

# Compensation Report

# Compensation at a glance

## Summary of current compensation system of Board of Directors

To ensure their independence, members of the Board of Directors (BoD) only receive a fixed compensation paid in cash and shares restricted for three years. The amount of compensation depends on the function on the BoD.

Basic compensation				Additional compensation		
in CHF	BoD Chair	BoD member	+	in CHF	Committee Chair	Committee member
in cash	*	90,000		Audit Committee	60,000	15,000
in restricted shares	*	80,000		Compensation Committee	45,000	10,000
				Nomination Committee	45,000	10,000
				Lead Independent Director	30,000	

\* The BoD Chair does not receive any compensation for his function as long as he acts in a dual role as BoD Chair and CEO.

## Shareholding ownership guideline

The BoD members are required to own at least 500 dormakaba shares within three years of tenure.

## Compensation of BoD in financial year 2018/19

The compensation awarded to the BoD in financial year 2018/19 is within the limits approved by the shareholders at the Annual General Meetings (AGM):

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2017 – AGM 2018	2,750,000	2,345,000
AGM 2018 – AGM 2019	2,190,000	To be determined*

\* The compensation period is not yet completed, a definitive assessment will be provided in the Compensation Report for FY 2019/20

## Summary of current compensation system of Executive Committee

The compensation system applicable to the Executive Committee (EC) is designed to engage executives to implement the company's strategy, to achieve the company's short- and long-term business objectives and to create sustainable shareholder value. It consists of the following elements:

Purpose	Fixed compensation and benefits		Variable compensation (target of at least 50% of total compensation)	
	Annual base salary	Benefits	Short-term incentive (STI)	Long-term incentive (LTI)
	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

### Shareholding ownership guideline

The members of the EC are required to own a minimum multiple of their annual base salary in dormakaba shares within five years of tenure:

CEO	300% of annual base salary
EC member	200% of annual base salary

### Compensation of EC in financial year 2018/19

The compensation awarded to the EC in financial year 2018/19 is within the limits approved by the shareholders at the AGM:

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2018/19	19,500,000	12,915,283

### Performance in financial year 2018/19

The 2018/19 financial year was satisfactory. Profitability increased further, which is reflected in an increase in all key earnings figures and operating sales margins. At CHF 448.0 million, EBITDA exceeded the previous year's figure by CHF 17 million (+3.9%) and led to an EBITDA margin of 15.9% (previous year 15.2%). Net profit improved by 5.8% to CHF 252.5 million. Only the organic sales growth of 1.3% was lower than expected, in particular due to lower growth momentum in the second half of the financial year. Overall, sales amounted to CHF 2,818.3 million. Consequently, the average short-term incentive payout compared to base salaries is above that of the previous year.

### Compensation governance

- The Compensation Committee supports the BoD with matters related to the compensation of the BoD and of the EC.
- Shareholders approve the maximum compensation amounts of the BoD and of the EC. Further, they also express their opinion on the compensation system through a consultative vote on the Compensation Report.

# General introduction

The Compensation Report describes the principles underlying the compensation policy and provides information about the steering process and the compensation awarded to the BoD and EC 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 2018/19 financial year was satisfactory. The achieved business figures are all above the comparable results of the previous year. Profitability increased further, which is reflected in an increase in all key earnings figures and operating sales margins. At CHF 448.0 million, EBITDA exceeded the previous year's figure by CHF 17 million (+3.9%) and led to an EBITDA margin of 15.9% (previous year 15.2%). All segments contributed to this improvement by achieving both a higher EBITDA and a higher EBITDA margin. Net profit improved by 5.8% to CHF 252.5 million, so that an increase in the dividend to CHF 16.00 per share (previous year CHF 15.00 per share) will be proposed for the third consecutive financial year based on an unchanged dividend policy. Only the organic sales growth of 1.3% was lower than expected, in particular due to lower growth momentum in the second half of the financial year. Overall, sales amounted to CHF 2,818.3 million. Consequently, the average short-term incentive payout compared to base salaries is above that of the previous year.

The Compensation Report explains how these results impacted the variable incentive payments made to the EC members 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 period, the Compensation Committee conducted its annual review of the compensation system of the BoD and of the EC and confirmed that the current compensation system is well aligned with the business strategy and shareholders' interests. As communicated in last year's Compensation Report, the long-term incentive plan newly includes relative total shareholder return as an additional performance indicator in conjunction with earnings per share (EPS) growth. Further, in line with good governance principles, the Compensation Committee decided to introduce clawback and malus provisions on future long-term incentive awards. Additionally, the Compensation Committee performed its regular activities throughout the financial year such as the propositions of compensation for the members of the BoD and EC, as well as the preparation of the Compensation Report and the binding say-on-pay votes at the AGM. At the upcoming AGM, our shareholders will again be asked to prospectively approve the aggregate maximum amounts of compensation of the BoD for the period until the following AGM and of the EC for the financial year 2020/21. Further, our shareholders will have the opportunity to express their opinion about our compensation system and the compensation awarded to the BoD and to the EC by way of a consultative vote on the 2018/19 Compensation Report.

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 BoD 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 for the **BoD** members consists exclusively of a fixed payment in cash and shares. This ensures that the BoD remains independent in exercising its supervisory duties towards the EC.

The compensation system for the **EC** members 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 of the company (long-term incentive).

## Fairness and transparency

Compensation decisions are transparent and fair. The target level of total compensation is determined based on the function. The global grading system based on Korn Ferry 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 Korn Ferry Hay Group data).

# Managing compensation

## Compensation Committee

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

The Compensation Committee consists of three BoD members who are elected annually and individually by the AGM for a period of one year. At the AGM 2018, 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 BoD;
- Propose to the BoD the specific design of the fundamental compensation elements and the determination of the compensation-related performance objectives;
- Propose to the BoD the maximum aggregate compensation amount of the BoD and of the EC to be submitted to the shareholders' vote at the AGM;
- Propose to the BoD 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 EC members within the limits approved by the AGM;
- Decide on the share-based compensation to be awarded to the members of the EC and the Senior Management;
- Propose to the BoD the Compensation Report.

The compensation for the EC and for the Senior Management is set as part of an annual process.

### Annual process and responsibilities setting the compensation of the BoD and EC

	Aug	Oct	Dec	Feb	June
Compensation policy review and compensation principles for next financial year				CC BoD	
Compensation planning and share award plan design				CC BoD	CC BoD
Compensation Report	CC BoD	AGM			CC
Maximum aggregate compensation amounts of the BoD and EC for next compensation period	CC BoD	AGM			
Compensation structure and level of BoD for next compensation period	CC BoD				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				CEO CC
Review of external stakeholder feedback on compensation disclosure and changes for next disclosure		CC	CC	CC	
CC meeting schedule and agenda for next period of office			CC		

**red:** recommending body

**blue:** reviewing body

**gray:** approving body

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

The Compensation Committee meets as often as business requires but at least once a year. In the financial year 2018/19, the Compensation Committee held four meetings of approximately one to two hours each. All meetings were attended by all members.

The Compensation Committee Chair reports to the BoD after each meeting on the activities of the committee. The minutes of the committee's meetings are available upon request to the BoD members. As a general rule, the BoD Chair, 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, Korn Ferry 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 BoD values the dialogue with shareholders and wants to know and understand their views on executive compensation. In this context, the BoD has held an annual consultative vote on the Compensation Report from financial year 2012/13 onwards. This vote allows shareholders to express their opinion on the compensation policy and systems applicable to the BoD and the EC. Since the 2015 AGM, the BoD also seeks an annual prospective binding approval from shareholders of the maximum aggregate amount of compensation of the BoD and the maximum aggregate amounts of fixed and variable compensation of the EC.

The Articles of Incorporation include the principles of compensation applicable to the BoD and to the EC. Those provisions can be found [online](#) 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).

BoD members 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 BoD remains independent while exercising its supervisory duties towards the EC. The amount of compensation for each function of the BoD is determined annually considering the market compensation trends and comparisons with other listed Swiss industrial companies which operate internationally. The last benchmarking analysis was conducted by Agnès Blust Consulting in financial year 2017/18 based on the following peer companies: Autoneum, Bucher Industries, EMS Chemie, Geberit, Georg Fischer, Landis + Gyr, Logitech, Lonza, OC Oerlikon, Sonova, and Sulzer. The results of the analysis had shown that overall the compensation of the BoD was slightly below market practice. Nevertheless, the BoD had decided to keep the compensation structure and levels unchanged at the time. The compensation system and levels are documented in the BoD compensation directive and are summarized in the table below.

Basic compensation				Additional compensation		
in CHF	BoD Chair	BoD member	+	in CHF	Committee Chair	Committee member
in cash	*	90,000		Audit Committee	60,000	15,000
in restricted shares	*	80,000		Compensation Committee	45,000	10,000
				Nomination Committee	45,000	10,000
				Lead Independent Director	30,000	

\* The BoD Chair does not receive any compensation for his function as long as he is also the CEO of the company.

The BoD Chair does not receive any compensation for his function on the BoD as long as he acts in a dual role as Chair of the BoD and CEO.

The compensation paid to the other members of the BoD comprises a cash payment of CHF 90,000 and an award of CHF 80,000 in restricted shares of dormakaba Holding AG. Additional fees are paid in cash for specific functions such as committee chair and/or committee member of the BoD or for performing special additional tasks assigned by the BoD.

The members of the BoD 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 BoD. In addition, a shareholding ownership guideline is in place, requiring Board members to hold a minimum of 500 shares of dormakaba within three years after their election to the BoD.

Compensation is paid on a pro rata basis to Board members twice a year. For the term of office from the AGM 2018 until the AGM 2019, the first compensation period ended on 30 April 2019, the second will end on 31 October 2019. 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 BoD.

For the term of office from the AGM 2019 until the AGM 2020, the basic compensation will be increased to CHF 100,000 in cash and CHF 90,000 in restricted shares (previously CHF 90,000 in cash and CHF 80,000 in restricted shares) and the membership fee for the Audit Committee will be increased to CHF 20,000 (previously CHF 15,000). The BoD has decided to implement the above adjustments in view of the evolving requirements on the BoD members' role and considering that the compensation levels of the BoD had not been adjusted since 2014 despite being below the benchmark (see paragraph above on the benchmarking analysis). The intention is to keep the compensation levels for ordinary members unchanged for the next two to three years.

## 2. Assessment of actual compensation paid to the BoD in the financial year 2018/19

The actual compensation paid to the BoD for the financial year 2018/19 decreased compared to previous year (–14%). This is because since the AGM 2018, the BoD Chair did not receive any compensation for his function on the BoD in the reporting year due to his dual role as BoD Chair and CEO. The compensation system and levels remained otherwise unchanged compared to the previous year.

At the AGM 2018, the shareholders approved a maximum aggregate amount of CHF 2,190,000 for the BoD for the compensation period from the AGM 2018 until the AGM 2019. The compensation effectively paid for the portion of this term of office included in this Compensation Report (October 2018 – 30 June 2019) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2019/20.

At the AGM 2017, the shareholders approved a maximum aggregate amount of CHF 2,750,000 for the BoD for the compensation period from the AGM 2017 until the AGM 2018. The compensation effectively paid was CHF 2,345,000 and is within the limit approved by the shareholders.

As at 30 June 2019, in compliance with the [Articles of Incorporation](#), there were no outstanding loans or credit facilities between dormakaba and current or former BoD members, or parties closely related to them. Investments held by BoD members or related persons (including conversion and option rights) – if any – are listed [here](#).

# Compensation architecture for the EC

The compensation awarded to EC members 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 EC members 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).

	Fixed compensation and benefits		Variable compensation (target of at least 50% of total compensation)	
	Annual base salary	Benefits	Short-term incentive (STI)	Long-term incentive (LTI)
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

To ensure consistency across the organization, roles within the organization have been evaluated using the job grading methodology of Korn Ferry 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 Korn Ferry 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 markets. Consequently, there is no predefined peer group of companies that is used globally. Rather, the benchmark companies will vary from country to country based on the database of Korn Ferry Hay Group. For the CEO role, the following companies were included in the benchmark: Autoneum, Bucher Industries, EMS Chemie, Geberit, Georg Fischer, Landis+Gyr, Logitech, Lonza, OC Oerlikon, Sonova, and Sulzer (Swiss listed industrial companies of similar size in terms of market capitalization, revenue, and employees).

The compensation paid to the EC members 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

EC members receive an annual base salary for fulfilling their 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 skill set, experience, and seniority.

## 2. Benefits

As the EC 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 EC members 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.

EC members 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, EC members 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

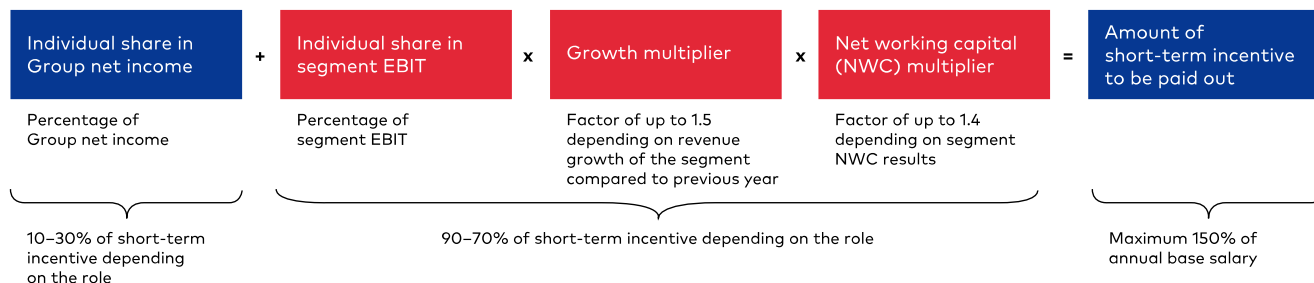
The short-term incentive is defined annually as a cash payment and aims to motivate the participants to meet and exceed the company's financial objectives, which are defined in line with the Group's strategy. Pursuant to the [Article of Incorporation 24](#) the short-term incentive may not exceed 150%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

Following the "We are ONE company" principle, the individual short-term incentive paid to the EC members is strictly based on Group and segment financial objectives and not on individual goals. For the CEO and other EC members (CFO, CTO [Chief Technology Officer], CMO [Chief Manufacturing Officer]), the incentive formula relates exclusively to Group results. For the Chief Operating Officers (COOs), it relates to segment results and Group results as follows:

	Group	Segment	Rationale
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 AS segments and rewards for the AS collective performance and the individual performance of each AS segment in a balanced manner.
Key & Wall Solutions	30%	70%	Key & Wall Solutions is an independent global segment, 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 segment.

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

The incentive formulas for all EC members are built around the following principle: the short-term incentive consists of a predefined share of profit, which is determined for each function individually, multiplied by a growth multiplier and, for COOs, by a net working capital (NWC) multiplier (see the following illustration).

**CEO, CFO, CTO, CMO****COOs**

The predefined share of profit is expressed as a percentage of Group net income or as a percentage of segment EBIT. The growth multiplier depends on the company's or on the segment's revenue growth compared to previous year and is capped at 1.6 in case of substantial growth; the net working capital (NWC) multiplier depends on the segment's change of net working capital compared to previous year and is capped at 1.4 in case of substantial reduction of net working capital.

This formula is aligned to the business strategy of profitable growth because it rewards for bottom-line (Group net income or segment EBIT) and top-line results (sales growth). Further, for the COOs responsible for a segment, the formula also includes an NWC multiplier, which reflects the focus on efficient management of the company's financial resources.

The calculation of the short-term incentive 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 results representing merger-related integration costs, are excluded so that the financial results are comparable to previous year. There was no such special effect in the reporting year.

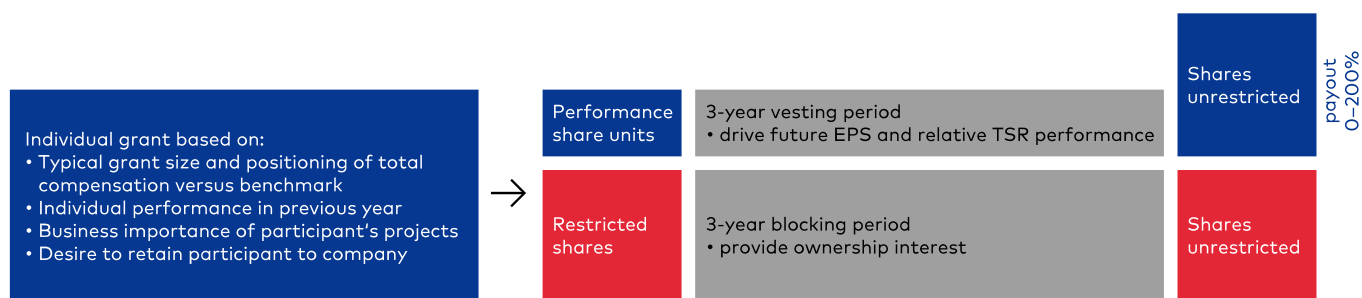
**3.2 Long-term incentive**

The purpose of the long-term incentive is to give the EC 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), EC members are awarded restricted shares and performance share units 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 predefined 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 EC 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.
- **Strategic importance:** impact of the EC member's projects on 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.



Based on the above criteria, the CEO formulates a proposal for long-term incentive awards of the individual EC members and other members of Senior Management, which is subject to approval by the Compensation Committee. For the CEO, the Compensation Committee Chair formulates a proposal that is subject to the approval of the Compensation Committee. Starting with financial year 2018/19, the long-term incentive grant size is determined as a monetary amount (in previous years: number of shares). Pursuant to the [Article of Incorporation 24](#) the fair value of the long-term incentive at grant may not exceed 150% of the individual annual base salary for the EC members (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 participants 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 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) and the relative Total Shareholder Return (TSR) of the company over the three-year performance period. The vesting level may range from 0% to a maximum of 200% of the original number of units granted (maximum two shares for each performance share unit originally granted).

The TSR performance condition has been introduced in the long-term incentive plan starting with the grant in September 2018. TSR is measured relative to companies of the Swiss Market Index Mid (SMIM) and provides for a full vesting for median performance. The EPS growth target is fully aligned with dormakaba's communicated strategy of organic sales growth, which is to outperform weighted GDP growth by 2% points. The vesting formula for both performance indicators is illustrated below, there is no vesting below the threshold levels of performance:

	Threshold performance (25% vesting)	Target (100% vesting)	Cap (200% vesting)
Relative TSR	25 <sup>th</sup> percentile of peers	Median of peers	83.33 <sup>th</sup> percentile of peers
EPS growth	70% of target	EPS growth 2% points above GDP growth	140% of target

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 and relative TSR).

Restricted shares and performance share units are usually awarded annually in 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 or retirement, restricted shares remain blocked and the performance share units are subject to a pro rata vesting at the regular vesting date. In case of disability, 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 based on a performance assessment by the BoD (see also Corporate Governance Report '[Changes of control and defense measures](#)'). The conditions for the award of shares and performance share units are governed by the stock award plans of dormakaba.

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

Starting with the long-term incentive grant in September 2019, the mix between restricted shares and performance share units will be shifted towards more performance share units to further align to market practice: half of the grant will be awarded in form of performance share units and half of the grant will be awarded in form of restricted shares. Further, the long-term incentive awards will be subject to clawback and malus provisions. In certain circumstances, such as in case of financial restatement due to material non-compliance with financial reporting requirements or of fraudulent behavior or substantial willful misconduct, the BoD may decide to suspend the vesting or forfeit any granted long-term incentive award (malus provision) or to require the reimbursement of vested shares delivered under the long-term incentive (clawback provision).

#### 4. Employment contracts

The EC members are employed under employment contracts of unlimited duration that are subject to a notice period of up to twelve months. EC members 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. The employment contracts of the EC members may include non-competition clauses for a duration of up to a maximum of two years. In cases where the company decides to activate the non-competition provisions, the compensation paid in connection with such non-competition provisions may not exceed the monthly base salary, or half of the total compensation, for a period of twelve months.

#### 5. Shareholding ownership guideline

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

CEO	300% of annual base salary
EC member	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 BoD may, at its discretion, review the minimum ownership requirement.

## 6. Assessment of actual compensation paid to the EC in the 2018/19 financial year

In comparison to the previous year, total direct compensation (TDC) of the EC decreased by 12%. There are several factors that impacted the level of actual compensation paid to the EC in the 2018/19 financial year, which are summarized below.

- **Change in EC composition:** three former EC members are no longer reported in this financial year. All relevant compensation was reported in the Compensation Report for the financial year 2017/18. On the other side, one new EC member is reported on a full-year basis in this financial year versus pro rata in previous year.
- **Changes in currency exchange rates:** five members of the EC are paid in foreign currencies (three in Euros). Their compensation is converted into Swiss francs for the disclosure in this report. Due to the stronger Swiss franc against other major currencies compared to the previous year, especially with the Euro, the amounts disclosed in Swiss francs decreased even when the compensation amount in local currency has remained unchanged.
- **Base salary increases:** the base salary of one EC member was adjusted during the reporting year. The base salaries of the other EC members did not change compared to the previous financial year. The base salary increase amounts to 0.8% for the EC overall.
- **STI payout:** the STI payout formula is based on performance improvements versus previous year (and not on the achievement of budgeted targets). A payout of 111% of annual base salary (on average) for the EC members corresponds to the level of expected performance for the financial year 2018/19. The STI payout of the EC members reflects the 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 EC members with global responsibility (CFO, CTO, CMO). All segment (COOs) contributed to the increased profitability compared to the previous year (increased EBITDA and EBIT as well as increased EBITDA margin and EBIT margin). All segments except AS AMER contributed to the organic sales growth of the Group. In the reporting year, the STI payout of EC members is 94% of annual base salary on average (previous year 84%). For the CEO, the STI payout is capped to 150% of annual base salary, as in previous year and as foreseen by the Article of Incorporation 24. Without applying the cap in both years, the STI amount in the reporting year would have been 8% higher than in the previous year.
- **LTI grant in September 2018:** the long-term incentive grant size was determined as monetary amount for the first time (previous year: number of shares). To determine the grant size following the change, the historical grant value as well allocation criteria that were in place for several years (described under [section 3.2](#)) such as individual performance in previous year, strategic importance of the projects under responsibility, position against benchmark and retention need were considered. Based on those factors and on the individual performance (achievement of strategic priorities in the year preceding the grant date), the LTI grant size of the CEO and one other EC member was increased compared to previous year, while it was decreased for two EC members. For the other EC members, the LTI grant size remained unchanged compared to previous year. The strategic priorities of the CEO for financial year 2017/18 (considered for determining the grant size in the reporting year) are detailed below and have been implemented successfully.

**Strategic priorities of the CEO (financial year 2017/18)\***

<b>Business performance</b>	Achieve business performance
<b>Business development</b>	Ensure post-merger integration of the acquired businesses according to plan. Selectively establish further acquisitions/divestments in accordance with the defined strategic priorities
<b>Group innovation</b>	Drive the digitization initiatives (cloud-based solutions) and strengthen the Information Security Management System (ISMS)
<b>Supply chain management</b>	Deliver the defined procurement savings and execute the defined lean and Industry 4.0 projects
<b>Organization</b>	Ensure succession plans for key positions, strengthen leadership teams and develop/retain key talents. Conduct dormakaba dialogue (global all-employees engagement program)

\* This information is disclosed in summarized form for confidentiality reasons

The performance share units granted under the long-term incentive in September 2015 vested in September 2018 based on the EPS growth over the three-year vesting period at a vesting level of 102.9%. The share price at vesting amounted to CHF 713.00 compared to CHF 653.00 at grant.

Variable compensation forms a major part of total direct compensation (TDC). The percentage of overall compensation paid to the EC as variable compensation in the reporting year was 67% (excluding benefits and social security contributions) and remained stable (previous year 64%). Variable compensation paid out in shares accounted to 32% of TDC (previous year 30%), which is in line with the compensation strategy (communicated in the previous Compensation Reports) to award 30% of total compensation in shares by applying compensation increases primarily on the long-term incentive component rather than on the other compensation elements.

At the AGM 2017, the shareholders approved a maximum aggregate amount of CHF 19,500,000 for the EC for the financial year 2018/19. The compensation effectively awarded of CHF 12,915,283 is within the limits approved by the shareholders.

As at 30 June 2019, in compliance with the [Articles of Incorporation](#), there were no outstanding loans or credit facilities between dormakaba and current or former EC members, or parties closely related to them. Investments held by EC members or related persons (including conversion and option rights) – if any – are listed [here](#).

# Compensation to the BoD and EC

Financial year 2018/19

Compensation <sup>1)</sup>					
	Basic compensation	Additional compensation (committees, special tasks)	Social benefits	Total (CHF)	of which in shares (CHF) <sup>2)</sup>
<b>BoD</b>					
Birgersson Jens (since 2018 AGM)	113,333	–	–	113,333	53,233
Brecht-Bergen Stephanie	170,000	–	–	170,000	103,430
Cadonau Riet (since 2018 AGM)	–	–	–	–	–
Chair of the Board					
Chiu Elton SK (until 2018 AGM)	56,667	–	3,892	60,559	26,271
Daeniker Daniel	170,000	60,000	16,019	246,019	79,504
Chair Audit Committee					
Dörig Rolf	170,000	68,333	16,618	254,952	79,504
Vice-Chair of the Board (until 2018 AGM)					
Chair Compensation Committee					
Member Nomination Committee					
Dubs-Kuenzle Karina	170,000	20,000	13,201	203,201	79,504
Graf Ulrich (until 2018 AGM)	190,000	6,667	10,560	207,227	79,753
Chair of the Board					
Chair Nomination Committee					
Gummert Hans	170,000	137,149	–	307,149	79,504
Member Audit Committee					
Member Compensation Committee					
Member Nomination Committee					
Heppner John	170,000	13,333	–	183,333	83,727
Hess Hans	170,000	78,333	17,738	266,072	79,504
Vice-Chair of the Board (since 2018 AGM)					
Lead Independent Director (since 2018 AGM)					
Chair Nomination Committee (since 2018 AGM)					
Member Audit Committee					
Member Compensation Committee					
Mankel Christine	170,000	–	–	170,000	125,682
<b>Total BoD</b>	<b>1,720,000</b>	<b>383,816</b>	<b>78,030</b>	<b>2,181,845</b>	<b>869,618</b>

<sup>1)</sup> Compensation for the employer representatives on the Swiss pension fund (Ulrich Graf, Rolf Dörig, Karina Dubs-Kuenzle) of CHF 20,000 p.a. each and compensation for the membership of the Supervisory Board of dormakaba Holding GmbH + Co. KGaA and ISEO (Hans Gummert) of CHF 102,149 are included in the compensation (additional compensation). Business expenses are not included. For Mr Gummert the additional compensation is paid in EUR and remains stable vis-à-vis the previous year, however, fluctuates in CHF due to currency exchange.

<sup>2)</sup> The compensation for the reporting period is paid out in three installments (November 2018, Mai 2019 and November 2019). Shares are awarded based on a fixed monetary amount of CHF 240,000 for the Chair of the Board (until AGM 2018) and CHF 80,000 for the other Board members. The average of the closing share prices of the last five trading days in the month prior to the payment is used to determine the number of shares allocated (CHF 703.70 for the shares transferred in November 2018 and CHF 767.30 for the shares transferred in May 2019).

	Fixed compensation			Variable compensation			Total CHF	
	Fixed basic payment	Benefits and social / pension contributions <sup>3)</sup>	Total aggregate amount	STI <sup>4)</sup>	LTI <sup>5)</sup>	Social / pension contributions	Total aggregate amount	
<b>EC</b>								
Cadonau Riet	832,008	140,914	972,922	1,275,000	1,184,696	346,350	2,806,046	3,778,968
Other EC	2,819,911	798,191	3,618,102	2,565,392	2,273,293	679,528	5,518,213	9,136,315
<b>Total EC</b>	<b>3,651,919</b>	<b>939,105</b>	<b>4,591,024</b>	<b>3,840,392</b>	<b>3,457,989</b>	<b>1,025,878</b>	<b>8,324,259</b>	<b>12,915,283</b>

<sup>3)</sup> 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 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 23,759 for the CEO and CHF 413,302 for the other EC members.

<sup>4)</sup> The short-term incentive reported will be paid after the end of the reporting year.

<sup>5)</sup> In accordance with his employment contract from 2011, the CEO receives a guaranteed allocation of 550 shares (worth CHF 391,254) which are blocked for three years. These shares are not yet included in the shares held as of 30 June 2019 as listed in the table 'Shares held by BoD and EC'. However, they have been included in the long-term incentive compensation figure with a share price of CHF 711.37 (average closing price of May/June 2019).

## Financial year 2017/18

Compensation <sup>1)</sup>					
	Basic compensation	Additional compensation (committees, special tasks)	Social benefits	Total (CHF)	of which in shares (CHF) <sup>2)</sup>
<b>BoD</b>					
Brecht-Bergen Stephanie	168,613	–	–	168,613	77,999
Chiu Elton SK	168,613	–	11,718	180,331	77,999
Daeniker Daniel Chair Audit Committee	168,613	60,000	15,703	244,316	100,146
Dörig Rolf Vice-Chair of the Board Chair Compensation Committee Member Nomination Committee	168,613	55,000	15,594	239,207	77,999
Dubs-Kuenzle Karina	168,613	20,000	13,127	201,741	77,999
Graf Ulrich Chair of the Board Chair Nomination Committee	565,840	20,000	34,172	620,012	235,418
Gummert Hans Member Audit Committee Member Compensation Committee Member Nomination Committee	168,613	139,240	–	307,853	109,311
Heppner John	168,613	20,000	–	188,613	96,357
Hess Hans Member Audit Committee Member Compensation Committee Member Nomination Committee	168,613	35,000	14,374	217,987	77,999
Mankel Christine	168,613	–	–	168,613	113,893
<b>Total BoD</b>	<b>2,083,360</b>	<b>349,240</b>	<b>104,687</b>	<b>2,537,287</b>	<b>1,045,120</b>

1) Compensation for the employer representatives on the Swiss pension fund (Ulrich Graf, Karina Dubs-Kuenzle) of CHF 20,000 each and compensation for the membership of the Supervisory Board of dormakaba Holding GmbH + Co. KGaA and ISEO (Hans Gummert) of CHF 104,240 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 (November 2017, Mai 2018 and November 2018). The value of the shares is as follows: for the period until the 2017 AGM, shares were awarded based on a fixed number of shares. However, due to the significant share price increase in 2017, the BoD had decided to cap the overall value of shares transferred for the compensation period from the 2016 AGM until the 2017 AGM to CHF 240,000 for the BoD Chair and to CHF 80,000 for the other Board members. Therefore, the number of shares transferred in November 2017 had been capped, taking into account the value of shares already transferred in May 2017. Since the 2017 AGM, shares are awarded based on a fixed monetary amount of CHF 240,000 for the BoD Chair and CHF 80,000 for the other Board members.

	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>EC</b>								
Cadonau Riet	832,008	146,263	978,271	1,275,000	934,408	331,102	2,540,510	3,518,781
Other EC	3,598,406	1,054,874	4,653,280	2,902,258	2,687,999	885,318	6,475,575	11,128,855
<b>Total EC</b>	<b>4,430,414</b>	<b>1,201,137</b>	<b>5,631,551</b>	<b>4,177,258</b>	<b>3,622,408</b>	<b>1,216,420</b>	<b>9,016,085</b>	<b>14,647,636</b>

3) Includes a replacement award of CHF 77,738 to compensate for forfeited remuneration at previous employer as a result of joining dormakaba.

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 effectively paid out in the reporting year. Fringe benefits include an outplacement consulting of CHF 57,911 and elements such as private use of company car, service anniversary or housing contributions. Fringe benefits amount to CHF 21,579 for the CEO and CHF 540,572 for the other EC members.

5) The short-term incentive reported will be paid after the end of the reporting year.

6) In accordance with his employment contract from 2011, the CEO receives a guaranteed allocation of 550 shares (worth CHF 419,925) which are blocked for three years. These shares are not yet included in the shares held as of 30 June 2018 as listed in the table 'Shares held by BoD and EC'. However, they have been included in the long-term incentive compensation figure with a share price of CHF 763.50 (average closing price of May/June 2018).

## Shares held by BoD and EC

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

Number of shares	Financial year ended 30.06.2019	Financial year ended 30.06.2018
<b>BoD</b>		
Birgersson Jens	52	
Brecht-Bergen Stephanie	190,117	189,958
Cadonau Riet <sup>1)</sup>	4,730	
Chiu Elton SK		773
Daeniker Daniel	1,532	1,424
Dörig Rolf	2,471	2,363
Dubs-Kuenzle Karina	99,591	99,483
Graf Ulrich		6,148
Gummert Hans	587	479
Heppner John	743	626
Hess Hans	1,468	1,360
Mankel Christine	190,193	190,005
<b>Total BoD</b>	<b>491,484</b>	<b>492,619</b>
<b>EC</b>		
Berninger Alwin	80	-
Brinker Bernd	974	550
Cadonau Riet <sup>1)</sup>	4,730	4,330
Gaspari Roberto	3,259	2,576
Häberli Andreas	1,872	1,505
Jacob Christoph <sup>2)</sup>		132
Kincaid Michael	1,166	1,012
Lee Jim-Heng	1,829	1,396
Lichtenberg Jörg	532	318
Malacarne Beat <sup>2)</sup>		867
Sichelschmidt Dieter <sup>3)</sup>		
Zocca Stefano	1,809	1,494
<b>Total EC</b>	<b>16,251</b>	<b>14,180</b>

<sup>1)</sup> As of 23 October 2018, both a BoD and an EC member, therefore displayed in both groups for the years of membership

<sup>2)</sup> EC member until 30 June 2018

<sup>3)</sup> EC member until 31 December 2017

# Report of the statutory auditor

## to the General Meeting of dormakaba Holding AG

### Rümlang

We have audited the accompanying Compensation Report of dormakaba Holding AG for the year ended 30 June 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 in the tables on pages 122 to 126 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 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Beat Inauen  
Audit expert  
Auditor in charge



Reto Tognina  
Audit expert

Zürich, 6 September 2019

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