



## 2010 SHAREHOLDER RESOLUTIONS

### “Say on Pay” Resolutions

In the autumn of 2008, Ethos and eight Swiss pension funds filed a “Say on Pay” resolution requesting an advisory vote on the remuneration reports of five of the largest listed companies in Switzerland. The initiative bore fruit, because four of the companies (ABB, Credit Suisse Group, Nestlé and UBS) agreed to submit their respective remuneration reports/system to an advisory vote at their 2009 annual general meetings, enabling Ethos to withdraw the resolution. Only Novartis refused to discuss the matter and recommended to oppose the resolution. The resolution received nevertheless support from 31% of votes cast.

Following this success, Ethos and the eight pension funds have decided to repeat last year’s initiative. The same “Say on Pay” resolution has been filed with three companies, Holcim, Swiss Re and Zurich Financial Services, and filed a second time with Novartis, with a view to the 2010 shareholder meetings.

### “Stop Chairman-CEO” Resolution

Separation of the roles of Chairman of the Board and Chief Executive Officer (CEO) is a basic principle of good governance. In recent years, the practice of having one person hold both positions has fallen sharply in most countries.

In Switzerland, several big companies like Nestlé and Roche recently separated the two functions. Of the twenty companies listed on the Swiss Market Index, only Novartis still combines them, without any substantial justification for maintaining this practice for over ten years. At the 2010 general meeting of Novartis, Ethos and eight Swiss pension funds will submit a “Stop Chairman-CEO” resolution aimed at preventing the continuation of this situation.

### Say on Pay

#### Holcim

Annual General Meeting  
6 May 2010

#### Novartis

Annual General Meeting  
26 February 2010

#### Swiss Re

Annual General Meeting  
7 April 2010

#### Zurich Financial Services

Annual General Meeting  
30 March 2010

### Stop Chairman-CEO

#### Novartis

Annual General Meeting  
26 February 2010

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## “SAY ON PAY” RESOLUTIONS

In the autumn of 2008, Ethos and eight Swiss pension funds filed a “Say on Pay” resolution requesting an advisory vote of the remuneration reports of five of Switzerland’s largest listed companies. The initiative was successful, and the same shareholders will therefore repeat it at a number of 2010 annual general meetings. The “Say on Pay” resolution has been filed with three companies, Holcim, Swiss Re and Zurich Financial Services, and for a second time with Novartis.

### SWISS COMPANIES: SHAREHOLDER COMPETENCE FOR REMUNERATION

In almost all OECD countries, shareholders of listed companies have rights when it comes to executive pay. Depending on the country, they can cast a binding or advisory vote on the remuneration system or report, on the overall pay envelope of the board of directors or executive management, or on share based plans (stock or option plans, see table on page 3).

Switzerland is an exception, with shareholders having no rights when it comes to pay. However, the Swiss Code of Best Practice for Corporate Governance recommends that the board of directors involve “the Shareholders’ Meeting in the debate on the compensation system in an appropriate form”. To that end, the Code sets out two options, one of which provides for an advisory vote on the remuneration report. However, in 2008, none of the companies listed on the Swiss Market Index (SMI®) had implemented that option.

#### Success for the first “Say on Pay” campaign

In view of that situation, Ethos and eight pension funds filed a “Say on Pay” resolution in the autumn of 2008 with the five largest Swiss listed companies. The campaign was a success because four of the companies (ABB, Credit Suisse Group, Nestlé and UBS) agreed to submit their respective remuneration reports to an advisory vote at their 2009 general meeting, enabling Ethos to withdraw the resolution. Only Novartis refused to discuss the matter and recommended to oppose the resolution. Nevertheless, 31 per cent of those voting supported the resolution.

Ultimately, six of the twenty largest listed companies in Switzerland voluntarily agreed to submit their remuneration system or report to an advisory vote of the shareholders (see table on page 3, top).

#### Amending the law

The Swiss parliament is currently examining amendments to the Code of Obligations with a view to giving more rights to shareholders, in particular with regard to remuneration. At the same time, parliament also has to take a stand on the citizens’ initiative, “Stop abusive pay”, which the Swiss people will be called to vote on.

However, any amendments to the law will only take effect in 2012 in the best of cases. Given the importance of remuneration policy for long-term shareholders, it would be best not to wait several more years for the law perhaps to be amended.

### THE “SAY ON PAY” CAMPAIGN CONTINUES

Given the uncertainty surrounding the draft amendments to the Code of Obligations and the refusal of some companies to grant shareholders any rights in respect of remuneration, Ethos and the eight pension funds have decided to pursue last year’s initiative. This time, the same “Say on Pay” resolution requesting an advisory vote on the remuneration report has been filed with four companies.

**Novartis:** in spite of several contacts since the general meeting of shareholders of 24 February 2009, the Board of Directors does not wish to consider an advisory vote on the remuneration report. The same resolution as last year will therefore be submitted to the next annual general meeting of Novartis (26 February 2010).

**Holcim, Swiss Re and Zurich Financial Services:** of the companies listed on the SMI®, these are the three largest that have not yet granted any rights to shareholders in respect of remuneration, despite several requests from Ethos. The “Say on Pay” resolution will therefore be submitted to the general shareholder meetings of Holcim (6 May 2010), Swiss Re (7 April 2010) and Zurich Financial Services (30 March 2010).

## SITUATION OF COMPANIES IN THE SWISS MARKET INDEX

	Market cap CHF bil- lion*	Vote 2009	Resolution 2009	Resolution 2010		Capitalisa- tion CHF billion*	Vote 2009	Resolution 2009	Resolution 2010
1 Nestlé	160	Yes	Withdrawn	-	11 Richemont	15	-	-	-
2 Novartis	130	-	Yes**	Yes	12 Julius Bär	11	-	-	-
3 Roche	118	Yes	-	-	13 Swisscom	9	-	-	-
4 Credit Suisse	64	Yes	Withdrawn	-	14 Synthes	7	-	-	-
5 UBS	63	Yes	Withdrawn	-	15 Swatch	7	-	-	-
6 ABB	47	Yes	Withdrawn	-	16 Actelion	7	-	-	-
7 Zurich FS	33	-	-	Yes	17 Adecco	6	-	-	-
8 Syngenta	24	-	-	-	18 Bâloise	5	-	-	-
9 Holcim	19	-	-	Yes	19 Nobel Biocare	4	-	-	-
10 SwissRe	16	-	-	Yes	20 Swisslife	3	Yes	-	-

\* Situation on 31 August 2009

\*\* The "Say on Pay" resolution was supported by 31% of the votes

## SITUATION IN MAJOR OECD-COUNTRIES

	Advisory vote on the remuneration report	Binding vote on the remuneration policy before entry into force	Vote of the remuneration of the Board of Directors	Vote of the remuneration of executive management	Vote of share based incentive plans
<b>Europe</b>					
Austria	-	-	Yes (1)	-	Yes
Denmark	-	Yes (2)	-	-	Yes
France	-	-	Yes (3)	-	Yes
Germany	-	-	Yes (1)	-	-
Netherlands	-	Yes (4)	Yes	-	Yes
Norway	-	-	Yes	Yes (5)	Yes
Sweden	-	Yes	Yes	-	Yes (6)
Switzerland	-	-	-	-	-
UK	Yes	-	-	-	Yes
<b>North America</b>					
Canada	-	-	-	-	Yes
USA	- (7)	-	-	-	Yes
<b>Asia / Pacific</b>					
Australia	Yes	-	-	-	-
Japan	-	-	Yes (8)	-	-

(1) Only when there is a change in the remuneration of the Supervisory Board. (2) Only the variable part of executive remuneration. (3) Only for non executive Board members. (4) Only when the remuneration policy is subject to substantial changes. (5) Except if the company's articles of association provide otherwise. (6) Approval of 90% of votes required. (7) A Bill seeks to introduce say on pay. (8) For companies with a "Kansayaku-Structure" (without key committees but with "corporate auditor").

## TEXT OF THE RESOLUTION

### Proposed amendment to the articles of incorporation:

"The Board of Directors shall establish a remuneration report each year for the annual general meeting. The report shall present the remuneration system and payments made during the previous financial year to members of the Board and members of executive management."

"Each year, the general meeting of shareholders shall cast an advisory vote on the remuneration report."

## “STOP CHAIRMAN-CEO” RESOLUTION

Separation of the roles of Chairman of the Board and Chief Executive Officer (CEO) is one of the basic principles of good governance. Of the twenty companies listed on the Swiss Market Index, only Novartis still combines the two positions. At the 2010 annual general meeting of Novartis, Ethos and eight Swiss pension funds will submit a “Stop Chairman-CEO” resolution aimed at preventing this situation from continuing in the future.

### WHY SHOULDN'T THE SAME PERSON BE BOTH CHAIRMAN AND CEO?

Chairing a Board of Directors and running a company's operations are two very important but completely distinct tasks. Separation of the roles of Chairman of the Board and Chief Executive Officer (CEO) is one means of achieving a balance of power within a company. It enhances the Board's capacity to make decisions independently and to oversee senior management.

A Chairman of the Board who is also the CEO cannot oversee senior management independently, as required by the Swiss Code of

Obligations. This is why it is preferable that the two functions be separate.

If, however, the Board nevertheless decides to give the two jobs to one person, it must clearly justify that decision. What is more, it must take steps to counterbalance the concentration of power in one person's hands, in order to guarantee the Board's independence from senior management. In particular:

- the Chairman/CEO must not sit on the Board's key committees;
- the Board must appoint a senior independent board member or lead director, whose role will be to convene the Board at regular intervals without the Chairman/CEO being present.

### ONE CHAIRMAN-CEO IN SWITZERLAND'S MAIN LISTED COMPANIES

Among Switzerland's 100 largest listed companies, the number combining the roles of Chairman and CEO has dropped sharply in the past few years. Major corporations like

Bâloise, Clariant, Helvetia, Nestlé, Petroplus, Roche, Swatch Group and Synthes have separated the functions.

At present, there are still seven companies where the same person is Chairman and CEO, Novartis being the only company listed on the Swiss Market Index in that situation.

Company	Index	Name	Chairman-CEO since	Shareholder Resolution	Comment
Novartis	SMI®	Vasella Daniel	1999	Yes	Re-election of the Chairman in 2010
Galenica	SMIM®	Jornod Etienne	1996	-	Separation of roles in 2011
Lindt & Sprüngli	SMIM®	Tanner Ernst	1994	-	
Schindler	SMIM®	Schindler Alfred	1995	-	
Implenia	-	Anton Affentranger	2009	-	
Kudelski	-	Kudelski André	1991	-	
Orascom	-	Sawiris Samih	1997	-	
Von Roll	-	Limberger Thomas	2007	-	

## CHAIRMAN-CEO AT NOVARTIS

Novartis is the last company listed on the Swiss Market Index to combine the roles of Chairman and CEO. This practice was introduced in 1999, after the departure of Alex Krauer, the first chairman of the new company created by the merger of Ciba and Sandoz in 1996. At the time, CEO Daniel Vasella also became Chairman of the Board. The new company justified its decision on the grounds that combining the roles would help facilitate the ongoing merger process.

Since then, Daniel Vasella (who has been a member of the Board since 1996) was re-elected in 2000 for a four-year term of office, and again in 2004 and 2007 for three-year terms. In February 2010, his term of office will expire. The Board plans to present him for re-election, knowing that he will continue to serve as Chairman and CEO.

Consistent with best practice, the Board of Directors has appointed a lead director, in the person of Ulrich

Lehner, Vice-Chairman. Mr. Lehner is in charge of regularly convening and chairing Board meetings at which the Chairman-CEO is not present. In its 2008 annual report, Novartis had this to say about the situation:

“The Board is currently of the firm opinion that it is in the best interest of Novartis and its shareholders that Daniel Vasella serves as Chairman and Chief Executive Officer of the Group.”

This statement cannot be considered an explanation and does not justify the combination of the roles. It is neither convincing nor satisfactory.

Ethos is of the view that the two roles should be separated to enable the Board of Directors to make decisions independently and to oversee the company’s senior management. Separating the roles would also make it much easier to plan Daniel Vasella’s succession, as the company would not have to find both a Chairman and a CEO should

he leave. On this point, it is important to note that while Ethos is opposed to the two roles being held by the same person, it is not against Daniel Vasella remaining Chairman of the Board if another person becomes the CEO.

Although Ethos and the Board of Directors have been in contact several times over the past year, the matter remains unresolved. This is why Ethos and eight Swiss pension funds have submitted a resolution to the general meeting of shareholders on 26 February 2010 asking that the roles of Chairman and CEO be separated. Ethos is nevertheless aware that a new CEO cannot necessarily be found and appointed immediately. The resolution therefore proposes that the Board be given one year to separate the roles, i.e. until the 2011 annual general meeting of shareholders.

## TEXT OF THE RESOLUTION

### Proposed amendments to article 26 of the Articles of Incorporation (amendments in *italic*):

<sup>1</sup> The Board of Directors may, subject to article 25 hereof, delegate the management of the Company in whole or in part to individual or several directors, *but not its Chairman*, or to third persons (senior management) by virtue of promulgating regulations governing the internal organisation.

<sup>2</sup> *The prohibition of delegation of the Company’s management to the Chairman of the Board of Directors will come into force after the 2011 Annual General Meeting.*

## LIST OF CO-FILERS

### Main Shareholder

- Ethos – Swiss Foundation for Sustainable Development, Geneva

### Co-Filers

- Aargauische Pensionskasse, Aarau
- Caisse d'assurance du personnel de la Ville de Genève et des Services industriels de Genève (CAP), Genève
- Caisse de pensions de la République et Canton du Jura, Porrentruy
- Caisse de prévoyance du personnel des établissements publics médicaux du canton de Genève (CEH), Genève
- Caisse de prévoyance du personnel enseignant de l'instruction publique et des fonctionnaires de l'administration du canton de Genève (CIA), Genève
- Luzerner Pensionskasse, Luzern
- Pensionskasse Post, Bern
- Pensionskasse Stadt Zürich, Zürich
- Pictet Funds SA (Ethos)
- Pictet Funds SA (Pictet CH Swiss Sustainable Equities)

## JOIN THE GROUP ENDORSING THE 2010 "SAY ON PAY" AND "STOP CHAIRMAN-CEO" RESOLUTIONS

In order to obtain as much support as possible, Ethos has set up a support group for the "Say on Pay" and "Stop Chairman-CEO" resolutions that is open to institutional shareholders.

The list of the group's members will be made public on the Ethos website ([www.ethosfund.ch](http://www.ethosfund.ch)).

Interested institutions can join the group by completing the form below.

### FORM FOR JOINING THE SUPPORT GROUP

The signatory institution declares that it wishes to join the group endorsing the "Say on Pay" and "Stop Chairman-CEO" resolutions. As such, it publicly pledges to vote in favour of the resolutions submitted by Ethos and eight pension funds to the annual general meetings of Holcim, Novartis, Swiss Re and Zurich Financial Services in the spring of 2010.

The "Say on Pay" resolutions filed with Holcim, Novartis, Swiss Re and Zurich Financial Services request that the articles of incorporation be amended to allow the shareholders to cast an advisory vote on the remuneration report. The "Stop Chairman-CEO" resolution filed with Novartis requests that the articles of incorporation be amended to prevent the roles of Chairman and CEO from being held by the same person.

By becoming a member of the group endorsing the "Say on Pay" and "Stop Chairman-CEO" resolutions, the signatory institution agrees to have its name included on the list of members of the group and authorizes Ethos to make the list public. The signatory institution does not have to block the shares of the companies concerned and may sell them at any time it desires.

Name of organisation .....

Total assets  
under management .....

Person of contact .....

Address .....

Phone / Fax .....

E-Mail .....

Date ..... Signature/s .....

Send this form by mail or fax to:  
Ethos, PO Box, CH-1211 Geneva 1  
Fax +41 22 716 15 56  
You will also find this form on [www.ethosfund.ch](http://www.ethosfund.ch).

The **Ethos Foundation** is currently composed of more than 80 Swiss pension funds. Its purpose is to promote the consideration of sustainable development principles and corporate governance best practice in investments activities.

The Foundation owns the company **Ethos Services** which conducts all investment and consulting activities. Ethos Services is specialised in the field of socially responsible investment (SRI). It offers a range of investment funds and asset management mandates managed according to sustainable development criteria. Ethos Services also offers analysis of general meeting agendas, assistance with the exercise of shareholder voting rights, and an engagement program with companies.

In July 2009, the Ethos Foundation received the **2009 Award of the International Corporate Governance Network (ICGN)**. The award is considered the highest distinction in the field of corporate governance and is given annually for exceptional achievement in that connection. For the Awards Committee, Ethos has helped bring about significant improvements in corporate governance and has had a major positive impact in its region.

For further information, see [www.ethosfund.ch](http://www.ethosfund.ch)



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