

# Compensation report

## Introduction and principles

The compensation report of Allreal Holding AG contains information on the remuneration paid to members of the Board of Directors and Group Management. The compensation report is in accordance with the following regulations and guidelines:

- Swiss Code of Obligations (CO)
- Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO)
- Corporate Governance Directive (DCG) issued by SIX Swiss Exchange
- Swiss Code of Best Practice for Corporate Governance issued by *economiesuisse*
- Articles of association of Allreal Holding AG

The articles of association (in German only) of Allreal Holding AG can be accessed on the Allreal website: [www.allreal.ch/nc/investoren/corporate-governance/statutenprotokolle](http://www.allreal.ch/nc/investoren/corporate-governance/statutenprotokolle)

The compensation system in place for members of the Board of Directors and Group Management is simple and transparent. The system is designed to achieve sustainable business success with a top-tier corporate leadership which takes the long-term view, supported by a competitive, performance-based compensation policy.

## 1 Responsibilities and procedures for determining compensation

### 1.1 Responsibilities of the annual general meeting

In accordance with the articles of association, the Board of Directors will, on a yearly basis, submit a binding proposal to the annual general meeting for the total remuneration to be paid to the members of the Board of Directors and the total fixed remuneration (basic salary and employer's contributions to the management pension plan) to be paid to Group Management for the current financial year.

Furthermore, the total variable remuneration to be paid to Group Management and, where applicable, the Board of Directors for the past financial year is subject to the binding approval of the annual general meeting.

Accordingly, the annual general meeting of 12 April 2019 will vote on the total remuneration to be paid to the Board of Directors and the total fixed remuneration to be paid to Group Management for the 2019 financial year and the total variable remuneration to be paid to Group Management for the 2018 financial year.

If the annual general meeting refuses to approve individual components of remuneration, the Board of Directors may submit a new proposal or convene a new general meeting.

### 1.2 Responsibilities of the Board of Directors

Each year, the Board of Directors presents a compensation report to the annual general meeting stating the remuneration paid to the Board of Directors and Group Management for the past year.

### **1.3 Responsibilities of the Nomination and Compensation Committee**

The Nomination and Compensation Committee is responsible for designing, implementing and monitoring the compensation system for the members of the Board of Directors and Group Management on the basis of sector comparisons prepared in-house. It also reviews salary policy for all employees. This was done without calling on the services of any external consultants. Once a year, the Nomination and Compensation Committee will prepare all the background information required by the Board of Directors as a basis for its decisions and will also draft the proposals to be submitted to the annual general meeting.

The proposals for the remuneration to be paid to the members of the Board of Directors and the Group Management are addressed at a meeting of the Board of Directors at which the members of Group Management are not present and thus have neither the right to attend nor to be heard. Each member of the Board of Directors has the right to be heard regarding the discussion of their own compensation; there are no provisions for recusal in this regard.

The annual general meeting of 20 April 2018 appointed Dr Ralph-Thomas Honegger (Chairman), Andrea Sieber (member) and Peter Spuhler (member) to the Nomination and Compensation Committee.

## **2 Compensation system**

### **2.1 Articles of association provisions**

Art. 30 to 33 of the articles of association of Allreal Holding AG govern the principles of remuneration. They provide that the Board of Directors and Group Management may, in addition to a fixed remuneration, also receive results-based and performance-based compensation as well as equity securities or convertible and warrant bonds. Variable remuneration will be dependent on performance targets.

In the case of members of Group Management appointed after the total fixed remuneration for the current year has been approved by the annual general meeting, an additional amount of a maximum of 20% of the fixed total remuneration paid to the respective predecessor is available. This additional amount may not, however, exceed 50% of the approved total remuneration for Group Management.

The articles of association do not contain any special rules regarding loans, credits and pension benefits granted to members of the Board of Directors and Group Management. The exact wording (in German only) of the articles of association can be accessed on the Allreal website: <http://www.allreal.ch/de/investoren/corporate-governance/statutenprotokolle>

### **2.2 Remuneration paid to the members of the Board of Directors**

The members of the Board of Directors receive fixed remuneration, which is paid out in cash after the annual general meeting has approved the annual financial statements.

The remuneration takes account of the claims made on the individual members and their responsibilities and is not tied to company targets. It is regularly compared against the remuneration paid to the members of the Boards of Directors of listed competitors from the real estate sector and presented annually to the annual general meeting for approval at the latter's discretion. No further remuneration is paid to the Board of Directors.

### **2.3 Remuneration paid to the members of Group Management**

In addition to their fixed basic salary (including fringe benefits and employer's contributions to the management pension plan), members of Group Management also receive variable remuneration (target bonus), which is paid out in cash and is based on the company's annual result (performance bonus) and the attainment of individual targets (function bonus). Over and above this, members of Group Management also receive variable remuneration in the form of share allocations geared to the company's long-term performance.

#### **Fixed basic salary**

The amount of the fixed basic salary in cash is dependent on the individuals' tasks and responsibilities, on their experience and on their proven track record. The basic salary is determined on joining the company or on being appointed to Group Management and is based on salary levels in the Swiss real estate sector. To this end, regular comparisons are made against the remuneration levels at listed competitors and reviewed annually by the Nomination and Compensation Committee.

#### **Target bonus**

The amount of the target bonus, consisting of the performance and function bonuses, is set by the Board of Directors annually.

#### **Performance bonus**

The performance bonus is based on the budgeted net operating profit (net profit excluding revaluation effect). If the budget is achieved and once the annual accounts have been approved by the annual general meeting, the performance bonus will be paid out in the following year and will amount to a maximum of 18% of the basic salary per member of Group Management. If the net operating profit falls short of the budget by 10 or more percent, no performance bonus will be paid out. If the net operating profit is 10 or more percent above budget, 150% of the agreed performance bonus will be paid out. The performance bonus for a net operating profit which is less than 10% above or below budget will be calculated on a linear basis.

With net profit excluding revaluation effect at CHF 115.6 million, the result was 3.5% lower than budgeted (2017: +5.2%).

#### Function bonus

The function bonus is dependent on the performance of the member of Group Management in his area of responsibility and functions and hence on individual target attainment. The function bonus may make up a maximum of 66% of the target bonus and will amount to a maximum of 36% of the basic salary per member of Group Management. If the individual targets are not achieved, no bonus will be paid out.

In the 2018 financial year, the average individual target attainment for Group Management as a whole amounted to approximately 95% (2017: 79%).

#### Remuneration in shares

In addition to the variable target bonus, members of Group Management may be awarded a variable remuneration component in the form of shares. The stock exchange value of the registered allocated shares of Allreal Holding AG shall not exceed 20% of the individual's fixed basic salary for the year in question. The effective amount of the remuneration awarded in shares is set annually at the discretion of the Board of Directors. Bonus recipients will be able to access half of the allocated shares immediately and the remainder in three years' time provided their position is not under notice of termination.

In principle, if the budget is achieved, the share of the variable remuneration component should not exceed 37% of the total remuneration per member of Group Management.

### 2.4 Adjustments made in the period under review

Compared with previous years, the Board of Directors made adjustments to the compensation system in the period under review:

1. Remuneration paid to the members of Group Management contains variable remuneration in the form of share allocations. These allocations previously amounted to 10% of the basic salary and are being gradually increased to up to 20% of the basic salary over the next few years. Bonus recipients will, as previously, be able to access half of the allocated shares immediately. They will, however, now only be able to access the remaining shares in three instead of two years' time provided their position is not under notice of termination. As a consequence of this adjustment, the variable components will in subsequent years make up a larger proportion of the total remuneration and factor in the company's long-term success to a greater degree.
2. The bonuses paid out in the past broke down into one third function bonuses and two thirds performance bonuses. With effect from the 2018 financial year, target bonuses are structured such that two thirds are function bonuses and one third performance bonuses. This new weighting is designed to place greater emphasis on the valuation of individual targets of the respective members of Group Management.

### 3 Remuneration paid in the 2018 financial year

#### 3.1 Remuneration paid to the members of the Board of Directors

The seven members of the Board of Directors received fixed remuneration totalling CHF 0.63 million (2017: CHF 0.63 million).

Name	Title	2018 CHF million	2017 CHF million
Bruno Bettoni	Chairman	0.15	0.15
Dr Ralph-Thomas Honegger	Vice Chairman	0.08	0.08
Peter Mettler	Member as of 20.04.2018	0.08	–
Olivier Steimer	Member	0.08	0.08
Peter Spuhler	Member	0.08	0.08
Andrea Sieber	Member	0.08	0.08
Thomas Stenz	Member	0.08	0.08
Albert Leiser	Member until 20.04.2018	–	0.08
<b>Total remuneration</b>		<b>0.63</b>	<b>0.63</b>

#### 3.2 Remuneration paid to the members of Group Management

The total remuneration paid to the members of Group Management increased by 5.7% year-on-year to CHF 3.54 million (2017: CHF 3.35 million). This difference largely reflects a change in the composition of Group Management and an increase in variable remuneration.

At CHF 1.16 million, as in the previous year, the highest total remuneration was paid to Roger Herzog, Chief Executive Officer (2017: CHF 1.17 million). The remuneration received by him and that received by the other members of Group Management is broken down as follows:

	2018		2017	
	CHF million	Share	CHF million	Share
<b>Roger Herzog, Chief Executive Officer</b>				
Fixed basic salary	0.73	63%	0.73	63%
Employer's contributions to management pension plan	0.19	17%	0.19	17%
Variable bonus in form of cash payment	0.12	10%	0.18	14%
Variable remuneration in form of shares <sup>1</sup>	0.12	10%	0.07	6%
<b>Total remuneration</b>	<b>1.16</b>	<b>100%</b>	<b>1.17</b>	<b>100%</b>
<b>Other members of Group Management</b>				
Fixed basic salary	1.34	56%	1.22	56%
Employer's contributions to management pension plan	0.29	12%	0.29	13%
Variable bonus in form of cash payment	0.56	24%	0.55	25%
Variable remuneration in form of shares <sup>1</sup>	0.19	8%	0.12	6%
<b>Total remuneration</b>	<b>2.38</b>	<b>100%</b>	<b>2.18</b>	<b>100%</b>

<sup>1</sup> Calculated at the market value on date of allocation

Of the total remuneration intended for the members of Group Management for the 2018 financial year in the amount of CHF 3.54 million, 72% was fixed remuneration (annual basic salary and contributions to pension funds) and 28% was the variable salary component (performance and function bonuses plus shares) (2017: 73%/27%).

The variable elements of remuneration will be paid out following the resolution taken by the general meeting. The variable component amounted to between 21 and 35% of the total remuneration, depending on the member of Group Management.

The total of the variable bonuses for all members of Group Management, amounting to CHF 0.68 million (2017: CHF 0.73 million), breaks down into performance bonuses of CHF 0.21 million and function bonuses of CHF 0.47 million (2017: 0.50 million/0.23 million). This calculation is based on the principles set out in section 2.3.

#### **4 Comparison of remuneration paid against the remuneration approved at the annual general meeting of 20 April 2018**

##### **4.1 Fixed remuneration paid to the members of the Board of Directors**

Period	Remuneration paid CHF million	Remuneration approved CHF million
01.01.2018–31.12.2018	0.63	0.63

##### **4.2 Fixed remuneration paid to the members of Group Management**

Period	Remuneration paid CHF million	Remuneration approved CHF million
01.01.2018–31.12.2018	2.55	2.60

##### **4.3 Variable remuneration paid to the members of Group Management**

Period	Remuneration paid CHF million	Remuneration approved CHF million
01.01.2017–31.12.2017	0.92	0.93

#### **5 Further transactions with members of the Board of Directors and Group Management**

##### **5.1 Former members**

In the period under review and in the previous year, no loans, credits or sureties were granted to former members of these bodies, nor was remuneration of any kind paid to them.

##### **5.2 Related parties**

As in the previous year, no remuneration was paid to related parties on non-arm's length terms.

### 5.3 Loans and credits

As in the previous year, in the 2018 financial year, no loans, credits or sureties were granted to members of the Board of Directors and Group Management or parties related to them. Accordingly, there are no receivables outstanding.

### 5.4 Management transactions

The following management transactions with shares of Allreal Holding AG were registered in the 2018 financial year. Details can be accessed on the website of SIX Swiss Exchange Regulation:

Date	Title	Transaction	Number of shares	Transaction value CHF million
01.03.2018	Member of the Board of Directors	Buy	3 820	0.600
23.04.2018	Member of the Board of Directors	Buy	240	0.039
30.08.2018	Member of Group Management	Sell	239	0.038
31.08.2018	Member of the Board of Directors	Buy	600	0.096

In addition, in the year under review, a total of 1,193 shares of Allreal Holding AG were allocated to active and former members of Group Management as a component of their remuneration from previous years.

Details of shareholdings of members of the Board of Directors and Group Management can be found on page 103 of the Annual Report.