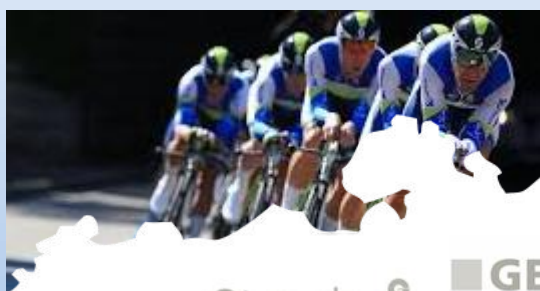


SWISS SAY ON PAY

**“A TRANSITION YEAR FOR COMPANIES WITH INVESTORS
TAKING AN EASY RIDE ON PAY”**



This report is a follow up on last year's say on pay report for the Swiss Market Index (SMI). It aims to provide substantial insights, for compensation practices across the twenty largest firms in Switzerland, on an eight-year time span (2008-2015). It shows the yield for investors in relation to the CEO's pay of the SMI companies. The report contains an independent screen on companies pay for performance alignment, based on returns realized to shareholders, using TSR as the measurement, in relation to the compensation value actually received by the CEO which is realized pay¹. We believe that this results in better insight on the relationship between pay and shareholder value delivered instead of assessing against granted compensation². Furthermore, the report provides a ranking of the 2015 highest paid CEOs, the leading key performance indicators and the change in the CEO compensation structure.

INTRODUCTION

The 2016 AGM season is the second year investors exercise their say on pay voting right on the aggregate compensation for the company's executives and board of directors. In addition, investors were proposed committing one year ahead to LTI awards underpinning pay-for-performance alignment. Comprehensive KPI's for companies such as Actelion, ABB Ltd, Credit Suisse and LafargeHolcim were introduced. The Swiss legislation for say on pay introduced in 2014 empowers investors to take charge of executive pay. Companies such as UBS and Credit Suisse executives' pay proposals were scrutinized, during the 2016 AGM's. Nevertheless, all the proposals introduced by the

board of directors were approved with majority of votes.

"SWISS SHAREHOLDER SAY ON PAY MADE MINOR CHANGE IN CEO PAY"

KEY FINDINGS

- For the financial year 2015 the SMI had a negative total shareholder return of -1.8%. Against 2014 it showed a 11.3% decrease. Comparing it against 2008, the SMI index price rose by 37% (2008 – 2015).
- The 2015 average realized CEO Pay decreased with 11 % against 2014. Comparing it against 2008, the average realized CEO Pay shows a growth of 21% (2008-2015).
- A significant portion of the SMI continuous to show a misalignment between pay and performance. Measuring the alignment on a one-year and three-year basis this equates to 30% and 35%, accordingly.
- Once again, the **best paid CEO** for 2015 was Richard Lepeu from Com. Financiere Richemont. On the second place in the list of best paid CEOs, is Steven Newman from Transocean Ltd who received significant increase.
- Companies are still rebalancing compensation more in to variable incentives, though with a further decrease in long term incentives (LTI). Pay ratio short- vs. long-term incentive awards shifted from 1,07 to 1,98 (2008 – 2015). LTI decreased from 48% to 35% of total variable pay from 2008 to 2015.
- Over the years, the fixed components accounted for around half of the realized pay packages.
- The top 2 leading 2015 key performance indicators applied across the SMI, for short and long term incentives, are relative TSR and Operating Profit. Last year this was relative TSR and Economic Profit.

¹ *Realized pay*: the sum of total paid and received compensation including the value of shares/options vesting in the year of financial statement.

² *Granted compensation*: the total value of compensation awarded in the year of financial statement including the estimated the long term value of shares/options granted in the year of financial statement.

OVERVIEW

The year 2015 was considered as a transition year for some major SMI companies in a volatile market. Slowdown of emerging markets' economies, lower demand for luxury goods and appreciation of the Swiss Franc, was reflected into lower earnings for Swiss exporting companies. Despite the volatile market, the SMI grew by more than 37% on a 5-years basis. The the 3-years holdings value increased to 29%. The 1-year yield from 2014 to 2015 amounted a negative return of -1.8%.

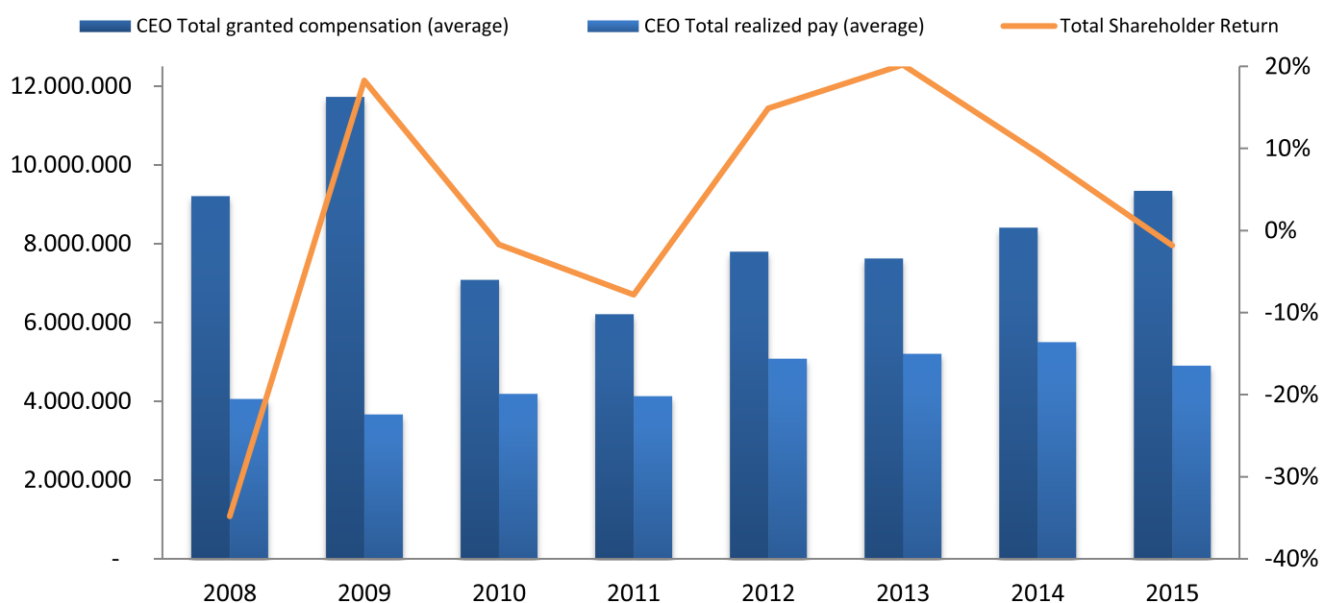
Major Swiss companies, such as Credit Suisse took substantial steps in restructuring their business strategy. Holcim decided to align forces with one of its competitors (Lafarge), through a merger successfully completed in July, 2015.

Best performers in absolute terms were Syngenta and Swiss Re Ltd, bringing 27% annual returns for their shareholders in 2015. In relative terms, the top performers of the index are Swisscom AG, Syngenta, Actelion Ltd and UBS Group.

"CEO GRANTED COMPENSATION CONTINUES TO RISE, WHILE TSR DECLINE ENDURES"






The graph below provides evidence for the development of the TSR of the index on a year-to-year basis and the absolute average granted and realized pay.

The average SMI CEO pay grew with 17.1% over a 5 year period (2010 – 2015) though declined with -3.5% over a 3 year period (2012-2015). The SMI 2015 TSR declined further with 11.3% in comparison to 2014. The average TSR was -1.8%. Regardless of the tough market environment, CEO's total granted compensation increased further, while realized pay slowed down. Last year Novartis paid out a special one off Novartis 2012-2014 OLTPP scheme which included a significant value appreciation due to its share price increase. When you don't include this for 2014, the average CEO realized pay level YoY would be more or less the same.



Source: DirectorInsight

Best and worst paid CEO

	Individual		Company	2015 Total Realized Remuneration in Millions (CHF)	2015 Total Shareholder Return
TOP 3 BEST PAID CEO	Richard Lepeu		Com. Financiere Richemont	18,9	-17%
	Steven Newman		Transocean	11,6	-28%
	Severin Schwan		Roche Holding	8,3	6%
MIDDLE RANGE	Nick Hayek		The Swatch Group	5,9	-20%
WORST PAID CEO	Christian Buhl		Geberit AG	1.3	2.87%

Source: DirectorInsight

The top three paying companies, ranked from highest to lowest, were Com. Financiere Richemont, Transocean Ltd and Roche Holding.

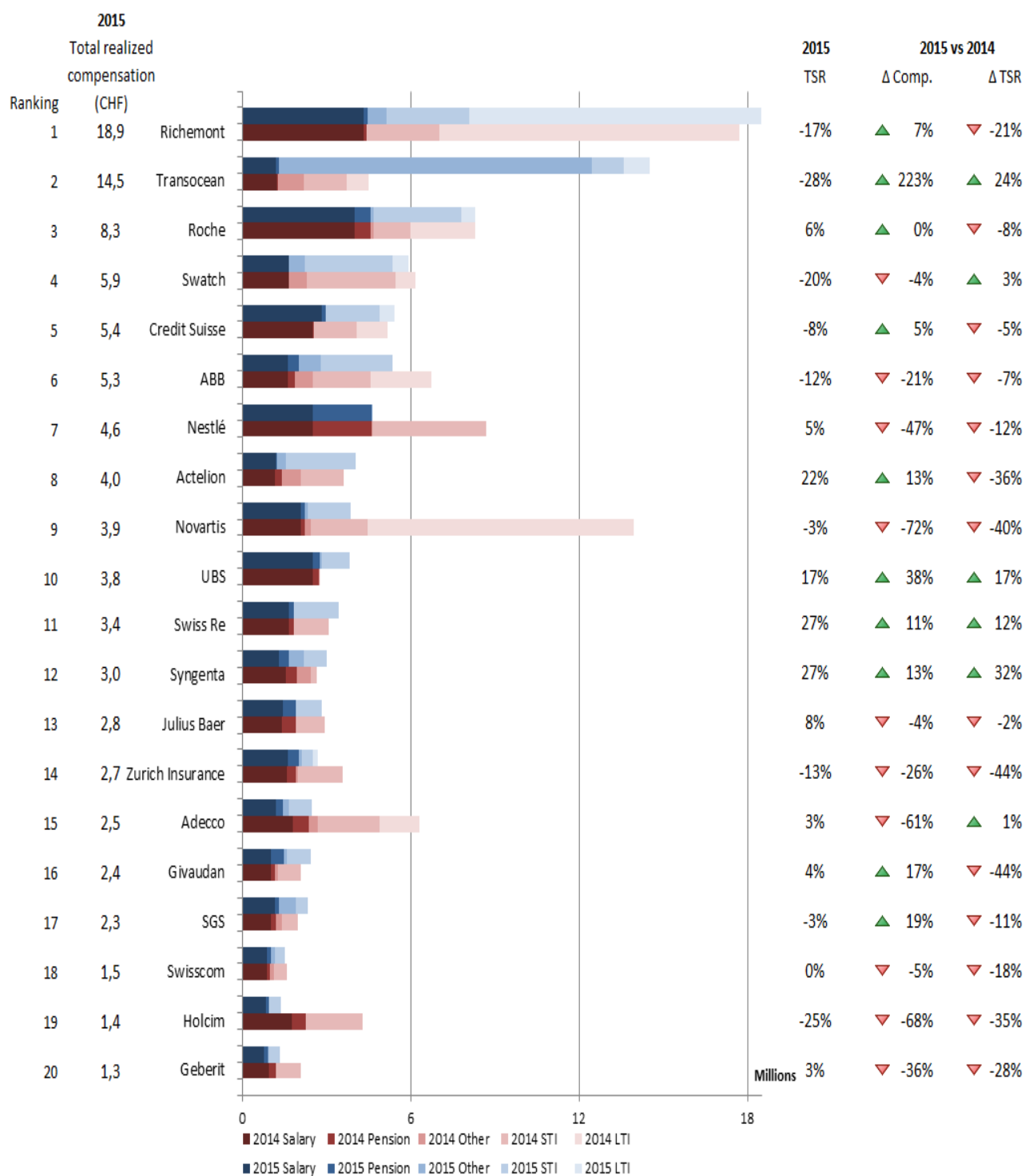
In 2015 Mr. Richard Lepeu, CEO of Com. Financiere Richemont received a grand total of 18.9 million CHF. Transocean Ltd and Roche Holding paid their CEO's an annual compensation of 11.6 and 8.3 million CHF, respectively. The top growers of the group over 2 years (2013-2015) were, Mr. Richard Lepeu and Steven Newman, whose pay increased with 57% and 98%, accordingly. The main indicator behind the increase of Mr. Newman salary was a steep jump in other benefits, which was from 0.8 to 10.1 million CHF. This included a 1.9 million CHF severance payment and 7.9 million CHF retirement benefits. Transocean LTD represents in the SMI the smallest market capitalization. This is most often used as a measure for firm size and one of the proxies for setting CEO pay. Mr. Lepeu continues to have the lead as the highest paid CEO for three consecutive years. This is attributed to a 15% increase in annual bonus and increase in vested options with a value of 10.8 million CHF for 2015. For the year 2015, Roche Holding CEO' pay had a significant increase. This

was due to a 133% increase in the LTI component of the CEO's pay.

The 2015, lowest paid CEO was Doctor Christian Buhl of Geberit AG. Surprisingly the Geberit shares trade at 10-times of the companies in the same industry, however his total salary was more than 13 times lower than the highest paid Swiss executive. The lower pay reflects mainly lower outstanding awards and lower base salary compared to peers.

The chart on the next page shows a ranking of 2015 pay of CEO's within the SMI, the value created for shareholders based on the performance of the company TSR and the growth of both components versus the previous year. It enables you to quickly assess the correlation between the company CEO pay and performance.

Overall, it appears that companies made modest progress to adjust the CEO remuneration according to their stock performance on a year-to year basis.



*Note: Transocean and Credit Suisse shows aggregated figures for the compensation of 2 CEO's due to a change in position.

PAY FOR PERFORMANCE

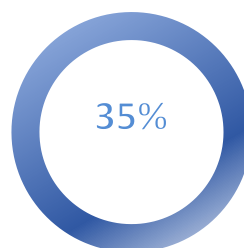
When you compare each of the SMI companies versus all the twenty companies in the index, we find that over a 1 year period 30% of the companies show a pay for performance misalignment and 35% over a 3 year measurement period.

The charts below demonstrate a relative comparison by plotting the company's percentile ranking of their realized pay against their respective TSR percentile ranking

The companies plotted in the shaded gray area represent a pay for performance alignment. On a one-year basis LafargeHolcim, Nestle, Roche Holding and Zurich Insurance show good corporate governance practices.

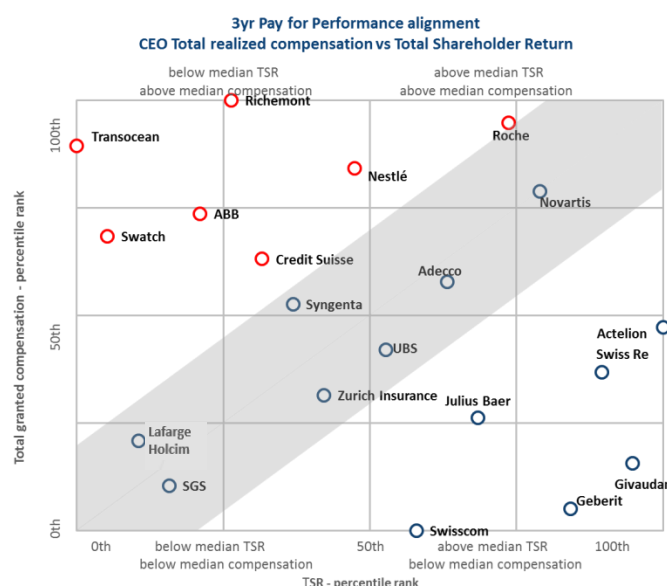
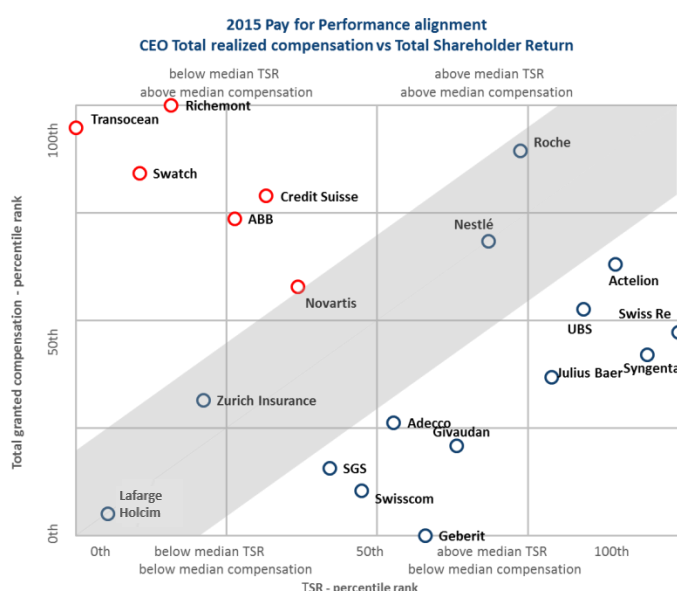
The companies above the grey area show a misalignment. They appear to be overpaying their CEOs relative to their shareholder return. Relative to the SMI, Roche Holding and Nestle show a good alignment on a one-year basis but a misalignment on a longer period.

Majority of the companies showing a misalignment on a one-year basis continue to show poor alignment on a three-year basis. In addition, one should mention the extreme case of Transocean and Financiere Richemont being the worst performing companies on an one and three year basis and paying the CEO above the median in the whole index.



**“A DISCONNECT IN
CEO PAY VERSUS
SHAREHOLDER
RETURN”**

On the right down corner of the graph, the companies which apply a more conservative pay practice could be found. For instance, Swiss Re and Actelion delivered high returns for their shareholders but stayed in the lower range of CEO pay, both short and long term.



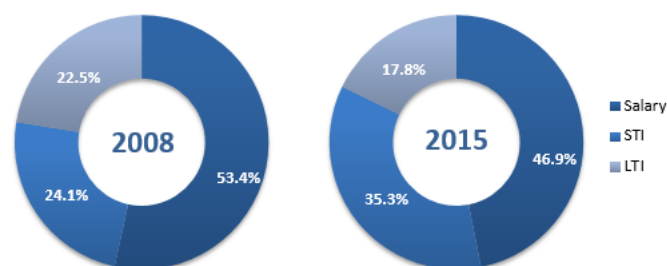
Source: DirectorInsight

FIXED VERSUS VARIABLE, SHORT-TERM VERSUS LONG-TERM

In order to compare the structures of the pay packages one should notice that the average CEO realized pay increased from 4.05 million CHF in 2008 to 4.9 million CHF in 2015. Over this period the CEO pay structure has been slightly rebalanced. The proportion of the fixed pay of the whole compensation decreased throughout the years while variable pay increased from 46% to 53.1% of total compensation. The pay ratio between short- and long-term variable pay changed from 2008 to 2015, with a shift in more short term. The long-term component of the variable pay accounted for 22.5% of the CEO's pay in 2008, its proportion decreased by 5 percentage points to 17.8% in 2015. The declining trend suggests that the companies substituted packages with multi-year performance evaluation to packages with annual bonuses. A few companies in the SMI have introduced annual bonus plans with a deferral mechanism and vesting period. The dispersion between short and long-term awards represents a tendency to award higher bonuses and other benefits despite the negative TSR results. Nevertheless, it is worth mentioning two main events for SMI constituents, which might influence this re-shift. The second biggest constituent of SMI by volume, Credit Suisse, did not issue any long-term incentives in 2015. Credit Suisse has been going under serious restructuring, since Mr. Tidjane Thiam was assigned CEO. Part of the restructuring, was also introduction of a new up to date Compensation Policy, aligned to performance of the bank. Furthermore, in July, 2015, Lafarge and Holcim finalized their merger. The new created company LafargeHolcim, will have a new compensation policy as of 2016 fiscal year. A limited amount of shares was granted for 2015. In addition, fewer amount from previous company's award were

recognized as convertible under the new company's policy. Taken together, it could be perceived that only circa 53% of the CEO variable pay is at risk over a longer period and evidently emphasizes that short-termism is still being reflected in the CEO's variable pay.

"CIRCA 50 PERCENT BALANCE SHIFT FROM LTI TO STI IN 2015"

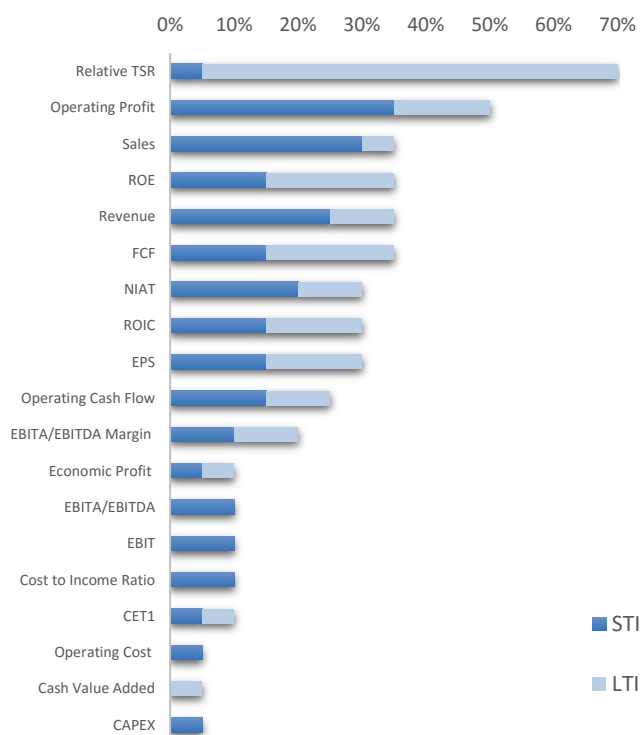


Source: DirectorInsight

LEADING PERFORMANCE INDICATORS

A substantial portion of CEO pay is tied to company financial and operational performance results. For 2015, the SMI companies mainly relied on the relative TSR as a performance measure for their variable components. Fourteen firms of the index used the TSR compared to peers for their LTI plans. Worth mentioning are the operating cash flow and EPS key performance indicators, which are favored metrics for both STI and LTI plans. Additionally, between 30% and 20% decided to implement plans depended on the accounting figures Sales, EBIT (DA) and EBIT margin. The Cash Value Added, Operating Cost, CAPEX could be seen as rather exotic measures in the SMI index, being used by only 5% of all 20 firms.

“TSR STILL SHOWS AS THE MAIN PERFORMANCE INDICATOR FOR LONG TERM INCENTIVE PLANS”



Source: DirectorInsight

CONCLUSION

To wrap it up, last proxy season voting outcomes shows there is still potential in front the Swiss companies to improve their corporate governance practices and for shareholders to obtain a better understanding.

A few companies have adopted new performance metrics and annual bonus plans mechanisms, asking shareholders one year ahead to approve annual bonus awards which are contingent to the upcoming performance year. The remuneration plans in the SMI are still not dynamic enough to ensure that CEO Pay is fully aligned with long term shareholder value creation. It is fair to say that companies have restructured their CEO pay with proportionally more pay at risk. Though not sufficiently, as significant portion of their variable pay is still tied to short term actions.

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Company description



DirectorInsight

Connecting data for pay, performance and governance decisions

DirectorInsight is a one-stop, interactive online global corporate governance data and analytics solution, offering a new way for

corporations, their boards and investors, to obtain powerful insights for company engagement and decisionmaking. DirectorInsight provides access to comprehensive, fundamental company financial performance and executive compensation data from 2008 and onwards, providing highest quality statistics and standardized data for assessing executive compensation levels, pay-for performance alignment, board effectiveness, director expertise, interlocks and corporate governance practices

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