

DATACOLOR AG

COMPENSATION REPORT 2018

COMPENSATION REPORT

The Compensation Report contains information on the remuneration of the Board of Directors and the Executive Committee of Datacolor AG. The information provided in this Compensation Report relates to the financial year 2017/18, unless otherwise noted. The remuneration report is prepared in accordance with the following regulatory provisions: Swiss Code of Obligation, Ordinance against Excessive Compensation in Listed Corporations (the „Ordinance“), Directive on Information Relating to Corporate Governance by SIX Swiss Exchange, the „Swiss Code of Best Practice for Corporate Governance“ of *economiesuisse*.

According to the Ordinance, the General Assembly must vote on the remuneration. The statutes of Datacolor AG contain, among other, principles of the tasks and responsibilities of the Compensation Committee, the performance-based remuneration and the allocation of equities, 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, as far as an approved total amount is not sufficient (Art. 22), the regulation of the principles of the remuneration (Art. 20), the rules for loans and credits (Art. 23) and the Compensation Committee (Art. 27) can be found on our website at the following URL: <https://ir.datacolor.com/en/corporate-governance/>

The remuneration paid is disclosed in accordance with the periodisation concept of accounting (accrual principle, independent of cash flow), i.e. all remuneration is reported in the period (here financial year) in which it is recorded in the annual financial statements.

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, to motivate and to 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 essentially consists of two components :

- fixed basic compensation.
- performance-related bonus in cash (short-term).

The remuneration of 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 shares (non-current).

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 an annual Board remuneration, lump sum representation and other allowances and other payments based on individual agreements (namely the employment agreement of the Chairman of the Board with Datacolor AG Europe) and respective social security deductions. The amount of the fixed compensation is at the discretion of the Board of Directors. Reimbursement of expenses shall not be deemed to be remuneration.

The variable compensation, which is also paid in cash, is determined by the Board of Directors after the end of the financial year. The Board of Directors bases its decision on business performance, i.e. organic sales growth (excluding acquisitions and divestitures), operating profit EBIT and return on operating assets (RONOA).

The Board of Directors complies with the provisions of the corresponding resolution of the Annual General Meeting when determining remuneration.

The Board of Directors has not based its decisions on the compensation for the members of the Board of Directors on benchmarks.

As in the previous fiscal year, for fiscal 2017/18 the members of the Board of Directors also have the right to acquire from their own funds a number of Datacolor AG registered shares determined by the Board of Directors at its discretion. The shares are subject to a three-year blocking period. Due to the vesting period, the shares are purchased at a discount. The relevant share price (closing price of the SIX Swiss Exchange on the day after the publication of the annual report) is discounted by 6% for each year of the vesting period (in accordance with Circular No. 37 of the Swiss Federal Tax Administration for the Taxation of Employee Stock Ownership). The beneficiaries may only dispose of the shares after the vesting period has expired. However, they are already entitled to unlimited voting and dividend rights as of the acquisition of the shares. If a member of the Board of Directors leaves the Board, is not re-elected or is no longer stand-

ing for election, this has no effect on his rights to or from the shares or on the blocking period. Since the shares are acquired at the discounted value accepted for tax purposes and entirely from own funds, the acquisition of the discounted shares does not qualify as remuneration.

2.2 Compensation of the Executive Committee

The compensation of the Executive Committee consists of (i) a fixed base salary in cash, (ii) a depending on the respective financial year variable performance-based bonus in cash, (iii) a long-term variable compensation based on an equity security component as well as (iv) contributions to pension funds and social insurances. Compensation for expenses shall not be deemed to be remuneration.

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.

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 remaining 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 AG registered shares, which are subject to the conditions described subsequently. The long-term success of the company is to be rewarded with a vesting period of three years for the acquisition of the shares.

The criteria for determining the total variable compensation (short-term and long-term components) are defined in a set of rules issued by the Board of Directors, which are to be valid for several years. The regulations were last revised with effect from October 1st, 2017. The resulting adjustments were applied for the first time for the 2017/18 financial year. The variable remuneration is determined as follows in accordance with the current regulations:

First of all, the pool available for the payment of performance-related bonuses is determined on the basis of the three financial value drivers, namely organic sales growth compared to the previous year and budget (50% weighting share), operating EBIT compared to budget (30% weighting share) and the return on operating assets (RONOA) compared to budget (20% weighting share). 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 short-term component of variable compensation.

If the EBIT actually achieved 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 there is no entitlement to variable performance-related bonuses. If performance-related bonuses are nevertheless to be paid, this requires a proposal from

the CEO and approval by the Compensation Committee. If the actual EBIT, the organic sales growth or the return on operating assets exceeds the budgeted targets, 25% of the excess will be credited to the variable compensation pool. There is no minimum threshold for the targets of organic sales growth and return on operating assets.

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 (organic sales growth, operating EBIT, return on operating assets). For the CEO, the performance-related bonus may be a maximum of 82% and for the other members of the Executive Committee a maximum of 70% to 86% 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 long-term variable compensation to the Executive Committee is paid in Datacolor AG registered shares based on a management share plan. The shares are subject to a vesting period of three years, i.e. ownership of the shares is not transferred to the plan participants until three years have elapsed since the allocation of the shares. The same applies to voting rights. The dividends paid during the vesting period will be paid out to the plan participants after the vesting period has expired. After the end of the vesting period, the acquired shares are generally settled in cash, unless the plan participant submits a written request to continue holding the shares no later than one month before the end of the vesting period. In the event of voluntary termination of employment, the plan participant loses all shares for which the vesting period has not yet expired. In the event of involuntary termination, retirement by mutual consent or in accordance with local regulations, death or disability, vesting will occur for all shares that have not yet vested. These shares are then sold to Datacolor AG one month after the termination of the employment relationship.

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 Circular No. 37 of the Swiss Federal Tax Administration for the Taxation of Employee Stock Ownership). The relevant price for the allocation of the shares is the volume-weighted average

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price for the period from April 1st to September 30th prior to the allocation of the shares. If less than 3000 shares were traded during this period, the period is extended to 12 months (October 1st to September 30th).

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 only one member of the Executive Committee as this is principally not provided in the respective employment agreements of the Executive team members.

The compensation of the Executive Board must be determined in accordance with the provisions of the corresponding resolution of the General Meeting of Shareholders.

Neither benchmarks nor salary comparisons have been applied in determining the compensation of the Executive Board.

No employment agreement has notice periods exceeding six months. The employment agreements with the Executive Committee members do not provide for any 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, following examination by the CEO and the Compensation Committee, for final approval by the Board of Directors. In fiscal year 2017/18, no external consultants were called in.

The Compensation Committee consists of two members of the Board of Directors: Dr. Jvo Grundler (Chairman) and Dr. Fritz Gantert (Member). Dr. Jvo Grundler has taken over as Chairman from Dr. Peter Beglinger, who retired from the Board of Directors at the end of the 2016/17 financial year.

The Board of Directors approves upon the request of the 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 and the other members of the

Board of Directors. Furthermore, the Board of Directors determines the compensation system including the elements of fixed and variable compensation.

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. The Compensation Committee is responsible for reviewing and, if necessary, revising the compensation system.

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 of the CEO.

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

The General Meeting elects the members of the Remuneration Committee individually for a term of one year until the end of the next ordinary General Meeting. Re-election is permitted. The Remuneration Committee consists of at least two members. Only the members of the Board of Directors may be elected.

The Compensation Committee meets as often as business requires, as a rule four times a year. In the year under review, the members of the Compensation Committee met four times: on November 7th, 2017 for one hour, on December 7th, 2017 for one hour, on May 8th, 2018 for one hour and on September 4th, 2018 for one hour. All members of the Committee attended all meetings.

4. Compensation for the fiscal year and previous year

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 867 (previous year: TCHF 540). In the year under review, the Board's variable compensation amounted to 14% (previous year: 23%) of the fixed compensation. The details of the compensation in the reporting period and previous year respectively are disclosed in the tables below.

in TCHF	Remuneration fix	Remuneration variable			Pension costs	Total
	cash based	cash based	share based	option based		

Compensation for Board of Directors 2017/18

Werner Dubach, Chairman	517	34	0	0	0	551
Dr. Peter Beglinger, Deputy Chairman (until 7.12.2017)	18	5	0	0	0	23
Dr. Jvo Grundler, Deputy Chairman (ab 7.12.2017)	52	15	0	0	0	67
Anne Keller Dubach, member	44	13	0	0	0	57
Prof. Dr. Hans Peter Wehrli, member	44	13	0	0	0	57
Dr. Fritz Gantert, member	44	13	0	0	0	57
Thomas Studhalter, member	44	13	0	0	0	57
Total	763	104	0	0	0	867

in TCHF	Remuneration fix	Remuneration variable			Pension costs	Total
	cash based	cash based	share based	option based		

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

4.2 Executive Committee

In the reporting period, the variable compensation of the Executive Committee members ranges between 36% and 166% of the fixed base salary (previous year between 32% and 76%).

in TCHF	Remuneration fix	Remuneration variable			Pension costs	Total
	cash based	cash based	share based	option based		

Compensation for fiscal 2017/18

To seven members of the Executive Committee	1 589	685	552	0	142	2 968
Thereof highest compensation: Albert Busch	344	285	285	0	24	939

in TCHF	Remuneration fix	Remuneration variable			Pension costs	Total
	cash based	cash based	share based	option based		

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

5. Proposals to the Annual General Meeting 2018

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 2018 on December 5th, 2018.

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 2018 to the Annual General Meeting 2019: The Board of Directors proposes that the shareholders approve the maximum

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total amount of the fixed remuneration of the Board members for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019 of TCHF 850 (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 2018/19: The Board of Directors proposes that the shareholders approve the maximum total amount of the variable remuneration of the Board members for the current financial year 2018/19 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 2018 to the Annual General Meeting 2019: 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 2018 to the Annual General Meeting 2019 of TCHF 1 800 (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 2018/19: The Board proposes that the shareholders approve the maximum total amount of the variable remuneration of the members of the Executive Committee for the current fiscal year 2018/19 of TCHF 2 300 (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 Ordinance 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

No compensation was paid to former members of the Executive Board in the 2017/18 fiscal year (previous year: TCHF 112).

7. Loans and credits

No loans or credits have been granted or are outstanding to the Executive Committee as of September 30th, 2018 (previous year: 0). 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 140 943 (previous year: 138 024). The total number of options to purchase Datacolor registered shares held by the Board of Directors and the Executive Committee amounts to 2 139 (previous year 6 579). The management option program was applied for the last time for fiscal 2015/16. The existing options can still be exercised until the end of the respective exercise periods. The execution of the 1 899 options granted in fiscal 2015/16 has to be effected at the latest on October 1st, 2025.

The Board of Directors determines, in the limitations of the amounts approved by the shareholders meeting and with the involvement of the 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 and payables to related parties were outstanding at the end of the reporting period and previous year with the exception of the independent pension fund.

	2018 Numbers of shares ¹⁾	2017 Numbers of shares ¹⁾	2018 Numbers of options	2017 Numbers of options
Board of Directors and Executive Committee				
Werner Dubach, Chairman	105 442	103 642	369	1 269
Dr. Peter Beglinger, Deputy Chairman (until 7.12.2017)	525	208	148	508
Dr. Jvo Grundler, Deputy Chairman (after 7.12.2017)	0		0	
Anne Keller Dubach, member	32 523	32 043	98	338
Prof. Dr. Hans Peter Wehrli, member	1 135	1 053	338	338
Dr. Fritz Gantert, member	1 218	1 078	98	338
Thomas Studhalter, member	100	0	0	0
Executive Committee	0	0	1 088	3 788
Total	140 943	138 024	2 139	6 579

¹⁾ A portion of the shares is blocked (refer to 2.1 compensation of the Board of Directors).



To the General Meeting of Datacolor AG, Lucern

We have audited the accompanying remuneration report of Datacolor AG for the year ended September 30, 2018. 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 16 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, 2018 of Datacolor AG complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Toni Wattenhofer
Licensed Audit Expert
Auditor in Charge

Sandro Masciarucci
Licensed Audit Expert

Lucerne, November 12, 2018

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