Board members do not receive any company pension or insurance benefits.

The amount of compensation is determined annually by the Board of Directors based on the recommendation of the Compensation Committee according to the function, time and effort spent by the individual members to fulfill their tasks on the Board of Directors and its committees.

According to the compensation directive in force since October 2015, each member of the Board of Directors receives annual cash compensation of CHF 90,000. The Chairman of the Board of Directors receives additional compensation of CHF 240,000.

The members of the various committees receive the following annual additional cash compensation:

	Chair	Members
Audit Committee	CHF 60,000	CHF 15,000
Compensation Committee	CHF 45,000	CHF 10,000
Nomination Committee	CHF 45,000	CHF 10,000

A portion of the cash compensation can be allocated in form of restricted shares of dorma+kaba Holding AG if the Board of Directors member so decides.

In addition, the members of the Board of Directors receive a fixed allocation of 100 restricted shares, or 300 restricted shares in the case of the Chairman of the Board of Directors. For the compensation period from the 2016 Annual General Meeting until the 2017 Annual General Meeting, the Board of Directors will be remunerated with a total of 1,200 restricted shares. The corresponding amount depends on the assumed share price. With an assumed share price of CHF 747.45 (share price at 30 June 2016, increased by 10%), this number of shares amounts to a total value of CHF 896,940. This amount is included in the total compensation of the Board of Directors, which will be submitted to the General Meeting for approval. All allocated shares are subject to a three-year blocking period.

The requested maximum total compensation of CHF 2,750,000 comprises a cash amount of CHF 1,483,500, the aforementioned share amount of CHF 896,940, estimated social security contributions of CHF 122,000 and a reserve of 10% of the total amount in order to compensate for any special additional tasks and any unforeseeable circumstances such as share price fluctuations.

Calculation of the total compensation for members of the Board of Directors takes into account the compensation of the company and that of its Group companies. The approved compensation can therefore be paid by the company or its Group companies.

Compared with the amount requested last year for the compensation period from the 2015 Annual General Meeting until the 2016 Annual General Meeting, the requested total compensation for the Board of Directors is approximately 10% higher for the period from the 2016 Annual General Meeting until the 2017 Annual General Meeting. This development is primarily due to the increase in the assumed share price and in the increased number of shares to be allocated to the Chairman of the Board of Directors (300 instead of previously 200 shares). The compensation structure applicable to the Board of Directors will otherwise remain unchanged.

## Agenda item 8.2 – Approval of the compensation of the Executive Committee

### Request of the Board of Directors

The Board of Directors requests the approval of a maximum aggregate amount of CHF 5,730,000 for the fixed basic compensation of the Executive Committee and of CHF 12,500,000 for the variable compensation of the Executive Committee, which makes a total compensation amount of CHF 18,230,000 for financial year 2017/2018.

The proposal of the Board of Directors assumes that the Executive Committee will consist of eleven members in financial year 2017/2018 (financial year 2016/2017: 11 members).

### Explanation of the fundamentals of compensation for the Executive Committee

The following guiding principles apply in determining the compensation of the individual members of the Executive Committee:

- Annual base salary is set by reference to the market median in the relevant national or regional market (benchmarks based on data of Hay Group).
- Variable compensation (short- and long-term) amounts to at least 50 % of the total direct compensation. For recently promoted members of the Executive Committee, the compensation mix may be slightly different. It is foreseen to adjust the compensation mix in the coming years to fulfill this principle.
- The portion of compensation delivered in shares (long-term variable compensation) shall be increased in coming years to up to 30 % of total direct compensation.
- The total direct compensation shall stay within the range defined by dorma + kaba of – 20 % to + 35 % of the market median.

The compensation amounts proposed and submitted to vote have been calculated based on the following assumptions:

- The annual base salary of the Executive Committee members is not expected to change substantially compared to preceding year.
- The short-term variable compensation amounts to a maximum of 150 % of the annual base salary. It is further assumed that the basis for short-term incentives (comparison of effective annual financial results to those of the preceding year) will remain unchanged. The maximum possible amount has been requested.
- The long-term variable compensation is estimated on the basis of:
  - The company's share price of CHF 747.45 (share price at 30 June 2016, increased by 10 %) as a "fair value,"
  - Maximum possible allocation of Performance Share Units (matching shares) as per Executive Stock Award Plan ESAP 5, which includes a performance-based allocation criterion based on the increase or decline in earnings per share over the three-year vesting period.

- Linear development of the social insurance and pension plan employer contributions in relation to compensation among fixed and variable compensation components in relation to their respective weight in total compensation.
- Inclusion of a reserve of 10 % in each of the compensation elements in order to compensate for any unforeseeable circumstances such as share price and currency fluctuations.

The table below illustrates the development of the compensation of the Executive Committee:

Financial year/CHF	2015/2016 maximum indicative	2015/2016 effective	2016/2017 maximum approved	2017/2018 maximum requested
Fixed basic compensation	5,600,000	5,209,026	5,690,000	5,730,000
Variable compensation	9,300,000	5,856,242	11,560,000	12,500,000
Total	14,900,000	11,065,267	17,250,000	18,230,000
<b>Total requested compensation (including 10% reserve)</b>				<b>18,230,000</b>

The calculation of the total compensation amount for members of the Executive Committee takes into account any compensation of the company and that of its Group companies. The approved compensation can therefore be paid by the company or its Group companies.

On this basis, the following is proposed for the Executive Committee:

- Maximum aggregate fixed compensation including social insurance and pension contributions as well as non-cash and other benefits of CHF 5,730,000.
- Maximum aggregate variable compensation including social insurance and pension plan contributions of CHF 12,500,000.
- Total requested aggregate compensation amount of CHF 18,230,000. Compared with the maximum compensation for financial year 2016/2017, the requested total compensation for the Executive Committee is higher due to the increase in the estimated share price in 2017/2018, the impact of this estimated increase on the social security contributions and the overall reserve of 10 %.

dorma + kaba Holding AG – the Board of Directors