

# DATACOLOR AG

COMPENSATION REPORT 2017

## COMPENSATION REPORT

The Compensation Report contains information on the remuneration of the Board of Directors and the Executive Committee. In terms of regulation against excessive compensation of publicly listed companies (so called "VegüV"), in force on January 1, 2014, all information on the remuneration of the members of the Board of Directors and Executive Committee is restated in the remuneration report. The information provided in this Compensation Report relates to the financial year 2016/17, unless otherwise noted. The remuneration report is prepared in accordance with the following regulatory provisions: VegüV, Directive on Information Relating to Corporate Governance by SIX Swiss Exchange, the „Swiss Code of Best Practice for Corporate Governance» of *economiesuisse*. According to VegüV, the General Assembly must vote on the remuneration. In addition, the statutes approved by the General Assembly on December 12, 2014 contain newly, among other principles of the tasks and responsibilities of the Compensation Committee, the performance-based remuneration and the allocation of equities, convertible and option rights to members of the Board of Directors and Executive Committee.

The complete statutory regulations regarding the approval of the remuneration of Directors and the Executive Committee by the General Meeting (Art. 21), the applicable additional amount for the remuneration of additional members of the Executive Committee, if approved total amount is not sufficient (Art. 22), the regulation of the principles of the remuneration (Art. 20), concerning the rules for loans and credits (Art. 23) and the Human Resources and Compensation Committee (Art. 27) can be found on our website at the following URL:

<http://ir.datacolor.com/en/corporate-governance/>

### 1. General principles

The economic success of Datacolor depends to a large extent on the qualification and commitment of its employees. The key objectives of the remuneration policy are to attract qualified employees, motivate and retain them. The performance orientated variable compensation and in particular the share-based component of the compensation aim to promote entrepreneurial thinking and action. The key principles are:

- The compensation is performance-based and market-driven.
- Employees participate in the economic success.
- The compensation determination is fair and transparent.
- Short- and long-term compensation components are in a balanced ratio.

### 2. Principles of the compensation system

The remuneration of the members of the Board of Directors and the members of the Executive Committee essentially consists of three components:

- Fixed basic compensation,
- Performance-related bonus in cash (short-term),
- Performance-related compensation in equity securities (non-current).

The Board has restructured the system of long-term incentive compensation for the Board and the Executive Committee in the reporting period.

In financial year 2015/16, the Board of Directors decided to restructure the system of long-term performance-related remuneration for the Board of Directors and the Executive Committee, as the existing option model was outdated. The long-term variable compensation to the Executive Committee is paid in Datacolor registered shares based on a management share plan. The Board of Directors has the right to choose variable compensation in cash or in Datacolor registered shares based on the same plan. In addition, the Board of Directors has the right to buy in the aforementioned share plan at a later date with the variable compensation in cash. The shares are subject to a three-year blocking period. Thus, the beneficiaries can only dispose the blocked shares after the vesting period has expired. The voting rights are transferred to the members of the Executive Committee after the end of the vesting period of three years. The dividends paid during the vesting period will be paid out to the entitled members of the Executive Committee after the vesting period has expired. Members of the Board of Directors have unlimited voting and dividend rights from the date of allotment of the shares.

At the end of the vesting period a cash settlement is foreseen, unless the share plan participant submits a written request to hold the shares no later than one month before the end of the vesting period. In the event of voluntary termination of employment, the Executive Committee member loses all outstanding blocked shares. In the case of involuntary termination, retirement by mutual agreement or in accordance with local regulations, death or disability, the vesting period for all shares ends. These shares will be sold to Datacolor AG one month after the termination of the employment relationship. If a director leaves the board, is not re-elected or is not standing for election, this has no impact on the vesting period.

The Board of Directors decides at its own discretion on the share-based remuneration component for the Board of Directors. The CEO will receive 50% of the total performance-related compensation in the form of Datacolor registered shares and the other members of the Executive Committee 40%. The amount of the performance-based remuneration of the Executive Committee and thus the number of shares to be issued to the respective beneficiary is based on the achievement of

the company's goals as described in detail below and the individual target achievement of the beneficiary for the current financial year.

For each year of the vesting period, the relevant share price for the allocation of Datacolor registered shares is discounted by 6% in accordance with the requirements of the Swiss Federal Tax Administration for the Taxation of Employee Stock Ownership (Circular No 37).

Members of the Board of Directors and Executive Committee were offered in fiscal 2015/16 the final opportunity to buy into the stock option plan with the stock option emission of October 1, 2015 (refer to the information in note 21 of the annex to the consolidated financial statements on the stock option plan). The relevant economic assumptions for determining the execution price, the number of granted options and general terms followed the principles applied for in previous emissions in conformity with the stock option plan regulations. The execution of the 1 899 options on Datacolor registered shares granted in fiscal 2015/16 has to be effected at the latest on October 1, 2025.

## 2.1 Compensation of the Board of Directors

The members of the Board of Directors (all are non-executive) are remunerated with a fixed cash compensation. This fixed basic compensation includes a quarterly Board remuneration, lump sum representation and other allowances and other payments based on individual agreements (namely the employment agreement of Werner Dubach with Datacolor Holding AG) and respective social security deductions. The amount of the fixed compensation is at the discretion of the Board of Directors, which must comply with the requirements of the relevant resolution of the General Meeting.

The variable compensation depends on the company's financial success, reflected in the organic growth of sales as well as the operating profit EBIT compared to budget. The weighing of these metrics is at the discretion of the Board of Directors. The Board of Directors' decisions on the compensation for the Board are not based on benchmarks.

In fiscal 2014/15 the Board suspended the variable long-term compensation based on stock options for Datacolor registered shares as the Board decided to assess alternative forms for a long-term performance oriented variable compensation.

As from fiscal year 2015/16, the Board of Directors for the first time introduced a restricted share-based plan as a long-term variable compensation component. The terms of this new plan are disclosed under 2. "Principles of the compensation system".

In financial year 2015/16, the Board of Directors was given for the last time the opportunity to buy into the stock option plan emission October 1, 2015 with a portion of the compensation that was set by the Board of Directors at its discretion. For further conditions of this stock option emission on Datacolor registered shares refer to note 21 Stock option plan in the notes to the consolidated financial statements.

## 2.2 Compensation of the Executive Committee

The compensation of the Executive Committee consists of a fixed base salary in cash, a variable performance-based bonus in cash, a long-term variable compensation based on an equity security component as well as contributions to pension funds and social insurances. In fiscal 2014/15 the Board suspended the variable long-term compensation based on stock options for Datacolor registered shares as the Board decided to assess alternative forms for a long-term performance oriented variable compensation. As from fiscal year 2015/16, the Board of Directors for the first time introduced a restricted share-based plan as a long-term variable compensation component. The terms of this new plan are disclosed under 2. "Principles of the compensation system".

In financial year 2015/16, the Executive Committee was given the final opportunity to buy into the stock option plan emission October 1, 2015 with a portion of the compensation that was set by the Board of Directors at its discretion. For further conditions of this stock option emission on Datacolor registered shares refer to note 21 Stock option plan in the notes to the consolidated financial statements.

The fixed base salary is mainly determined by the respective organizational function, the accountability level, the qualification and experience, as well as the employment market conditions. In determining the remuneration of the Executive Committee, the Compensation Committee is not based on benchmarks and salary comparisons.

The criteria for determining the total variable compensation (short- and long-term performance-related bonus/compensation) are defined in the respective regulations adopted by the Compensation Committee. These criteria are valid for several years and were last reviewed by the Compensation Committee in 2017 with deriving amendments being effective in fiscal 2016/17 for the first time.

Initially, the total bonus pool available for performance-related compensation payments is determined based on two financial value drivers, namely organic sales growth (without acquisitions or divestitures) compared to previous year figures and budget (60% weighting) as well as the operating profit EBIT compared to budget (40% weighting). The Board of Directors sets respective targets for the financial value drivers during the budgeting process for a period of one fiscal year. The pool for performance related bonus payments may reach a maximum of 200% of the budgeted target value of the variable compensation.

In case the actual realized EBIT falls below the target set by the Board of Directors by more than 50% (minimum threshold), no credit is recorded in the variable compensation pool and the payment of a variable performance-related bonus is subject to approval by the Compensation Committee. No minimum threshold is determined for the achievement of the organic sales growth component. If actual realized EBIT exceeds the budgeted EBIT target, 25% of the exceeding amount is allocated to the variable compensation pool.

From the pool of performance related bonuses, the Executive Committee members (and other employees eligible to bonus payments) receive individual performance-related bonuses based on the achievement of their respective individual performance goals. Measurable individual goals are agreed during the management-by-objectives process at the beginning of each fiscal year between the Chairman of the Board and the CEO as well as between the CEO and the members of the Executive Committee.

The individual performance-related bonus depends on the accomplishment of individual performance objectives and the financial success of the company. For the CEO, the performance-related bonus may be a maximum of 83% and for the other members of the Executive Committee a maximum of 73% to 83% of the annual target salary. The target salary is defined by the total of both fixed basic compensation plus the performance-related variable short-term and long-term compensation.

The achievement of the individual targets is decisive for participation in the variable compensation pool and was therefore weighted at 100% when determining the performance-related bonus.

The variable compensation, consisting of a short-term and a long-term variable compensation component, is generally paid out in cash and equity instruments (Datacolor registered shares). Since fiscal 2015/16, 50% of the total variable remuneration is paid out in cash to the CEO. The short-term variable compensation amounts to 60% of the variable compensation for the other members of the Executive Board. The residual portion of the variable compensation, which is 50% for the CEO and 40% for the other Executive team members, is paid out with restricted Datacolor registered shares, which are subject to the conditions described at the outset. A vesting period of three years on the registered shares should reward the long-term success of the company.

The pension and social insurance expenses include employer contributions to social security as well as the mandatory and non-mandatory occupational benefits. The expense regulations for the members of the Executive Committee are basically the same as those applicable for all other employees of the respective group company. Additional rules apply on lump-sum compensation of representatives and petty expenses for the members of the Executive Committee residing in Switzerland that have been approved by the relevant cantonal tax authorities. A company car is made available to one member of the Executive Committee as this is principally not provided in the respective employment agreements of the Executive team members.

No employment agreement includes notice periods exceeding six months. The employment agreements with the Executive Committee members do not provide for termination pay.

Executive Committee members do not hold any permanent executive nor consulting function in any important interest group and do not hold any official or political administrative positions. No management agreement exists.

### 3. Competences and determination procedures

The overall compensation system and the equity security participation plans are drawn up by Corporate Human Resources and submitted to examination by the CEO, the Compensation Committee for final approval by the Board of Directors. In fiscal year 2016/17, no external consultants were called in.

The Compensation Committee consists of two members of the Board of Directors: Dr. Peter Beglinger (Chairman) and Dr. Fritz Gantert (Member).

The Compensation Committee (i) proposes the terms of the employment and mandate contract and the annual fix and variable compensation for the Chairman of the Board for approval by the Board of Directors, (ii) proposes at the request of the Chairman, the conditions of the employment and mandate contracts and the target remuneration for the remaining members of the Board and the CEO for approval by the Board of Directors, and (iii) proposes upon the CEO's request amendments to contract terms, the target remuneration and the annual variable compensation for the other members of the Executive Committee for approval by the Board of Directors. For the determination of the performance-related variable compensation of the Executive Committee, the Compensation Commission does not draw on benchmarks.

The Board of Directors approves upon the request of the Human Resources and Compensation Committee, the conditions of employment and mandate contracts and the target remuneration for the Board of Directors (including the Chairman), the CEO and the other members of the Executive Committee and determines at the request of the Compensation Committee the annual variable remuneration for the Chairman of the Board. Furthermore, the Board of Directors determines the compensation system including the elements of fixed and variable compensation.

The Chairman proposes the conditions of employment and mandate contracts and the target remuneration for the members of the Board of Directors (excluding the Chairman) and the CEO for the review by the Compensation Committee and approval by the Board of Directors. The Chairman determines the annual variable remuneration for the members of the Board of Directors (excluding Chairman) and the CEO.

The CEO proposes the conditions of employment contracts, the target remuneration and the annual variable remuneration for the Executive Committee members for review by the Compensation Committee and approval by the Board of Directors.

The Directors hold at the meetings of the Board or the Compensation Committee, which are to decide on their individual remuneration, an attendance right, but no say.

#### 4. Compensation for fiscal 2015/16 and 2016/17

In the year under review, the Board's variable compensation amounted to 23% (previous year: 114%) of the fixed compensation. The details of the compensation in the reporting period and previous year respectively are disclosed in the tables below.

##### 4.1 Board of Directors

The total compensation of the members of the Board of Directors, which are all non-Executive, amounted in the reporting period to TCHF 540 (previous year: TCHF 652).

| in TCHF                                     | Remuneration fix |            | Remuneration variabel |              | Pension | Total |
|---|------------------|------------|-----------------------|--------------|---------|-------|
|   | cash based       | cash based | share based           | option based | costs   |       |
| Compensation for Board of Directors 2016/17 |                  |            |                       |              |         |       |
| Werner Dubach, Chairman                     | 291              | 34         | 0                     | 0            | 0       | 325   |
| Dr. Peter Beglinger, Deputy Chairman        | 39               | 20         | 0                     | 0            | 0       | 59    |
| Anne Keller Dubach, member                  | 22               | 13         | 0                     | 0            | 0       | 35    |
| Prof. Dr. Hans Peter Wehrli, member         | 22               | 13         | 0                     | 0            | 0       | 35    |
| Dr. Fritz Gantert, member                   | 24               | 13         | 0                     | 0            | 0       | 37    |
| Thomas Studhalter, member                   | 40               | 9          | 0                     | 0            | 0       | 49    |
| Total                                       | 438              | 102        | 0                     | 0            | 0       | 540   |

| in TCHF                                     | Remuneration fix |            | Remuneration variabel |              | Pension | Total |
|---|------------------|------------|-----------------------|--------------|---------|-------|
|   | cash based       | cash based | share based           | option based | costs   |       |
| Compensation for Board of Directors 2015/16 |                  |            |                       |              |         |       |
| Werner Dubach, Chairman                     | 195              | 0          | 112                   | 46           | 0       | 353   |
| Dr. Peter Beglinger, Deputy Chairman        | 40               | 0          | 45                    | 19           | 0       | 104   |
| Anne Keller Dubach, member                  | 22               | 0          | 30                    | 12           | 0       | 64    |
| Prof. Dr. Hans Peter Wehrli, member         | 22               | 0          | 30                    | 12           | 0       | 64    |
| Dr. Fritz Gantert, member                   | 25               | 0          | 30                    | 12           | 0       | 67    |
| Total                                       | 304              | 0          | 247                   | 101          | 0       | 652   |

##### 4.2 Executive Committee

In the reporting period, the variable compensation of the Executive Committee members amounts 32% to 76% of the fixed base salary (previous year between 27% and 78%).

| in TCHF                                    | Remuneration fix |            | Remuneration variabel |              | Pension | Total |
|--|------------------|------------|-----------------------|--------------|---------|-------|
|  | cash based       | cash based | share based           | option based | costs   |       |
| Compensation for fiscal 2016/17            |                  |            |                       |              |         |       |
| To six members of the Executive Committee  | 1 552            | 425        | 326                   | 0            | 102     | 2 405 |
| Thereof highest compensation: Albert Busch | 339              | 130        | 130                   | 0            | 20      | 619   |

| in TCHF                                    | Remuneration fix |            | Remuneration variabel |              | Pension | Total |
|--|------------------|------------|-----------------------|--------------|---------|-------|
|  | cash based       | cash based | share based           | option based | costs   |       |
| Compensation for fiscal 2015/16            |                  |            |                       |              |         |       |
| To six members of the Executive Committee  | 1 297            | 405        | 195                   | 54           | 97      | 2 048 |
| Thereof highest compensation: Albert Busch | 330              | 128        | 107                   | 21           | 18      | 604   |

#### 5. Proposals to the Annual General Meeting 2017

According to Art. 21 of bylaws the shareholders will vote on the remuneration of the Board of Directors and Executive Committee separately at the General Meeting 2017 on December 7, 2017.

##### 5.1 Approval of the remuneration of the Board of Directors

Approval of the total fixed remuneration of the members of the Board by the Annual General Meeting 2017 to the Annual General Meeting 2018: The Board of Directors proposes that the shareholders approve the

maximum total amount of the fixed remuneration of Board members for the period from the Annual General Meeting 2017 to the Annual General Meeting 2018 of TCHF 800 (exclusive statutory employer contributions to AHV/IV/ALV).

Approval of the variable compensation of the members of the Board of Directors for the current fiscal year 2017/18: The Board proposes that the shareholders approve the maximum total amount of the variable remuneration of the Directors for the current financial year 2017/18 of TCHF 500 (exclusive statutory employer contributions to AHV/IV/ALV).

## 5.2 Approval of the remuneration of the Executive Committee

Approval of the total fixed remuneration of the members of the Executive Committee of the Annual General Meeting 2017 to the Annual General Meeting 2018: The Board of Directors proposes that the shareholders approve the maximum total amount of the fixed remuneration of the members of the Executive Committee for the period from the Annual General Meeting 2017 to the Annual General Meeting 2018 of TCHF 1800 (exclusive statutory employer contributions such as AHV/IV/ALV).

Approval of the variable compensation of the members of the Executive Committee for the current fiscal year 2017/18: The Board proposes that the shareholders approve the maximum total amount of the variable remuneration of the members of the Executive Committee for the fiscal year 2017/18 of TCHF 1900 (exclusive statutory employer contributions such as AHV/IV/ALV), approve.

According to article 22 of the bylaws of Datacolor, for members of the Executive Committee, who are appointed after approval of the annual total compensation, an additional amount within the meaning of Art. 19 VegüV per new member is available to the extent of a maximum of 30% of the most recently approved total for the fixed remuneration of the Executive Committee per financial year, provided that the total amount

approved for the corresponding fiscal year is not enough.

## 6. Compensation of former members of the Board Directors and Executive Committee

A compensation of TCHF 112 was made in fiscal 2016/17 to former members of the Executive Committee (previous year: TCHF 0).

## 7. Loans and credits

No loans or credits to the Executive Committee are outstanding as at September 30, 2017 (previous year: TCHF 54). No loans or credits have been granted or are outstanding to members of the Board of Directors or related parties of current or former members of the Board or Executive Committee.

Loans and credits to Board members or the Executive Committee have to be provided at-arms-length terms. The total maximum amount of outstanding loans and credits is limited to CHF 2 million.

## 8. Shareholdings and options

The total number of shares held by the Board of Directors and the Executive Committee amounted to 138 024 (previous year: 125 607).

The Board of Directors determines, with the limitations of the amounts approved by the shareholders meeting and with the involvement of the Human Resources and Compensation Committee, the number, granting, exercise and buy back conditions such as the minimum blocking period, employment status and buy back terms in case of the termination of the respective employment or a change of control.

No receivables from or payables to related parties were outstanding at the end of the reporting period and previous year with the exception of the independent pension fund.

|   | 2017<br>Numbers<br>of shares <sup>1)</sup> | 2016<br>Numbers<br>of shares <sup>1)</sup> | 2017<br>Numbers<br>of options | 2016<br>Numbers<br>of options |
|---|--|--|-------------------------------|-------------------------------|
| <b>Board of Directors and Executive Committee</b> |  |  |                               |                               |
| Werner Dubach, Chairman                           | 103 642                                    | 93 832                                     | 1 269                         | 2 169                         |
| Dr. Peter Beglinger, Deputy Chairman              | 208  | 1 660                                      | 508                           | 868                           |
| Anne Keller Dubach, member                        | 32 043                                     | 28 340                                     | 338                           | 578                           |
| Prof. Dr. Hans Peter Wehrli, member               | 1 053                                      | 850  | 338                           | 578                           |
| Dr. Fritz Gantert, member                         | 1 078                                      | 925  | 338                           | 578                           |
| Thomas Studhalter, member                         | 0  | 0  | 0                             | 0                             |
| Executive Committee                               | 0  | 0  | 3 788                         | 7 088                         |
| <b>Total</b>                                      | <b>138 024</b>                             | <b>125 607</b>                             | <b>6 579</b>                  | <b>11 859</b>                 |

<sup>1)</sup> According to the management participation plan, a portion of the shares is blocked (refer to 2.1 compensation of the Board of Directors).



## **Report of the Statutory Auditor to the General Meeting of Datacolor AG, Lucerne**

We have audited the accompanying remuneration report dated November 7, 2017 of Datacolor AG for the year ended September 30, 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 4 and 6 to 8 on pages 17 to 18.

### **Responsibility of the Board of Directors**

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance 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 remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the remuneration report for the year ended September 30, 2017 of Datacolor AG complies with Swiss law and articles 14–18 of the Ordinance.

KPMG AG

Toni Wattenhofer  
Licensed Audit Expert  
Auditor in Charge

Sandro Masciarucci  
Licensed Audit Expert

Lucerne, November 13, 2017



## **ADRESSES**

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