

DATACOLOR AG

FINANCIAL REPORT 2020



datacolor 

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 2019/20, 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 includes the tasks and responsibilities of the HR and 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 remuneration of Directors and the Executive Committee by the General Meeting (Art. 21), applicable additional amount for the remuneration of additional members of the Executive Committee (Art. 22), regulation of the principles of the remuneration (Art. 20), rules for loans and credits (Art. 23) and HR and Compensation Committee (Art. 27) can be found on:

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

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

1. General principles

The 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, retain and motivate qualified employees. The performance orientated variable compensation the share-based component aim to promote entrepreneurial thinking and action. The key principles are:

- Compensation is performance-based and market-driven.
- Employees participate in the economic success.
- Compensation is fair and transparent.
- Short- and long-term compensation components are incorporated.

2. Principles of the compensation system

Remuneration of the members of the Board of Directors consists of two components :

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

Remuneration of the members of the Executive Committee 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 Compensation Policy for the Board of Directors was issued on December 7, 2017. The members of the Board of Directors (all are non-executive) are remunerated with a fixed cash compensation. Fixed basic compensation includes an annual remuneration, lump sum, other allowances and other payments based on individual agreements (employment agreement of the Chairman of the Board with Datacolor AG Europe) including respective social security deductions. The amount of the fixed compensation is at the discretion of the Board of Directors. Reimbursement of expenses is not deemed as remuneration.

Variable compensation 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 considering organic sales growth (excluding acquisitions and divestitures) and operating profit EBIT.

The Board of Directors complies with the provisions of the corresponding resolution of the Annual General Meeting in 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, the members of the Board of Directors have the right to purchase a number of Datacolor AG registered shares determined by the Board of Directors. The shares are subject to a three-year blocking period. Due to the vesting period, the shares are purchased at a discount. The share price is the 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 sell the shares after the vesting period has expired. They are 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 standing for election, there is no effect on his rights to or from the shares or on the blocking period. As 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 according to Art. 14 of the Ordinance.

2.2 Compensation of the Executive Committee

The compensation of the Executive Committee consists of (i) a fixed base salary in cash, (ii) variable performance-based bonus in cash, (iii) a long-term variable

compensation based on an equity security component as (iv) contributions to pension funds and social insurances. Reimbursement of expenses is not deemed to be remuneration.

The fixed base salary is mainly determined by the respective organizational function, the accountability level, the qualification and experience and employment market conditions.

Since fiscal 2015/16, 50% of the total variable remuneration is paid out in cash to the CEO. 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 of 50% for the CEO and CFO and 40% for the other Executive team members, is paid out with restricted Datacolor AG registered shares, which are subject to 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. The regulations were revised on October 1st, 2019. The resulting adjustments were applied initially in financial year 2019/20. Variable remuneration is determined as follows in accordance with the current regulations:

The pool available for the payment of performance-related bonuses is determined on the basis of two financial value drivers, namely organic sales growth compared to the previous year and budget (60% weighting share) and operating EBIT compared to budget (40% weighting share) The Board of Directors sets respective annual targets for the financial value drivers during the budgeting process. The pool for performance related bonus payments is a maximum of 200% of the budgeted target value of short-term component of variable compensation.

If the EBIT 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. A proposal from the CEO and approval by the HR and Compensation Committee is required for exceptions. 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 for 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 (or-

ganic sales growth, operating EBIT, return on operating assets). For the CEO, the performance-related bonus may be a maximum of 166% 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 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, ownership and voting rights of the shares is not transferred to the plan participants until three years have elapsed since the allocation of the shares. 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 unvested shares 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 sold to Datacolor AG one month after termination of employment.

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 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).

Pension and social insurance expenses include employer contributions to social security as well as 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 for 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. It's not provided in the employment agreements of the other 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.

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

Employment agreements have notice periods of a maximum of six months. The employment agreements with the Executive Committee members do not provide for termination pay.

Executive Committee members do not hold permanent executive or consulting functions 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 structure and equity security participation plans are submitted by Corporate Human Resources for review by the CEO and the HR and Compensation Committee. The Board of Directors approves compensation and equity participation plans. In fiscal year 2019/20, no external consultants were utilized.

The HR and Compensation Committee consists of two members of the Board of Directors: Dr. Jvo Grundler (Chairman) and Hanno Elbraechter (Member).

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

The HR and Compensation Committee (i) proposes the terms of employment and mandate contract and the annual fix and variable compensation for the Chairman of the Board, (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, 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. The HR

and Compensation Committee is responsible for reviewing and, if necessary, revising the compensation system. Board of Director approval is required for all HR and Compensation Committee proposals.

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 HR and 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 HR and Compensation Committee meets as often as business requires, a minimum of four times a year. In the year under review, the members of the HR and Compensation Committee met on November 5th, 2019 for one hour, on December 5th, 2019 for one hour, on May 12th, 2020, June 17th, 2020 and on September 1st, 2020 for one to two hours. 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 696 (previous year: TCHF 897). In the year under review, the Board's variable compensation amounted to 0% (previous year: 13%) of the fixed compensation. The details of the compensation in the reporting period and previous year respectively are disclosed in the tables below.

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in TCHF	Remuneration fix cash	Remuneration variable cash	Pension costs	Total
Compensation for Board of Directors 2019 /20				
Werner Dubach, Chairman	500	0	-	500
Dr. Jvo Grundler, Deputy Chairman	56	0	-	56
Anne Keller Dubach, Member	35	0	-	35
Prof. em. Dr. Hans Peter Wehrli, Member	35	0	-	35
Thomas Studhalter, Member	35	0	-	35
Hanno Elbraechter, Member	35	0	-	35
Total	696	0	-	696

in TCHF	Remuneration fix cash	Remuneration variable cash	Pension costs	Total
Compensation for Board of Directors 2018 /19				
Werner Dubach, Chairman	545	34	-	579
Dr. Jvo Grundler, Deputy Chairman	70	20	-	90
Anne Keller Dubach, Member	44	13	-	57
Prof. em. Dr. Hans Peter Wehrli, Member	44	13	-	57
Dr. Fritz Gantert, Member (until 5.12.2018)	7	0	-	7
Thomas Studhalter, Member	44	13	-	57
Hanno Elbraechter, Member (from 5.12.2018)	37	13	-	50
Total	791	106	-	897

4.2 Executive Committee

In the reporting period, the variable compensation of the

Executive Committee members was 0% of the fixed base salary (previous year between 38% and 176%).

in TCHF	Remuneration fix cash based	Remuneration variable cash based share based		Pension costs	Total
Compensation for fiscal 2019/20					
To seven members of the Executive Committee	1 275	-	-	105	1 380
Thereof highest compensation: Albert Busch	324	-	-	21	345

in TCHF	Remuneration fix cash based	Remuneration variable cash based share based		Pension costs	Total
Compensation for fiscal 2018/19					
To seven members of the Executive Committee	1 688	797	633	135	3 253
Thereof highest compensation: Albert Busch	358	315	315	26	1 014

5. Proposals to the Annual General Meeting 2020

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 2020 on December 9th, 2020.

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 2020 to the Annual General Meeting 2021: 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 2020 to the Annual General Meeting 2021 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 2020/21: 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 2020/21 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 2020 to the Annual General Meeting 2021: 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 2020 to the Annual General Meeting 2021 of TCHF 1 500 (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 2020/21: 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 2020/21 of TCHF 1 800 (exclusive statutory employer contributions such as AHV/IV/ALV), approve.

According to article 22 of the bylaws of Datacolor, members of the Executive Committee who are appointed after approval of the annual total compensation an additional amount within 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 sufficient.

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 2019/20 fiscal year (previous year: TCHF 0).

7. Loans and credits

No loans or credits have been granted or are outstanding to the Executive Committee as of September 30th, 2020 (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 142 797 (previous year: 141 357).

The Board of Directors determines, within the limitation of the amounts approved by the shareholders meeting and with the involvement of the HR 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 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.

	2020 Number of shares	2019 Number of shares
Board of Directors and Executive Committee		
Werner Dubach, Chairman	107 611	106 711
Dr. Jvo Grundler, Deputy Chairman	262	162
Anne Keller Dubach, Member	33 101	32 861
Prof. em. Dr. Hans Peter Wehrli, Member	1 573	1 473
Hanno Elbraechter, Member	100	-
Thomas Studhalter, Member	150	150
Executive Committee	-	-
Total	142 797	141 357



Report of the Statutory Auditor

To the General Meeting of Datacolor AG, Lucern

We have audited the accompanying remuneration report of Datacolor AG for the year ended September 30, 2020. 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, 2020 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 10, 2020

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