

# Compensation Report

The Compensation Report describes the principles underlying the compensation policy, and provides information about the steering process and the compensation actually paid to the Board of Directors and Executive Committee of dormakaba Holding AG. It meets the requirements of Articles 14 to 16 of the Ordinance Against Excessive Pay at Publicly Listed Companies of 20 November 2013 (VegÜV), Article 663c of the Swiss Code of Obligations, the SIX Swiss Exchange's Directive on Information relating to Corporate Governance, and economiesuisse's Swiss Code of Best Practice for Corporate Governance.

#### Introductory notes from the Compensation Committee

The 2016/17 financial year has been the first full joint financial year following the merger of Dorma and Kaba to become dormakaba. It was a very good year for dormakaba with an organic growth of 4.3%, an increase of the EBITDA margin by 1%-point and a significant increase in net profit. The company continued its post-merger integration process, realizing important cost and top line synergies, as well as operational progress. Further, dormakaba strengthened its market position by two major acquisitions in the USA, Mesker (Mesker Openings Group) and Best Access Solutions (Mechanical Security businesses of Stanley Black & Decker). Both acquisitions were successfully completed during the reporting year and allowed the company to become one of the top three providers in the North American market. The Compensation Report explains how these results impacted the variable incentive payments made to the members of Executive Committee under the different compensation plans.

The purpose of the compensation programs of dormakaba is to attract, engage and retain executives and employees, to drive performance and to encourage behaviors that are in line with dormakaba's values as well as with the long-term interests of the company's shareholders. In the reporting year, the Compensation Committee conducted a thorough review of the compensation system of the Board of Directors and of the Executive Committee. The conclusions of the review and the decisions taken as a result of it are explained in this report. Additionally, the Compensation Committee performed its regular activities throughout the financial year such as the propositions of compensation for the members of the Board of Directors and Executive Committee, as well as the preparation of the Compensation Report and the binding say-on-pay votes at the Annual General Meeting of Shareholders (AGM).

At the upcoming AGM, our shareholders will again be asked to prospectively approve the aggregate maximum amounts of compensation of the Board of Directors for the period until the following AGM and of the Executive Committee for the financial year 2018/19. Further, our shareholders will have the opportunity to express their opinion about our compensation system and the compensation awarded to the Board of Directors and to the Executive Committee by way of a consultative vote on the 2016/17 Compensation Report.

Looking ahead, we will continue to regularly review our compensation policy in order to promote sustainable performance, alignment to the long-term interests of our shareholders and employees' engagement, while being compliant with the regulatory environment. The Board of Directors would like to thank our shareholders for their valuable feedback on our approach to executive compensation.

#### Basic principles of compensation

The compensation system of dormakaba reflects the commitment to attract, engage and retain the best talent within the industry. It is designed to engage executives and employees to implement the company's strategy, to achieve the company's short-term and long-term business objectives and to create sustainable shareholder value.

The compensation system for the members of the **Executive Committee** is built on the following key principles:

##### Reward for short-term and long-term performance

An important part of compensation is paid as variable incentives linked mainly to the overall performance of dormakaba. Those incentives are well-balanced between rewarding for short-term results (short-term incentive) and sustainable success (long-term incentive).

##### Fairness and transparency

Compensation decisions are transparent and fair. The target level of total compensation is based on the function. The global grading system based on Hay Group methodology ensures that functions are evaluated in a consistent manner across the organization.

##### Alignment to shareholders' interest

The share-based compensation delivered under the long-term incentive plan encourages the sustainable commitment of executives and management members, and aligns their interests to those of the shareholders.

##### Competitiveness

The structure and levels of compensation take into account the market practice (benchmarks based on Hay Group data).

Compensation for the members of the **Board of Directors** consists exclusively of a fixed payment in cash and shares. This ensures that the Board of Directors remains independent in exercising its supervisory duties towards the Executive Committee.

## Managing compensation

### Compensation Committee

In accordance with the Articles of Incorporation and the Organizational Regulations of dormakaba Holding AG, the Board of Directors is responsible for the principles underlying the compensation policy and for the steering process; it is supported in this work by the Compensation Committee.

The Compensation Committee consists of three members of the Board of Directors who are elected annually and individually by the AGM for a period of one year. At the AGM of 2016, the shareholders elected Rolf Dörig (chair), Hans Gummert and Hans Hess as members of the Compensation Committee.

The Compensation Committee's main tasks are to:

- Propose and periodically review the compensation policy and regulations for the attention of the Board of Directors;
- Propose to the Board of Directors the specific design of the fundamental compensation elements and the determination of the compensation-related performance objectives;
- Propose to the Board of Directors the maximum aggregate compensation amount of the Board of Directors and of the Executive Committee to be submitted to the shareholders' vote at the AGM;
- Propose to the Board of Directors the compensation to be paid to its members within the limits approved by the AGM;
- Decide on the terms of appointment, significant changes in existing employment contracts and compensation for the members of the Executive Committee within the limits approved by the AGM;
- Decide on the share-based compensation to be awarded to the members of the Executive Committee and the Senior Management;
- Propose to the Board of Directors the Compensation Report.

Compensation for the Executive Committee as well as the Senior Management is set as part of an annual process.

The Compensation Committee meets as often as business requires but at least once a year. In the financial year 2016/17, the Compensation Committee held four meetings and one telephone conference of approximately one to two hours each. All meetings were attended by all members.

The Chairman of the Compensation Committee reports to the Board of Directors after each meeting on the activities of the committee. The minutes of the committee's meetings are available upon request to the members of the Board of Directors. As a general rule, the Chairman of the Board of Directors, the CEO and the Senior Vice President Group Human Resources attend the Compensation Committee meetings in advisory capacity. They do not attend the meeting, or parts thereof, when their own compensation and/or performance are being discussed.

The Compensation Committee may decide to consult external advisors on specific compensation matters. As in previous years, Hay Group, an internationally recognized consulting firm, has been appointed to provide benchmarking data on compensation of Executive Committees of comparable companies. Agnès Blust Consulting, a company specialized in executive compensation in Swiss listed companies, has been appointed to provide independent advice in specific compensation and governance matters. These consulting firms do not have any non-Human Resources related mandate with dormakaba.

### Shareholders' involvement

The Board of Directors values the dialogue with shareholders and wants to know and understand their views about executive compensation. In this context, the Board of Directors already started holding a consultative vote on the Compensation Report in the financial year 2012/13. This vote allows shareholders to express their opinion on the compensation policy and systems applicable to the Board of Directors and the Executive Committee. Since the 2015 AGM, the Board of Directors also seeks an annual prospective binding approval from shareholders of the maximum aggregate amount of compensation of the Board of Directors and the maximum aggregate amounts of fixed and variable compensation of the Executive Committee.

## Annual process and responsibilities for compensation of the Board of Directors and Executive Committee

	Feb	June	Aug	Oct
Compensation policy review and compensation principles for next financial year	CC BoD			
Compensation plans, budget and share award plan design		CC BoD		
Maximum aggregate compensation amount of the Board and EC for next compensation period			CC BoD	AGM
Compensation structure and level of Board of Directors for next compensation period			CC BoD	
Individual target compensation of EC members for next financial year*		CEO CC		
Individual short-term incentive payments EC members for previous financial year*			CEO CC	
Individual share awards EC members and Senior Management*			CEO CC	
Compensation Report		CC	CC BoD	AGM

AGM: Annual General Meeting, BoD: Board of Directors, CC: Compensation Committee, CEO: Chief Executive Officer

■ body which recommends

■ body which reviews

■ body which approves

\* Proposals related to the CEO compensation are prepared by the Chairman of the Compensation Committee and approved by the Compensation Committee

The Articles of Incorporation include the principles of compensation applicable to the Board of Directors and to the Executive Committee. Those provisions can be found under [www.dormakaba.com/en/investor-relations/corporate-governance](http://www.dormakaba.com/en/investor-relations/corporate-governance) and include:

- Principles of compensation of the Board of Directors (Article 23);
- Principles of compensation of the Executive Committee (Article 24);
- Binding vote at the AGM (Article 22);
- Additional amount for new members of the Executive Committee (Article 25);
- Credits and loans (Article 28).

### Compensation architecture for the Board of Directors

Members of the Board of Directors only receive a fixed compensation based on the responsibilities and time requirement of their function, without any entitlement to performance-related compensation. This ensures that the Board of Directors remains independent while exercising its supervisory duties towards the Executive Committee. The amount of compensation for each function of the Board of Directors is determined annually considering the market compensation trends and comparisons with other listed Swiss industrial companies which operate internationally. In the reporting year, a benchmarking analysis was conducted with the support of an external consultant, Agnès Blust Consulting. For this purpose, a peer group of Swiss multinational companies of the industrial sector listed on the Swiss Stock Exchange (SIX) had been selected for the benchmarking analysis. The peer group consists of Autoneum, Bucher Industries, Burckhardt Compression, Clariant, Dätwyler, Georg Fischer, Lonza, OC Oerlikon, Rieter, Schweiter Technologies, Sika, Sonova, Sulzer and Zehnder Group, and is well-balanced in terms of market capitalization, revenue size and headcount. The result of this analysis showed that overall the compensation of the Board of Directors is slightly below market practice. Yet, the Board of Directors decided to keep the compensation structure and levels unchanged, with the exception of the fixed number of shares for the Chairman of the Board, which has been increased from annually 200 shares to 300 shares. The compensation system and levels are documented in a compensation directive.

### 1. Composition of compensation

The compensation paid to the Board of Directors comprises a cash payment of CHF 90,000 and a fixed award of 100 shares of dormakaba Holding AG, or in the case of the Chairman of the Board of Directors, 300 shares. Additional fees are paid for specific functions such as chairmanship of the Board of Directors, chairmanship and/or membership in a committee of the Board of Directors or for performing special additional tasks assigned by the Board of Directors. The Chairman of the Board of Directors is not eligible to additional compensation for his participation in the committees.

The members of the Board of Directors may decide to receive part of the cash payment in the form of shares of the company. The number of shares awarded is calculated using the average closing share price for the last five trading days of the last month of the relevant compensation period. The awarded shares are restricted for a period of three years; this blocking period remains in place if a member leaves the Board of Directors. In addition, a shareholding ownership guideline is in place, requiring Board members to hold a minimum of 500 shares of dormakaba. This can be built up over a period of three years after the implementation of the guideline (in October 2014) or within three years after the election to the Board of Directors (in case of new members).

Compensation is paid on a pro-rata basis to Board members twice a year. For the financial year 2016/17, the first compensation period ended on 30 April 2017, the second will end on 31 October 2017. Actual expenses incurred are only reimbursed for travel and journeys outside Switzerland or as caused by special additional tasks performed on behalf of and assigned by the Board of Directors.

As at 30 June 2017, in compliance with the Articles of Incorporation, there were no outstanding loans or credit facilities between dormakaba and current or former members of the Board of Directors, or parties closely related to them. Investments held by members of the Board of Directors or related persons (including conversion and option rights) – if any – are listed on page 82 et seq. and on page 54 in the appendix to the balance sheet.

All amounts in CHF	Basic compensation p.a.	Additional compensation for Chairman roles p.a.	Additional compensation for committee membership roles p.a.	Share award p.a.	Additional payments	Reimbursement of expenses
Chairman BoD		240,000	–	300		
Chairman Audit Committee		60,000	–			
Chairman Compensation Committee		45,000	–			
Chairman Nomination Committee		45,000	–			
Member Audit Committee		–	15,000			
Member Compensation Committee		–	10,000			
Member Nomination Committee		–	10,000			
Ordinary BoD member	90,000	–	–	100	Compensation for special tasks commissioned by Board of Directors	Actual expenses for travel or journeys outside Switzerland or as caused by special work done by members on behalf of the Board of Directors

## 2. Assessment of actual compensation paid to the Board of Directors in the 2016/17 financial year

The increase in actual compensation paid to the Board of Directors compared to the previous year is due to the fact that the fixed number of shares awarded to the Chairman of the Board has been increased from annually 200 shares to 300 shares and to the increase in the share price of 27% (on average). The compensation system of the Board of Directors has otherwise not been changed compared to the previous financial year.

At the AGM 2016, the shareholders approved a maximum aggregate amount of CHF 2,750,000 for the Board of Directors for the compensation period from the AGM 2016 until the AGM 2017. The compensation effectively paid for the portion of this term of office included in this compensation report (October 2016–30 June 2017) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2017/18.

At the AGM 2015, the shareholders approved a maximum aggregate amount of CHF 2,510,000 for the Board of Directors for the compensation period from the AGM 2015 until the AGM 2016. The compensation effectively paid was CHF 2,111,590 and is within the limit approved by the shareholders.

### Compensation architecture for the Executive Committee

The compensation awarded to members of the Executive Committee is primarily driven by the success of the company. In addition to a competitive fixed compensation there is a performance-related component that rewards for performance and allows members of the Executive Committee to participate in the company's long-term value creation. The overall compensation consists of the following elements:

- Annual base salary;
- Benefits (such as retirement benefits);
- Short-term incentive;
- Long-term incentive (share-based compensation).

To ensure consistency across the organization, roles within the organization have been evaluated using the job grading methodology of Hay Group. The grading system is the basis for compensation activities such as benchmarking and determination of compensation structure and levels. For comparative purposes dormakaba refers to external compensation studies that are conducted regularly by Hay Group in most countries. Overall, these studies include the compensation data of 2,500 technology and industrial companies, including listed and privately held competitors in the security sector that are comparable with dormakaba in terms of annual revenues, number of employees and complexity in the relevant national or regional market. Consequently, there is no pre-defined peer group of companies that is used globally. Rather, the benchmark companies will vary from country to country based on the database of Hay Group.

The compensation paid to the Executive Committee must in principle be based on the market median in the relevant national or regional market, and must be within a range of

–20% to +35% of this figure. The variable component of compensation (= short- and long-term incentives) is targeted to make up for at least 50% of the overall compensation.

### 1. Annual base salary

Members of the Executive Committee receive an annual base salary for fulfilling their functional role. It is based on the following factors:

- Content, responsibilities and complexity of the function;
- External market value of the respective role: amount paid for comparable positions in the industrial sector in the country where the member works;
- Individual profile in terms of skills set, experience and seniority.

### 2. Benefits

As the Executive Committee is international in its nature, the members participate in the benefits plans available in their country of employment. Benefits consist mainly of retirement, insurance and health care plans that are designed to provide a reasonable level of protection for the participants and their dependents in respect to the events of retirement, disability, death and illness/accident. The members of the Executive Committee with a Swiss employment contract participate in the occupational pension plans offered to all employees in Switzerland, which consist of a basic pension fund and a supplementary plan for management positions. The pension fund of dormakaba in Switzerland is in line with benefits provided by other Swiss multinational industrial companies.

Members of the Executive Committee under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and is, as a minimum, in accordance with the legal requirements of the respective country.

Further, members of the Executive Committee are also provided with certain executive perquisites such as company car or car allowance, representation allowance and other benefits in kind according to competitive market practice in their country of employment.

### 3. Variable compensation

The variable compensation consists of a short-term incentive (STI) and long-term incentive (LTI).

#### 3.1 Short-term incentive

The short-term incentive is defined annually as a cash payment and aims to motivate the participants to meet and exceed the company's measurable financial objectives, which are defined in line with the Group's strategy. Pursuant to the Article of Incorporation 24 the short-term incentive may not exceed 150% of the individual annual base salary for the members of the Executive Committee (cap).

Following the "We are ONE company" principle, the individual short-term incentive paid to the members of the Executive Committee is strictly based on Group and segment financial objectives and not on individual goals. The

	Fixed compensation and benefits		Variable compensation (target of at least 50% of total compensation)	
	Annual base salary	Benefits	Short-term incentive	Long-term incentive
Purpose	Reflects the function (scope, responsibilities), experience and skills of the individual	Establish a level of risk protection for the participants and their dependents	Rewards company and segment performance	Rewards individual and company performance, aligns to shareholders' interests

business results are compared to the previous year's results, in order to drive a continuous improvement of the business achievements, year after year.

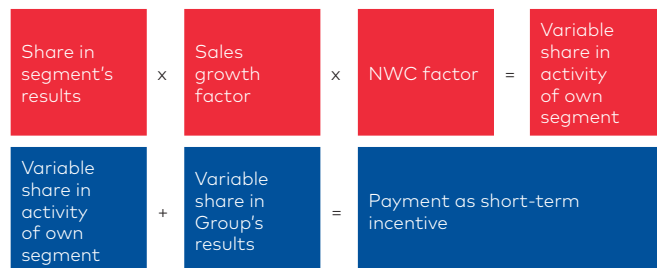
The incentive formulas for all members of the Executive Committee are built around the following principle: the short-term incentive consists of a pre-defined share of profit (as a percentage of Group net income or segment EBIT) multiplied by growth factors (see illustration to the right). This formula is aligned to the business strategy of profitable growth because it rewards for bottom-line results (Group net income or segment EBIT) and for top-line contribution (sales growth multiplier). Further, for the COOs responsible for a segment, the formula also includes a net working capital factor (NWC factor), which reflects the focus on efficient management of the company's financial resources. The pre-defined profit share (in percentage of profit) is determined for each function individually.

For the CEO and other Executive Committee members (CFO, CIO (Chief Integration Officer), CTO (Chief Technology Officer), CMO (Chief Manufacturing Officer)), the incentive formula relates exclusively to Group results. For the COOs, it relates to segment results and Group results as follows:

**CEO, CFO, CIO, CTO, CMO**



**COOs**



	Group	Segment	Rationale
Movable Walls			Movable Walls and Key Systems are independent global segments, the 30-70% split between Group's and segment's results is well balanced in terms of rewarding the collective performance of the Group and the individual performance of the segments.
Key Systems	30%	70%	
Access Solutions (AS)	10%	30% all AS segments 60% own AS segment	AS segments (AMER, APAC, DACH, EMEA) are interdependent, therefore the weighting strongly encourages collaboration between the AS segments and rewards for the AS collective performance and the individual performance of each AS segment in a balanced manner.

The calculation of the short-term incentives is based – just as the audited financial statements of the Group – on the actual figures recorded in the financial reporting system. Special effects that have a material impact on the financial results, such as significant acquisitions and divestments or extraordinary result representing merger-related integration costs, are excluded so that the financial results are comparable to previous year.

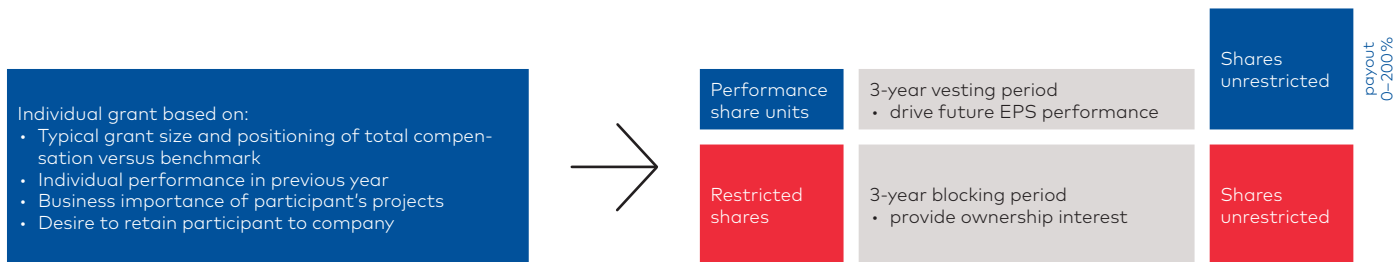
Considering the profit-sharing nature of the STI, no formal "target" STI amount is set. However, for members of the Executive Committee a payout of 85% of the annual base salary (on average) corresponds to the level of expected performance for the financial year 2016/17.

**3.2 Long-term incentive**

The purpose of the long-term incentive is to give the Executive Committee an ownership interest in dormakaba and a participation in the long-term performance of the company and thus to align their interests to those of the shareholders.

At the beginning of the long-term incentive plan cycle (grant date), Executive Committee members are awarded restricted shares and performance share units (former matching shares) of dormakaba on the basis of the following criteria:

- **External benchmark:** typical grant size of long-term incentive for a similar function in the relevant market and positioning of the individual's total direct compensation compared to that benchmark. Total direct compensation includes fixed base salary plus short-term incentive plus allocation under the long-term incentive plan;
- **Individual performance:** measured against pre-defined priorities in the financial year prior to the grant, as documented within the performance management process. The long-term incentive is the only compensation program that takes into consideration the individual performance of the Executive Committee members. For each member, a list of individual strategic priorities is determined before the start of each financial year based on the mid-term plan of the Group, segment or function. At the end of each financial year, the individual performance of the member is evaluated against those strategic priorities and will be considered for the determination of the grant size of the long-term incentive in the following financial year. The list of strategic priorities of the CEO for the financial years 2015/16 (impact on the grant in financial year 2016/17) is provided in the illustration on page 80;
- **Strategic importance:** evaluate the Executive Committee member's projects to the long-term company's success;
- **Retention:** desire to retain the person to the company and to its overall long-term value creation by offering restricted shares and performance share units subject to a three-year vesting period.



**Strategic priorities of the CEO (financial year 2015/16)**

(This information is disclosed in summarized form for confidentiality reasons)

Business/operational performance in line with guidance

Implementation of strategic projects as per strategic plan

Post-Merger Integration (PMI):

- Culture and people: form new leadership teams, succession planning and retention of key talents
- Processes and structures: implement operating model and corresponding processes and structures
- Integration work-streams:
  - Implementation of Value Driver Initiatives to achieve the defined business targets
  - Implementation of Core Projects (infrastructure)
  - Change Management: strengthen leadership behaviors, as a basis for a joint culture

Group business development: selectively establish further acquisitions/divestments in accordance with strategic priorities

Innovation: launch of exivo and finalization of "Legic Connect"

The strategic priorities of the CEO have been implemented successfully. Based on the performance achieved and on the scope of the CEO role after the merger, the LTI grant size has been increased compared to the previous year.

Based on the above criteria, the CEO formulates a proposal for long-term incentive awards of the individual Executive Committee members and other members of Senior Management, which is subject to approval by the Compensation Committee. For the CEO, the Chairman of the Compensation Committee formulates a proposal that is subject to the approval of the Compensation Committee. Pursuant to the Article of Incorporation 24 the fair value of the LTI may not exceed 150% of the individual annual base salary for the members of the Executive Committee (cap).

The long-term incentive award is split into two components: two-thirds are granted in form of restricted shares of dormakaba subject to a three-year blocking period. This component of the award is designed to provide parti-

cipants an ownership interest in the long-term value creation of the company by making them shareholders. The remaining third of the award is granted in form of performance share units (former matching shares) of dormakaba subject to a three-year performance-based vesting period. This component of the award is designed to reward participants for the future performance of the earnings per share (EPS) of the company over the three-year vesting period. The remuneration may range from 0% to a maximum of 200% of the original number of units granted (maximum 2 shares for each performance share unit originally granted).

In summary, while the long-term incentive award is granted on the basis of factors related to the function (strategic importance) and the individual (positioning versus benchmark, performance, retention need), the vesting of the performance share units depends on future company performance (measured by EPS development).

Restricted shares and performance share units are usually awarded annually at the end of September. In case of voluntary termination by the participant or termination for cause by the company, restricted shares remain blocked and the performance share units are forfeited without any compensation. In case of termination without cause, retirement or disability, restricted shares remain blocked and the performance share units are subject to an accelerated pro-rata vesting on the basis of target performance (100%). In case of death or change of control, the blocking period of the shares is lifted and performance share units are subject to an accelerated pro-rata vesting (death) or full vesting (change of control) at target performance (see also Corporate Governance Report, page 71, "Changes of control and defense measures").

The conditions for the award of shares and share units are governed by the stock award plans of dormakaba and are identical for all participants. An overview of the terms and conditions of the shares and share units awarded under the current and discontinued plan (outstanding awards) is provided in the illustration below.

**Overview of outstanding long-term incentive awards**

Entry into force	Name	Plan design	Plan purpose/criteria	Notes
2015	Executive Stock Award Plan ESAP 5	Award of restricted shares and performance share units (matching shares) conditional upon EPS performance during a three-year vesting period	<ul style="list-style-type: none"> <li>• Reward long-term company performance through the award of performance share units subject to EPS performance condition</li> <li>• Align to shareholders' interest and enable employees to participate in the company's long-term success through the award of restricted shares</li> <li>• Reward individual performance through the award grant size</li> <li>• Retain participants to the company through the three-year vesting and restriction periods on the award</li> </ul>	From 2015/16 financial year onwards, all LTI awards are made solely under ESAP 5 plan
2013	Executive Stock Award Plan ESAP Plus 3	Award of restricted shares and matching shares (one for two) subject to a three-year vesting period	<ul style="list-style-type: none"> <li>• Align to shareholders' interest and enable employees to participate in the company's long-term success through the award of restricted shares</li> <li>• Reward individual performance through the award grant size</li> <li>• Retain participants to the company through the three-year restriction period</li> </ul>	In 2014/15 financial year, all LTI awards are made solely under the ESAP Plus 3 plan ESAP Plus 3 has been discontinued as of 2015/16 financial year

All shares awarded in recent years have come from treasury shares and to a small extent from conditional capital.

#### The company's shares awarded under stock award plans

Date	Number of shares awarded
14 August 2009	4,100 shares under ESAP 1 Award value: CHF 225.80/share
16 August 2010	4,220 shares under ESAP 1 Award value: CHF 298.25/share
15 August 2011	3,610 shares under ESAP 1 Award value: CHF 277.00/share
22 November 2012	2,570 shares, of which 310 under ESAP 1 and 2,260 under ESAP Plus Award value: CHF 373.00/share
20 September 2013	3,272 shares, of which 310 under ESAP 1, 2,310 under ESAP Plus and 652 under ESAP Plus 3 Award value: CHF 398.00/share
22 September 2014	3,285 shares under ESAP Plus 3 Award value: CHF 440.50/share
21 September 2015	4,088 shares under ESAP 5 Award value: CHF 653.00/share
21 November 2015	840 matching shares under ESAP Plus Award value: CHF 664.00/share
21 September 2016	1,426 matching shares, of which 1,120 under ESAP Plus and 306 under ESAP Plus 3 5,224 shares under ESAP 5 Award value: CHF 738.00/share

The long-term incentive plan is currently under review. While the new design is not yet finalized, dormakaba considers to refine the performance indicator(s) for instance through introduction of a relative indicator and to change the mix between restricted shares and performance share units towards more performance share units in order to further align to market practice and to shareholders' expectations. Further details on the long-term incentive plan redesign will be provided in the Compensation Report for financial year 2017/18.

#### 4. Employment contracts

The members of the Executive Committee are employed under employment contracts of unlimited duration that are subject to a notice period of up to 12 months. Members of the Executive Committee are not contractually entitled to termination payments or any change of control provisions other than the accelerated vesting and/or unblocking of share awards mentioned above.

#### 5. Shareholding ownership guideline

The members of the Executive Committee are required to own at least a minimum multiple of their annual base salary in dormakaba shares within five years of hire or promotion to the Executive Committee, as set out in the table below.

CEO	300% of annual base salary
Member of the Executive Committee	200% of annual base salary

To calculate whether the minimum holding requirement is met, all vested shares are considered regardless of whether they are restricted or not. However, unvested performance share units are excluded from the calculation. The Compensation Committee reviews compliance with the share ownership guideline on an annual basis. In the event of a substantial rise or drop in the share price, the Board of Directors may, at its discretion, review the minimum ownership requirement.

#### 6. Assessment of actual compensation paid to the Executive Committee in the 2016/17 financial year

The following comments can be made about the actual compensation paid to the Executive Committee in the 2016/17 financial year. In comparison to the previous year, total direct compensation (TDC) rose by 18%. This is mainly due to the following factors:

- The target compensation levels of the Executive Committee members have not been changed compared to the previous financial year, however certain members of the Executive Committee were reported for 10 months in the previous financial year (versus full year in the reporting year);
- The STI payout of the Executive Committee members reflects the very good underlying financial performance in the reporting year, especially the increase in Group net income which is the main driver of the STI payout for the CEO and other members of the Executive Committee (CFO, CIO, CTO, CMO). The financial performance of the segments (COOs) as a whole in terms of profitability, sales growth and net working capital management met expectations overall, with the strongest outperformance by AS APAC and the weakest development by Movable Walls. Consequently, the STI was 107% of annual base salary on average (previous year: 84%);
- The four members who were elected to the Executive Committee in the previous financial year received their first long-term incentive grant in this reporting year (no grant in the previous financial year). Further, the value of the shares of the company allocated under the long-term incentive plan has increased by 13% compared to the previous year;
- Variable compensation forms a major part of TDC. The percentage of overall compensation paid to the Executive Committee as variable compensation in the reporting year was 64% (excluding cash-value benefits and social security contributions), which constitutes an increase year-to-year (previous year: 54%);
- Variable compensation paid out in shares of the company accounted to 24% of TDC (previous year: 13%). First priority is to increase this proportion up to 30% of total compensation in coming years by applying future compensation increases on the long-term incentive component rather than on the other compensation elements.

At the AGM 2015, the shareholders approved a maximum aggregate amount of CHF 17,250,000 for the Executive Committee for the financial year 2016/17. The compensation effectively awarded of CHF 13,026,134 is within the limits approved by the shareholders.

The principles stated in the compensation regulations approved by the Board of Directors in the financial year 2013/14 were again proven to be very effective in the reporting year. Rigorous implementation of these regulations guarantees consistent and transparent compensation practice based on uniform principles and criteria.

As at 30 June 2017, in compliance with the Articles of Incorporation, there were no outstanding loans or credit facilities between dormakaba and current or former members of the Executive Committee, or parties closely related to them. Investments held by members of the Executive Committee or related persons (including conversion and option rights) – if any – are listed on page 82 et seq. and in the appendix to the balance sheet on page 54.



# Compensation to the Board of Directors and Executive Committee

## Financial year 2016/2017

	Compensation <sup>1)</sup>				
	Basic compensation	Additional compensation (committees, special tasks)	Social benefits	Total (CHF)	of which in shares (CHF) <sup>2)</sup>
<b>Board of Directors</b>					
Brecht-Bergen Stephanie	167,770	–	–	167,770	77,770
Chiu Elton SK	167,770	5,905	11,563	185,238	77,770
Daeniker Daniel	167,770	60,000	15,398	243,168	115,642
Chair Audit Committee					
Dörig Rolf	167,770	55,000	15,464	238,234	77,770
Vice-Chairman of the Board					
Chair Compensation Committee					
Member Nomination Committee					
Dubs-Kuenzle Karina	167,770	20,000	13,009	200,779	77,770
Graf Ulrich	540,260	20,000	32,578	592,838	210,260
Chairman of the Board					
Chair Nomination Committee					
Gummert Hans	167,770	132,236	–	300,006	96,285
Member Audit Committee					
Member Compensation Committee					
Member Nomination Committee					
Heppner John	167,770	40,000	–	207,770	108,068
Hess Hans	167,770	35,000	13,818	216,588	108,909
Member Audit Committee					
Member Compensation Committee					
Member Nomination Committee					
Mankel-Madaus Christine	167,770	–	–	167,770	77,770
<b>Total Board of Directors</b>	<b>2,050,190</b>	<b>368,141</b>	<b>101,832</b>	<b>2,520,163</b>	<b>1,028,014</b>

- 1) Compensation for the employer representatives on the Swiss pension fund (Ulrich Graf, Karina Dubs-Kuenzle) of CHF 20,000 each, compensation for membership of the Board of Directors of Wah Yuet Group Holdings Limited (Chiu Elton SK) of CHF 5,905 and compensation for the membership of the Supervisory Board of dormakaba Holding GmbH + Co. KGaA and ISEO (Hans Gummert) of CHF 97,236 are included in the compensation (additional compensation). Business expenses are not included.
- 2) The compensation for the reporting period is paid out in three installments. The valuation of the shares is based on the share price at respective grant dates and can therefore vary. The shares for the last installments will be transferred in November 2017. Due to the significant increase of the share price in the last months, the Board of Directors decided to cap the value of the shares transferred for the compensation period from the 2016 AGM until the 2017 AGM to CHF 240,000 for the Chairman of the Board and to CHF 80,000 for the other Board members. The disclosed amount of share compensation for financial year 2016/17 is based on a share price of CHF 691.50 for the compensation period July until October 2016 and on the capped amount for the compensation period November 2016 until June 2017. The number of shares cannot be calculated yet, as it will depend on the share price used to convert the compensation amount (average closing share price of the last five trading days in October 2017, as per compensation directive).

	Fixed compensation			STI <sup>4)</sup>	Variable compensation		Total aggregate amount	Total CHF
	Fixed basic payment	Benefits and social/pension contributions <sup>3)</sup>	Total aggregate amount		LTI <sup>5)</sup>	Social/pension contributions		
<b>Executive Committee</b>								
Cadonau Riet	782,002	152,195	934,197	1,200,000	816,547	315,133	2,331,680	3,265,877
Other Executive Committee	3,245,050	766,818	4,011,868	3,118,975	1,878,275	751,139	5,748,389	9,760,257
<b>Total Executive Committee</b>	<b>4,027,052</b>	<b>919,012</b>	<b>4,946,065</b>	<b>4,318,975</b>	<b>2,694,822</b>	<b>1,066,272</b>	<b>8,080,069</b>	<b>13,026,134</b>

- 3) Includes contributions to social security and occupational pension plans as well as fringe benefits. Contributions to social security and occupational pension plans are the contributions effectively paid in the reporting year and relate to the fixed and variable compensation that were effectively paid out in the reporting year. Fringe benefits include elements such as private use of company car, service anniversary or housing contributions. Fringe benefits amount to CHF 29,988 for the CEO and CHF 322,833 for the other members of the Executive Committee.
- 4) The short-term incentive reported will be paid after the end of the reporting years.
- 5) The CEO receives a guaranteed allocation of 550 shares (worth CHF 476,460) which are blocked for three years. These shares are not yet included in the shares held as of 30 June 2017 as listed on page 84. However, they have been included in the long-term incentive compensation figure with a share price of CHF 866.29 (average closing price of May/June 2017).

## Financial year 2015/2016

Compensation <sup>1)</sup>					
	Basic compensation	Additional compensation (committees, special tasks)	Social benefits	Total (CHF)	of which in shares (CHF) <sup>2)</sup>
<b>Board of Directors</b>					
Brecht-Bergen Stephanie (since September 2015)	127,821	0	1,749	129,570	52,191
Chiu Elton SK	153,100	9,435	10,643	173,178	62,884
Daeniker Daniel Chair Audit Committee	153,100	60,000	14,258	227,358	115,238
Dörig Rolf Vice-Chairman of the Board Chair Compensation Committee Member Audit Committee (until August 2015) Member Nomination Committee	153,100	57,500	14,479	225,080	83,447
Dubs-Kuenzle Karina	153,100	20,000	12,489	185,589	62,884
Graf Ulrich Chairman of the Board Chair Nomination Committee	216,201	260,000	27,812	504,013	160,813
Gummert Hans (since September 2015) Member Audit Committee Member Compensation Committee Member Nomination Committee	127,821	94,413	2,180	224,413	58,449
Heppler John	153,100	0	–	153,100	96,375
Hess Hans Member Audit Committee Member Compensation Committee Member Nomination Committee	153,100	35,000	14,798	202,899	94,174
Mankel-Madaus Christine (since September 2015)	127,821	–	1,749	129,570	52,191
Pleines Thomas (until August 2015) Member Compensation Committee (until August 2015)	25,281	1,667	1,811	28,758	10,179
<b>Total Board of Directors</b>	<b>1,543,546</b>	<b>538,015</b>	<b>101,969</b>	<b>2,183,530</b>	<b>848,826</b>

- 1) Compensation for the employer representatives on the Swiss pension fund (Ulrich Graf, Karina Dubs-Kuenzle) of CHF 20,000 each, compensation for membership of the Board of Directors of Wah Yuet Group Holdings Limited (Chiu Elton SK) of CHF 9,435 and compensation for the membership of the Supervisory Board of dormakaba Holding GmbH + Co. KGaA (Hans Gummert) of CHF 65,246 are included in the compensation (additional compensation). Business expenses are not included.
- 2) The compensation for the reporting period is paid out in three installments. The valuation of the shares is based on the share price at respective grant dates and can therefore vary. The shares to be transferred in November 2016 are recognized at CHF 648.87, which is the average share price in May and June 2016.

	Fixed compensation			Variable compensation			Total CHF	
	Fixed basic payment <sup>3)</sup>	Benefits and social/pension contributions <sup>4)</sup>	Total aggregate amount	STI <sup>5)</sup>	LTI <sup>6)</sup>	Social/pension contributions	Total aggregate amount	
<b>Executive Committee</b>								
Cadonau Riet	785,841	133,570	919,410	1,187,817	480,333	261,648	1,929,798	2,849,208
Other Executive Committee	3,406,739	882,876	4,289,615	2,322,225	983,021	621,198	3,926,444	8,216,059
<b>Total Executive Committee</b>	<b>4,192,580</b>	<b>1,016,446</b>	<b>5,209,026</b>	<b>3,510,042</b>	<b>1,463,354</b>	<b>882,846</b>	<b>5,856,242</b>	<b>11,065,267</b>

- 3) In the reporting year 2015/16, a member of the Executive Committee received a fixed number of shares as part of his fixed basic compensation.
- 4) Includes contributions to social security and occupational pension plans as well as fringe benefits. Contributions to social security and occupational pension plans are the contributions effectively paid in the reporting year and relate to the fixed and variable compensation that were effectively paid out in the reporting year. Fringe benefits include elements such as private use of company car, service anniversary or housing contributions. Fringe benefits amount to CHF 10,311 for the CEO and CHF 262,307 for the other members of the Executive Committee.
- 5) The short-term incentive reported here will be paid after the end of the reporting years.
- 6) The CEO receives a guaranteed allocation of 550 shares (worth CHF 356,879) which are blocked for three years. These shares are not yet included in the shares held as of 30 June 2016 as listed on page 84, however they have been included in the long-term incentive compensation figure with a share price of CHF 648.87 (average closing price of May/June 2016).

### Shares held by Board of Directors and Executive Committee

As at the respective call date, the individual members of the Board of Directors and the Executive Committee (including related parties) held the following number of shares in dormakaba Holding AG.

	Financial year ended 30.06.2017	Financial year ended 30.06.2016
	Number of shares	Number of shares
<b>Board of Directors</b>		
Brecht-Bergen Stephanie	189,868	189,768
Chiu Elton SK	683	583
Daeniker Daniel	1,305	1,160
Dörig Rolf	2,153	4,553
Dubs-Kuenzle Karina	84,861	36,761
Graf Ulrich	6,476	7,276
Gummert Hans	198	76
Hess Hans	1,270	1,133
Heppner John	510	374
Mankel-Madaus Christine	189,868	189,768
<b>Total Board of Directors</b>	<b>477,192</b>	<b>431,452</b>
<b>Executive Committee</b>		
Brinker Bernd	250	0
Cadonau Riet	3,930	3,050
Gaspari Roberto	2,238	1,900
Häberli Andreas	1,185	885
Jacob Christoph	72	0
Kincaid Michael	714	655
Lee Jim-Heng	1,146	498
Lichtenberg Jörg	167	0
Malacarne Beat	1,425	1,025
Sichelschmidt Dieter	150	0
Zocca Stefano	1,251	1,011
<b>Total Executive Committee</b>	<b>12,528</b>	<b>9,024</b>

# Report of the statutory auditor to the General Meeting dormakaba Holding AG, Rümlang

We have audited the accompanying Compensation Report of dormakaba Holding AG for the year ended 30 June 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 on pages 82 to 84 of the Compensation Report.

## Board of Directors' responsibility

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 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 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 remuneration, 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 of dormakaba Holding AG for the year ended 30 June 2017 complies with Swiss law and Articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG  
Zurich, 6 September 2017



Beat Inauen  
Audit expert  
Auditor in charge



Reto Tognina  
Audit expert



# Imprint

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**Project lead** Germaine Müller,

Deputy Vice President External Communications

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- the company's continuing capital requirements,
- financing costs,
- delays in the integration of the merger or acquisitions,
- changes in the operating expenses,
- currency and raw material price fluctuations,
- the company's ability to recruit and retain qualified employees,
- political risks in countries where the company operates,
- changes in applicable law,
- and other factors identified in this communication

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dormakaba Holding AG  
Hofwisenstrasse 24  
8153 Rümlang  
Switzerland