

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

Basic compensation			Additional compensation for committee roles		
in CHF	Chairman BoD	Member BoD	+	Committee Chairman	Committee member
in cash	330,000	90,000		Audit Committee 60,000	15,000
in restricted shares	240,000	80,000		Compensation Committee 45,000	10,000
				Nomination Committee 45,000	10,000

Shareholding ownership guideline

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

Compensation of Board of Directors in financial year 2017/18

The compensation awarded to the Board of Directors in financial year 2017/18 is within the limits approved by the shareholders at the Annual General Meetings (AGM):

Compensation period	Approved amount (CHF)	Effective amount (CHF)
AGM 2016 - AGM 2017	2,750,000	2,340,000
AGM 2017 - AGM 2018	2,750,000	To be determined*

* The compensation period is not yet completed, a definitive assessment will be provided in the Compensation Report for FY 2018/19

Changes made in financial year 2017/18

Starting with the compensation period from the 2017 AGM onwards, the shares are allocated based on a fixed monetary amount rather than a fixed number of shares. This is in line with market practice in Swiss listed companies.

Summary of current compensation system of Executive Committee

The compensation system applicable to the Executive Committee 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:

	Fixed compensation and benefits		Variable compensation (target of at least 50% of total compensation)	
Purpose	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 participations and their dependents	Rewards company and segment performance	Rewards individual and company performance, aligns to shareholders' interests

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 tenure:

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

Compensation of Executive Committee in financial year 2017/18

The compensation awarded to the Executive Committee in financial year 2017/18 is within the limits approved by the shareholders at the AGM:

Compensation period	Approved amount (CHF)	Effective amount (CHF)
Financial year 2017/18	18,230,000	14,647,636

Performance in financial year 2017/18

Overall, results for the 2017/18 financial year were solid, but did not meet our expectations. Consolidated net sales increased by 12.7% to CHF 2,841.0 million. The organic sales growth for the 2017/18 financial year amounted to 2.6%. The EBITDA rose by 11.3% to CHF 431.0 million, with an EBITDA margin of 15.2%. All acquisitions since the dormakaba merger have positively contributed to these results. Net profit was 6.3% higher than in the previous financial year at CHF 238.7 million. Consequently, the payout under the short-term incentive was below that of the previous year.

Compensation governance

- The Compensation Committee supports the Board of Directors with matters related to the compensation of the Board of Directors and of the Executive Committee.
- Shareholders approve the maximum compensation amounts of the Board of Directors and of the Executive Committee. 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 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

Overall, results for the 2017/18 financial year were solid, but did not meet our expectations. After a very successful 2016/17, these expectations centered on further integration progress in the third year since Dorma and Kaba merged to dormakaba, further improvements in existing business, and growth from acquired companies. The integration process was largely completed in almost all countries by the end of the 2017/18 financial year, though there were some delays, particularly in Germany and the USA. Sales in 2017/18 were 12.7% higher than a year before at CHF 2,841.0 million, but organic sales growth contributed only 2.6 percentage points, which was below expectations. EBITDA was also much higher than in the previous year, up 11.3% to CHF 431.0 million, but the EBITDA margin of 15.2% was slightly lower than expected and below the prior-year figure of 15.4%. Nevertheless, growth in operating business and the acquired companies helped improve the 2017/18 results. Net profit was 6.3% higher than in the previous financial year at CHF 238.7 million.

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 and decided to implement the following changes, which are explained more in detail in this report:

- The allocation of restricted shares to the Board of Directors is now based on a fixed monetary amount instead of a fixed number of shares. This change has been made in response to the feedback received by shareholders and proxy advisors and is also aligned with prevalent market practice.
- The long-term incentive plan for the Executive Committee will include relative total shareholder return as an additional performance indicator in conjunction with EPS growth. Further, the proportion of the long-term incentive awarded as performance share units will increase, while the proportion awarded as restricted shares will decrease.

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 2019/20. 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 2017/18 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 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 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).

The 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 2017, 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.

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

	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 (LTI design)	CC BoD	CC BoD
Compensation Report	CC BoD	AGM			CC
Maximum aggregate compensation amounts of the Board of Directors and EC for next compensation period	CC BoD	AGM			
Compensation structure and level of Board of Directors for next compensation period	CC BoD				CC BoD
Individual target compensation of EC members for next financial year *				CC (benchmark)	CC CEO
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		

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

red: body which recommends

blue: body which reviews

gray: 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 Compensation Committee meets as often as business requires but at least once a year. In the financial year 2017/18, the Compensation Committee held five meetings 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, 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 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 and continued ever since. 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.

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 [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).

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. The last benchmarking analysis was conducted in financial year 2016/17 and had shown that overall the compensation of the Board of Directors is slightly below market practice. Nevertheless, the Board of Directors decided to keep the compensation structure and levels unchanged but to allocate the shares based on a fixed monetary amount rather than a fixed number of shares, starting with the compensation period from the 2017 AGM onwards. This decision has been taken in response to the feedback received by shareholders and proxy advisors and is also aligned with prevalent market practice. The compensation system and levels are documented in the Board of Directors compensation directive and are summarized in the table below.

Basic compensation			Additional compensation for committee roles			
in CHF	Chairman BoD	Member BoD	+	in CHF	Committee Chairman	Committee member
in cash	330,000	90,000		Audit Committee	60,000	15,000
in restricted shares	240,000	80,000		Compensation Committee	45,000	10,000
				Nomination Committee	45,000	10,000

1. Composition of compensation

The compensation paid to the Board of Directors comprises a cash payment of CHF 90,000 and an award of CHF 80'000 in restricted shares of dormakaba Holding AG. The Chairman of the Board of Directors receives a cash payment of CHF 330,000 and an award of CHF 240,000 in restricted shares. Additional fees are paid for specific functions such as 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 2017/18, the first compensation period ended on 30 April 2018, the second will end on 31 October 2018. 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 2018, 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 [here](#).

2. Assessment of actual compensation paid to the Board of Directors in the financial year 2017/18

The actual compensation paid to the Board of Directors remained stable compared to previous year (+0.7%). A slight difference relates to the value of the shares (a special cap was applied for the period from the AGM 2016 to the AGM 2017 and the system was changed from a fixed number of shares to a fixed monetary amount at the AGM 2017) and to a difference in the amount paid for special tasks in both years.

At the AGM 2017, the shareholders approved a maximum aggregate amount of CHF 2,750,000 for the Board of Directors for the compensation period from the AGM 2017 until the AGM 2018. The compensation effectively paid for the portion of this term of office included in this Compensation Report (October 2017–30 June 2018) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2018/19.

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 was CHF 2,340,000 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).

	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 participations and their dependents	Rewards company and segment performance	Rewards individual and company performance, aligns to shareholders' interests
Purpose				

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 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 Korn Ferry Hay Group. For the CEO role, Korn Ferry Hay Group included the following companies 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 headcount).

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 skill 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).

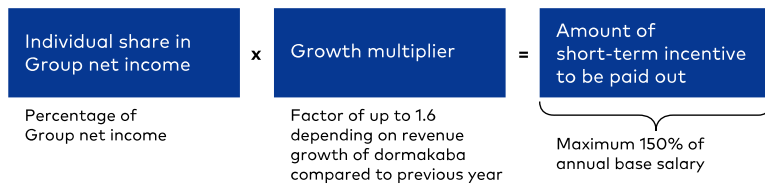
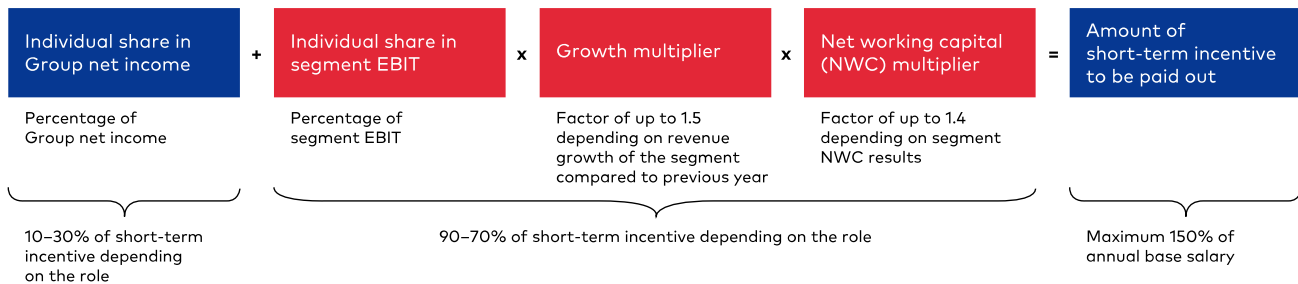
3.1 Short-term incentive

The short-term incentive is defined annually as a cash payment and aims to motivate the participants to meet and exceed the company's 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. 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:

	Group	Segment	Rationale
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.
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.

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 members of the Executive Committee are built around the following principle: the short-term incentive consists of a pre-defined share of profit, which is determined for each function individually, multiplied by the growth multiplier (see the following illustration).

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

The pre-defined 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 a 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.

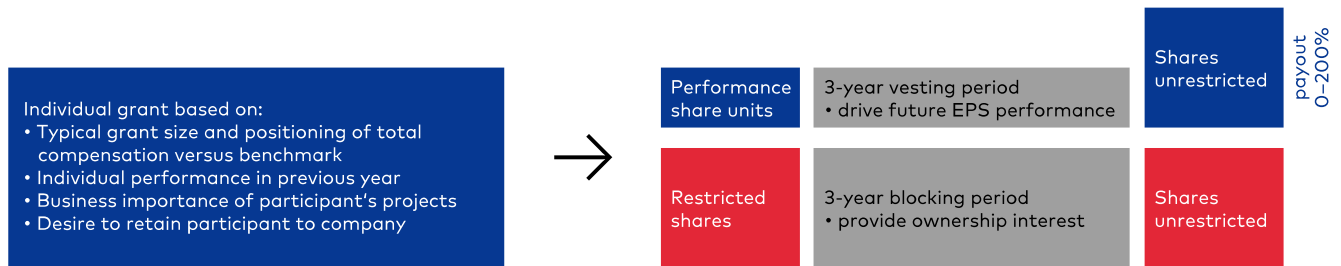
3.2 Long-term incentive

The purpose of the long-term incentive is to give the 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.

- **Strategic importance:** impact of the Executive Committee 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 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. The long-term incentive award is determined as a 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 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 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) of the company over the three-year performance period. The remuneration 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).

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 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, 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 "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 and are identical for all participants.

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

The long-term incentive plan has been thoroughly reviewed during the reporting year and will be refined starting with the grants in September 2018 for financial year 2018/19.

In a first step (for the award in financial year 2018/19 that will be granted in September 2018), the grant size will be determined as a monetary amount rather than a number of shares. Further, the performance measurement will include relative total shareholder return (TSR) and EPS growth over the three-year vesting period. TSR will be measured relatively to companies of the Swiss Market Index Mid (SMIM) and will provide for a full vesting for median performance. The EPS growth target will be 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 th percentile of peers	Median of peers	83.33 th percentile of peers
EPS growth	70% of target	EPS growth 2% points above GDP growth	140% of target

In a second step (as of 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 in September 2019 will be awarded in form of performance share units and half of the grant will be awarded in form of restricted shares.

Further details on the long-term incentive plan design will be disclosed in the compensation report 2018/19.

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 twelve 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 following table.

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 2017/18 financial year

In comparison to the previous year, total direct compensation (TDC) of the Executive Committee rose by 12%. There are several factors that impacted the level of actual compensation paid to the Executive Committee in the 2017/18 financial year, which are summarized below.

- **Different composition of the Executive Committee:** Alwin Berninger replaced Dieter Sichelschmidt. Both have worked for a period of six months during the reporting year and their compensation during this period has been included accordingly. However, the value of the long-term incentive for Dieter Sichelschmidt has been included in full, while Alwin Berninger will start to participate in the long-term incentive as of financial year 2018/19, as per plan rules. Further, Christoph Jacob has stepped down from the Executive Committee during the reporting year and is contractually entitled to a notice period of twelve months. The compensation during the notice period has been fully considered in the compensation amount of the reporting year, including the five months of the notice period that belong to the next financial year.
- **Material changes in currency exchange rates:** seven members of the Executive Committee are paid in foreign currencies (five in Euros). Their compensation is converted into Swiss Francs for the disclosure in this report. Due to the weaker Swiss Franc against other major currencies compared to the previous year, especially with the Euro, the amounts disclosed in Swiss Francs have increased even when the compensation amount in local currency has remained unchanged.
- **Base salary increases:** the base salaries of four Executive Committee members, including the CEO, have been adjusted during the reporting year due to change of scope of role and/or positioning to market benchmark. The base salaries of the other Executive Committee members have not changed compared to the previous financial year. The base salary increase amounts to 4.4% for the Executive Committee overall;
- **STI payout:** the STI payout formula is based on performance improvements from year-to-year (and not on the achievement of budgeted targets). A payout of 98% of annual base salary (on average) for the Executive Committee members corresponds to the level of expected performance for the financial year 2017/18. The STI payout of the Executive Committee 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 members of the Executive Committee with global responsibility (CFO, CIO, CTO, CMO). The financial performance of the segments (COOs) in terms of profitability, sales growth, and net working capital management was below expectations overall, with the strongest outperformance by AS APAC and AS EMEA and the weakest development by AS AMER and AS DACH. In the reporting year, the STI payout of Executive Committee members was 84% of annual base salary on average (previous year 107%). For the CEO, the STI payout was capped to 150% of annual base salary, as in previous year and as foreseen by the article of incorporation 24. The increase of the CEO's STI payout amount compared to previous year was driven by the higher annual base salary on which the cap was applied. In fact, without applying the cap in both years, the STI amount in the reporting year would have been 24% lower than in previous year.
- **LTI grant:** the long-term incentive grant size was determined on the basis of several factors (described under [section 3.2](#)) including individual performance in previous year, strategic importance of the projects under responsibility, positioning against benchmark and retention need. The grant size of the CEO has been slightly increased compared to previous year because the grant size in previous year had been defined on the basis of two months as CEO of former Kaba and ten months as CEO of the merged company dormakaba. In terms of individual performance, the strategic priorities of the CEO for financial year 2016/17 (considered for determining the grant size in financial year 2017/18) have been implemented very successfully (see strategic priorities of the CEO below). For the other members of the Executive Committee, the typical grant size was higher than in the previous year, mainly since all grants have been determined on a full year basis for all Executive members (previous year: grant size for four Executive members prorated for ten months as a result of the merger). Further, the share price has increased by 32% in financial year 2017/18 compared to the financial year 2016/17. As the grant size of the

long-term incentive was denominated as a number of shares, the share price evolution between both years directly impacted the monetary value of the grant.

Strategic priorities of the CEO (financial year 2016/17)*

Business performance	Achieve business/operational performance in line with guidance
Post-Merger Integration (PMI)	Implement core projects (infrastructure), value driver initiatives (business plan related), and change management programs
Business development	Selectively establish further acquisitions/divestments in accordance with strategic priorities
Digitalization	Drive the digitalization initiatives ("connected company", "connected products", "connected customers") as part of the Group strategy and implement enhanced IP (intellectual property) management
Cost optimization	Ensure procurement savings and guide lean programs
Organization	Establish Group-wide consistent human resources programs, such as succession management and leadership development programs
Brand	Introduce the new brand consistently on a global basis
Infrastructure	Deliver the information technology plan (ERP, CRM, etc.) in accordance with the IT strategy

* This information is disclosed in summarized form for confidentiality reasons

Variable compensation forms a major part of total direct compensation (TDC). The percentage of overall compensation paid to the Executive Committee as variable compensation in the reporting year was 64% (excluding benefits and social security contributions) and remained stable (previous year: 64%). Variable compensation paid out in shares accounted to 30% of TDC (previous year: 24%), 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 2016, the shareholders approved a maximum aggregate amount of CHF 18,230,000 for the Executive Committee for the financial year 2017/18. The compensation effectively awarded of CHF 14,647,636 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 2018, 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 [here](#).

Compensation to the Board of Directors and Executive Committee

Financial year 2017/18

Compensation ¹⁾					
	Basic compensation	Additional compensation (committees, special tasks)	Social benefits	Total (CHF)	of which in shares (CHF) ²⁾
Board of Directors					
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-Chairman 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 Chairman 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
Total Board of Directors	2,083,360	349,240	104,687	2,537,287	1,045,120

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 Board of Directors 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 Chairman of the Board 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 Chairman of the Board and CHF 80'000 for the other Board members.

	Fixed compensation			Variable compensation			Total CHF	
	Fixed basic payment ³⁾	Benefits and Social / Pension contributions ⁴⁾	Total aggregate amount	STI ⁵⁾	LTI ⁶⁾	Social / Pension contributions	Total aggregate amount	
Executive Committee								
Cadonau Riet	832,008	146,263	978,271	1,275,000	934,408	331,102	2,540,510	3,518,781
Other Executive Committee	3,598,406	1,054,874	4,653,280	2,902,258	2,687,999	885,318	6,475,575	11,128,855
Total Executive Committee	4,430,414	1,201,137	5,631,551	4,177,258	3,622,408	1,216,420	9,016,085	14,647,636

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 that were 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 members of the Executive Committee.

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

6) 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 30.06.2018 as listed in the table "Shares held by Board of Directors and Executive Committee". 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).

Financial year 2016/2017

Compensation ¹⁾					
	Basic compensation	Additional compensation (committees, special tasks)	Social benefits	Total (CHF)	of which in shares (CHF) ²⁾
Board of Directors					
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 Christine	167,770	-	-	167,770	77,770
Total Board of Directors	2,050,190	368,141	101,832	2,520,163	1,028,014

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			Variable compensation			Total CHF	
	Fixed basic payment	Benefits and Social / Pension contributions ³⁾	Total aggregate amount	STI ⁴⁾	LTI ⁵⁾	Social / Pension contributions	Total aggregate amount	
Executive Committee								
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
Total Executive Committee	4,027,052	919,012	4,946,065	4,318,975	2,694,822	1,066,272	8,080,069	13,026,134

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 30.06.2017 as listed in the table "Shares held by Board of Directors and Executive Committee". 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).

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 30.06.2018	Financial year ended 30.06.2017
	Number of shares	Number of shares
Board of Directors		
Brecht-Bergen Stephanie	189,958	189,868
Chiu Elton SK	773	683
Daeniker Daniel	1,424	1,305
Dörig Rolf	2,363	2,153
Dubs-Kuenzle Karina	99,483	84,861
Graf Ulrich	6,148	6,476
Gummert Hans	479	198
Heppner John	626	510
Hess Hans	1,360	1,270
Mankel Christine	190,005	189,868
Total Board of Directors	492,619	477,192
Executive Committee		
Berninger Alwin	-	
Brinker Bernd	550	250
Cadonau Riet	4,330	3,930
Gaspari Roberto	2,576	2,238
Häberli Andreas	1,505	1,185
Jacob Christoph	132	72
Kincaid Michael	1,012	714
Lee Jim-Heng	1,396	1,146
Lichtenberg Jörg	318	167
Malacarne Beat	867	1,425
Sichelschmidt Dieter ¹⁾		150
Zocca Stefano	1,494	1,251
Total Executive Committee	14,180	12,528

¹⁾ Member of the Executive Committee until the 31 December 2017