

GEO Global Equity Insights 2014



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SIEMENS

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global equity
ORGANIZATION

Agenda

- Introductions
- Survey Framework
- Long Term Incentive Plans (LTIP)
- Employee Share Purchase Plans (ESPP)
- Administration
- Local Considerations
- Building an Equity Culture – Siemens AG

SURVEY FRAME WORK

Survey Content

- GEO Global Equity Insights highlights all aspects of equity-based compensation
- The survey focusses on the two central equity-based compensation systems:
 - **Long-Term Incentive Plans (“LTIP”)** and
 - **Employee Share Purchase Plans (“ESPP”)**.
- Another central point are **Share Ownership Guidelines (“SOG”)**.
- Finally, the **Administration** of the three above-mentioned topics will be analyzed.

TOPIC SECTIONS	1	Company Information
	2	Long-Term Incentive Plans
	3	Employee Share Purchase Plans
	4	Share Ownership Guidelines
	5	Administration

Sponsors

Six sponsors contributed to the survey's success:

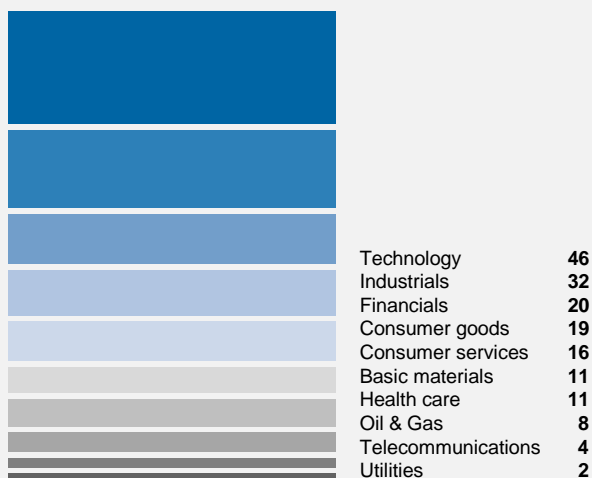
- Global Equity Organization (“GEO”), a not-for-profit organization dedicated to advancing knowledge and understanding of equity compensation worldwide;
- Siemens and SAP – two companies which are leading in Europe in terms of equity-based compensation;
- The Chair of Management and Control (Prof. Dr. Michael Wolff) at the Georg-August-Universität Göttingen/Germany;
- Computershare, a global service company in the field of administration of equity-based compensation;
- hkp/// as leading consulting firm in the field of Top Executive compensation.



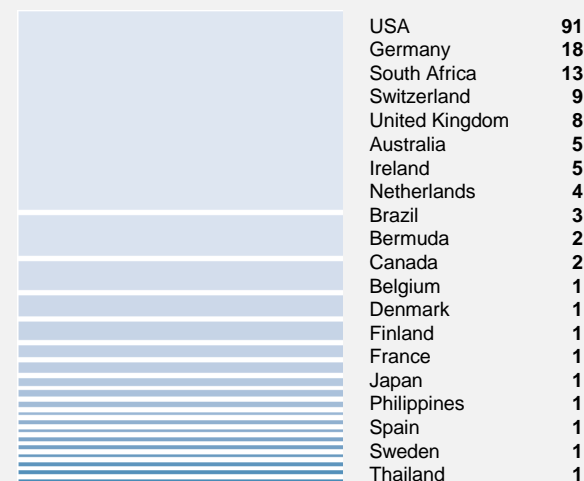
Survey Participants (1/2)

- 169 companies including the world's largest global corporations.
- Special focus on North America (56%) and Europe (30%).
- Representative sample across 10 industries.
- Data collected within a period of six weeks starting mid-January 2014.

Participants by industry



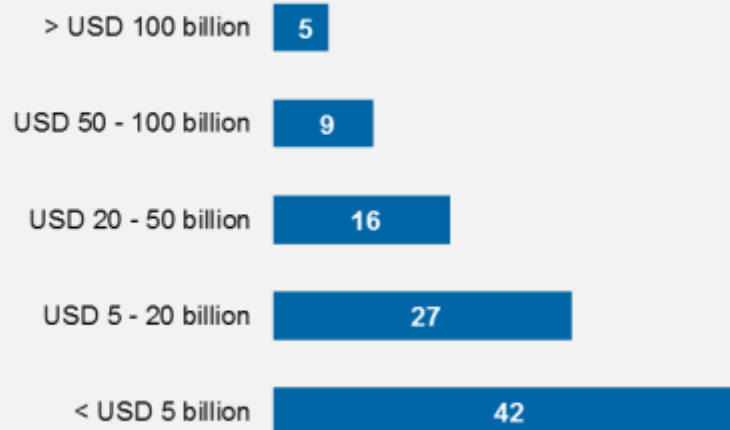
Participants by country



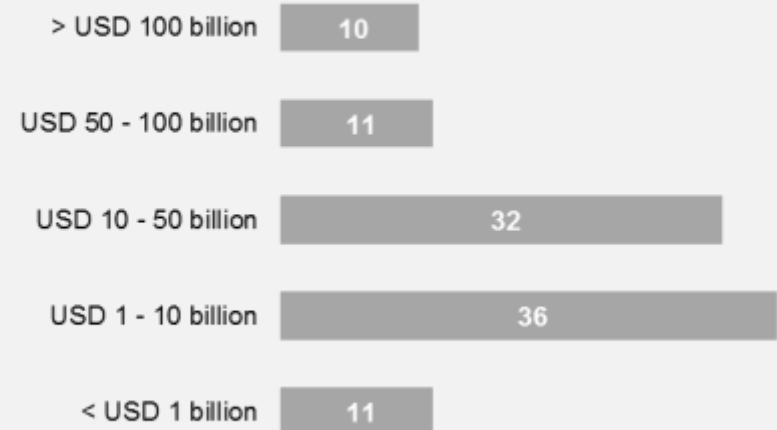
Survey Participants (2/2)

- Survey participants represent a selection of the world's largest companies in 20 countries.
- Two-thirds of the companies generated revenues above USD 5 billion in 2013.
- 89% of the companies surveyed have a market capitalization above USD 1 billion, with the top 10% exceeding USD 100 billion in market capitalization at year-end 2013.

Participants by revenue



Participants by market capitalization



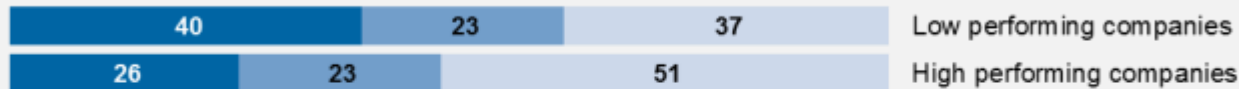
LONG-TERM INCENTIVE PLANS (LTIP)

Linkage of Pay Mix and Performance

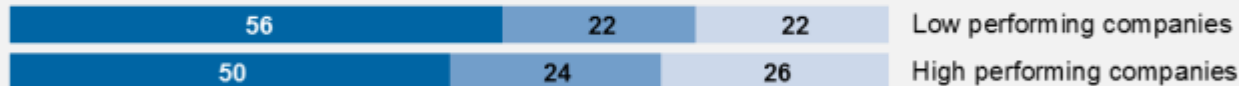
- Successful companies give more weight to LTIP across all organizational levels.
- Across executive levels, the portion of LTIP is increasing along the corporate hierarchy ranging from 14% for middle management to 42% for the management board/executive committee.
- At each executive level, high performing companies grant a larger portion of LTIP than low performing companies.

Pay structure in % of total direct compensation

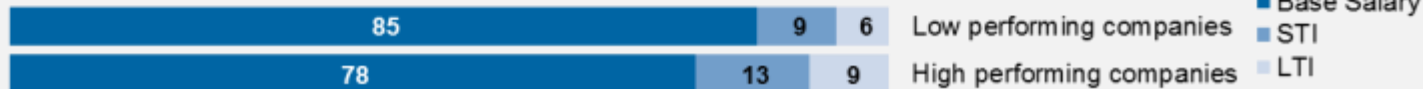
Management Board/Executive Committee



Senior Management



Other Employees

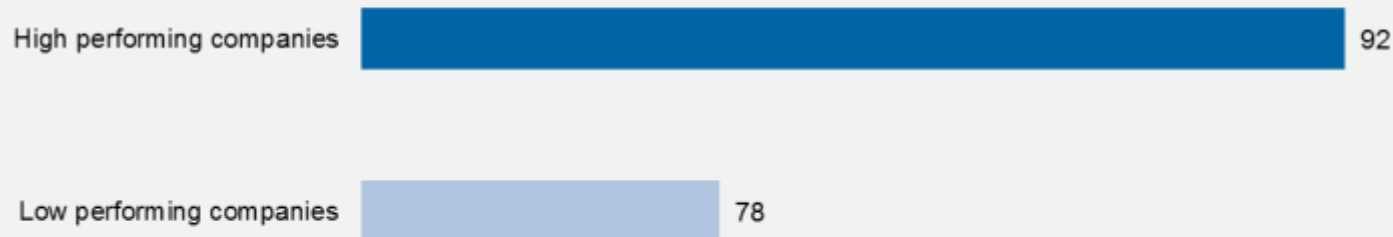


■ Base Salary
■ STI
■ LTI

Linkage of Penetration and Performance

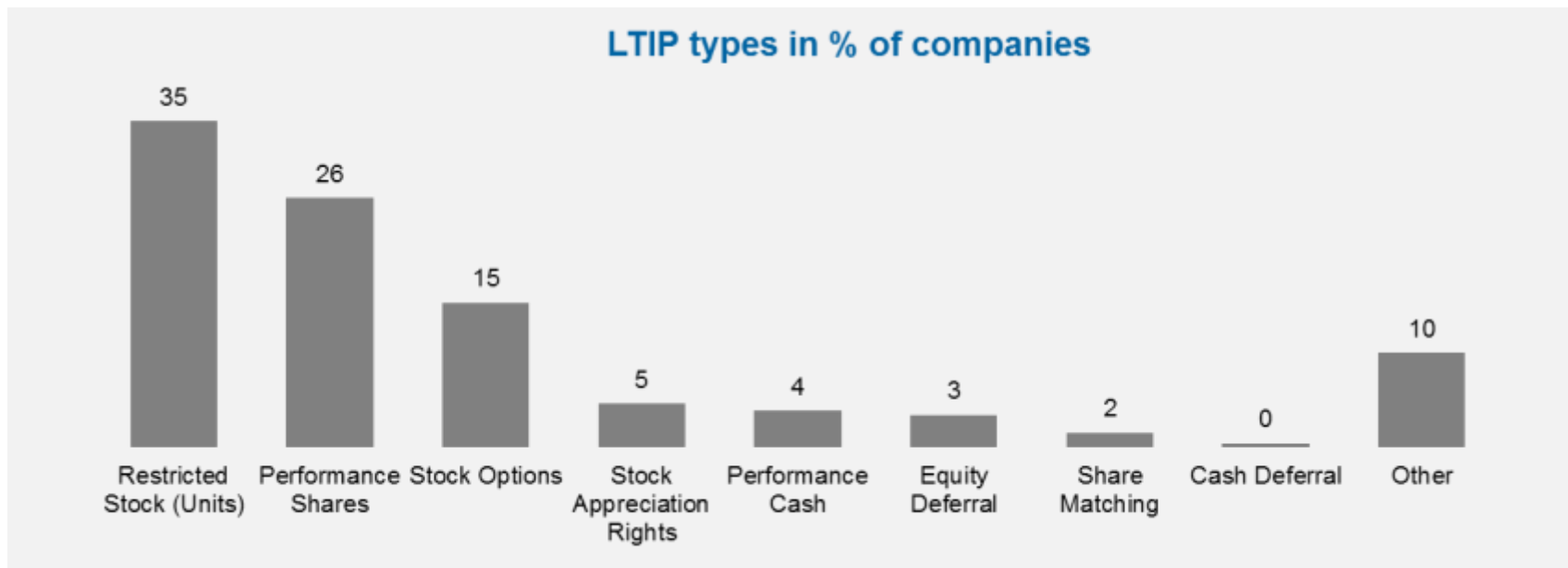
- LTIP eligibility down the corporate hierarchy is a driver of company performance.
- High performing companies offer LTIP much more frequently also to other employees than executives.
- That is, a broad-based equity culture across the corporate hierarchy seems to foster company performance.

LTIP eligibility for other employees than executives in % of companies



LTIP Plan Types

- From a global perspective, companies prefer restricted stock as a long-term incentive.
- There is a declining trend of the use of stock options, and an increasing trend of performance shares.



Employee Satisfaction with LTIP

- Employee satisfaction with LTIP is remarkably high.
- With the exception of two topics, namely risk profile and tax treatment, nearly half of the companies rank employee satisfaction with LTIP as high.

Employee satisfaction with LTIP in % of companies

Overall satisfaction



Ease of participation



Payout



Plan design



Communication



Risk profile



Tax treatment

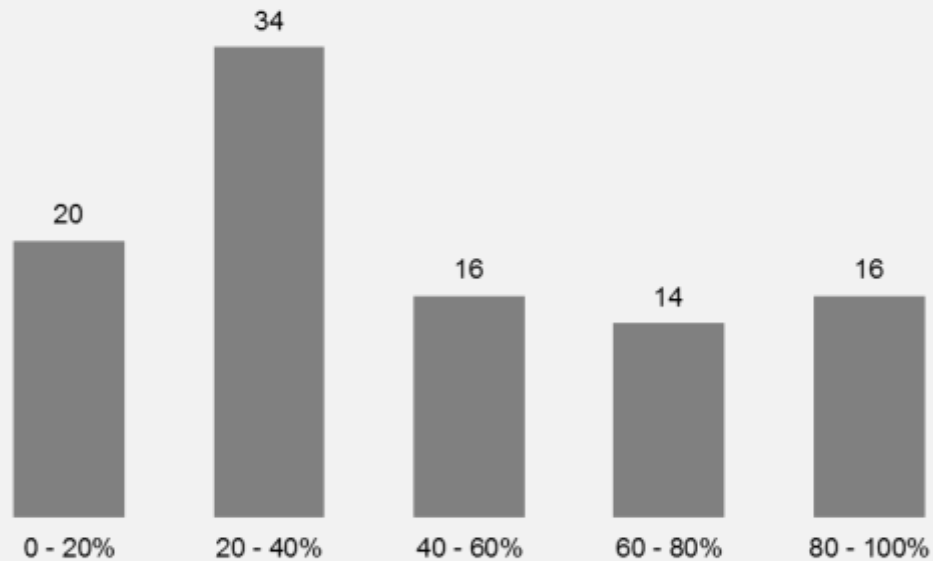


EMPLOYEE SHARE PURCHASE PLANS (ESPP)

ESPP Participation Rate

- When it comes to participation, companies seem to face some challenges.
- In more than 50% of the companies, participation rates are below 40%.

ESPP participation rate in % of companies



Linkage of Participation and Performance

- Employee participation in ESPP shows a positive relation with company performance.
- High performing companies have participation rates commonly nearing 50%.
- In contrast, participation rates in low performing companies drop to 40%.
- Hence, ESPP are not only a crucial factor of success in a competitive labor market, but are also a more general value lever.
- ESPP turn a company's general employee population into equity investors of the company and, thus, orient employees to act in the best interest of shareholders.

ESPP participants in % of eligible employees



Employee Satisfaction with ESPP

- Regarding employee satisfaction, the survey results display mostly high levels of satisfaction.
- Employees are mainly concerned about the tax treatment of ESPP.

Employee satisfaction with LTIP in % of companies

Overall



Ease of participation



Payout



Plan design



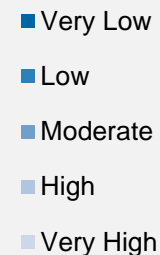
Communication



Risk profile



Tax treatment

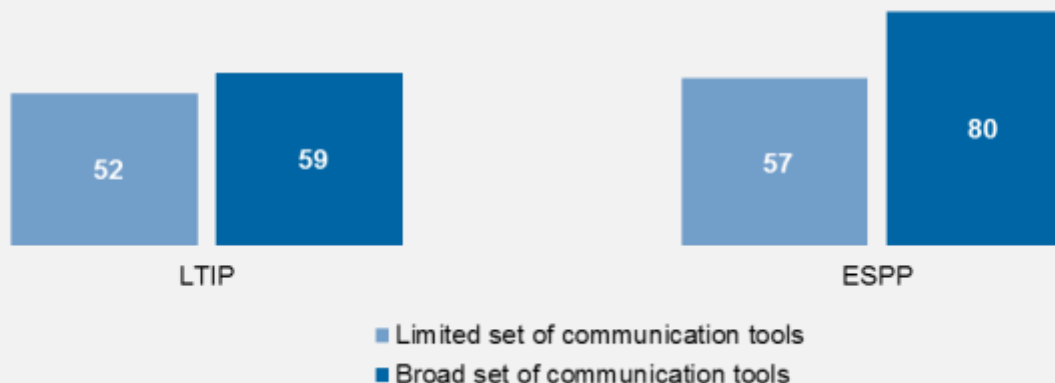


ADMINISTRATION

Linkage of Communication and Satisfaction

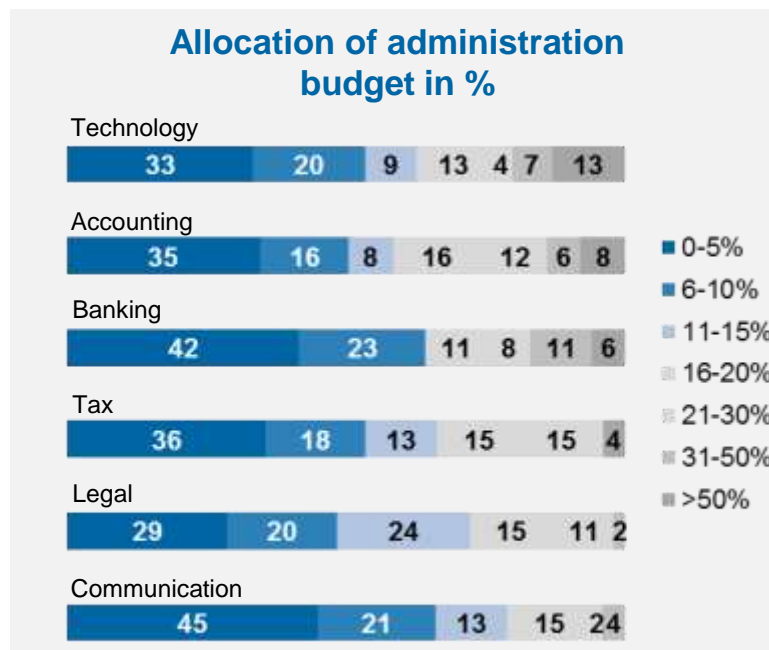
- A key finding in 2013 was that satisfaction with accompanying communication generally drives employee perception of the equity plans.
- The analysis of this year provides a more thorough picture. Companies with a broad set of communication tools are better connected with their employees.
- This connection results in higher employee satisfaction: Companies that use a broad set of communication tools have employees who are much more satisfied with their equity plans.

Companies with highly satisfied employees in % of companies



Allocation of Administration Budget

- Technology ranks first in the actual budget allocation and, thus, highlights its importance for equity-based compensation.
- By extending communication efforts, companies could greatly improve their equity culture as analyzed in the survey. However, the actual budget allocated for communication is quite low.



LOCAL CONSIDERATIONS

Findings for South Africa

- Long-term oriented pay is substantially **lower** in South African companies than in European and North American companies on all staff levels
- LTIP are mostly restricted to **higher** staff levels
- In the most **successful** South African companies more employees participate in LTIP
- ESPP are not widely utilised but are **increasing** in popularity
- South African companies do not generally have share ownership guidelines
- **Technology** is a crucial topic for actual and desired budgets
- Awareness of the need for additional **communication** efforts and improvements such as using a broad set of communication tools

South African challenges in the global context

Exchange control

- Recharge
- Share plan approval
- Tax clearance

Tax directives

Plans not portable
/ Emphasis on
locals only

Cash culture

Employees not
familiar with share
plans (operation
and value)

Limited tax
incentive

BUILDING AN EQUITY CULTURE – SIEMENS AG

On the basis of the findings of the GEO Equity Insights Siemens AG...

- developed a free share plan for employees worldwide
- adjusted its long-term incentive plan
- established and fostered a global equity culture by enhancing it's communication strategy (Equity Culture Enhancement Strategy)

Fostering the Siemens equity culture

- To enhance the equity culture at Siemens and thereby the company's success, Siemens developed the ECE strategy using internal & external findings.

GEO Equity Insights Findings

- 
- Companies need to allocate more time and budget to create a more diversified communication platform
 - Link between communication and company success
 - Equity culture shapes performance culture in organizations

ECE Project Focus

2011

Awareness

**2012
2013**

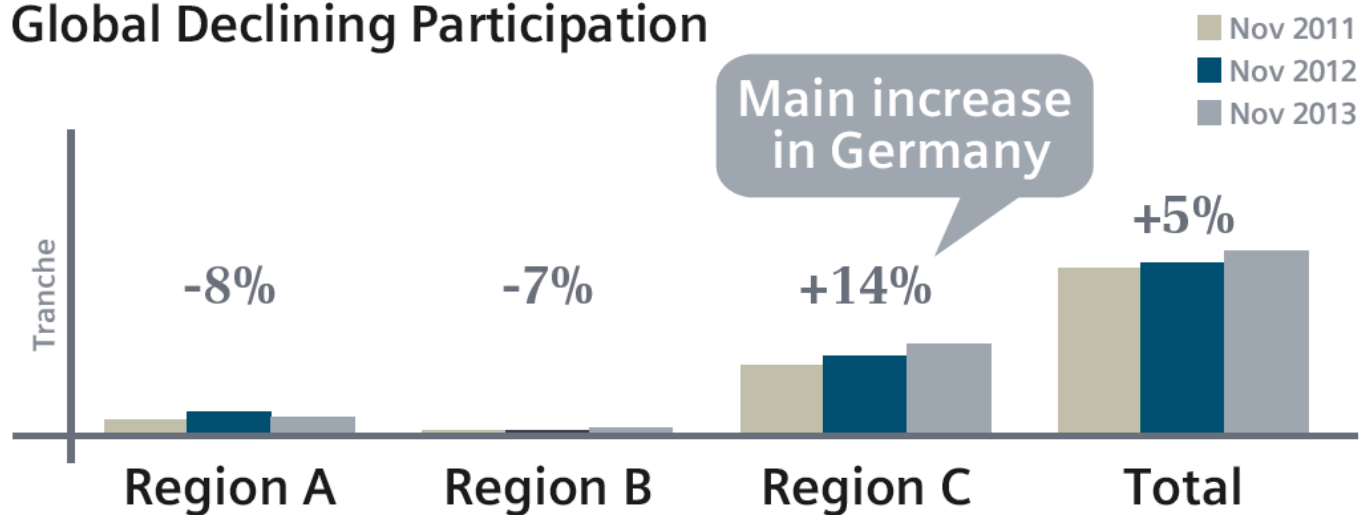
Reasons for participation
/ non-participation

2014

Performance

The Starting Point

Global Declining Participation



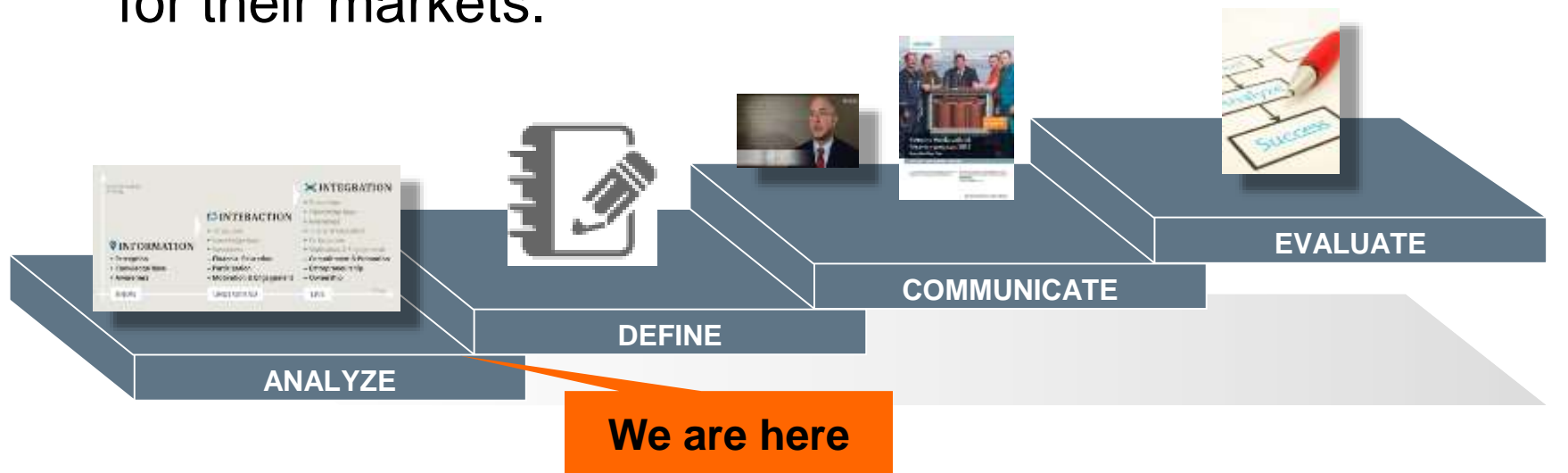
The Equity Culture Enhancement Strategy

- With regard to the potential the objective is to foster equity culture by turning employees into co-owners of Siemens.
- Based on the finding that in addition to offering the right equity plan portfolio, communication is key in turning employees into shareholders, Siemens presumed that a successful equity culture derives from three factors:



Communication approach South Africa

- Together with the countries' local interdisciplinary project teams the corporate experts analyze the countries and develop local communication concepts for their markets.



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Communication strategy

ANALYZE

Reveal main sources of information of the target group (intranet, news center etc.)

Find out the reasons for participation/non-participation

Overcome obstacles: tax authority topic, general attitude towards savings for the future (investment in shares not attractive)

DEFINE

Create diversified and tailor-made communication measures

Contact us

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