

# COMPENSATION VOTES

ITEMS 1.2, 5.1 AND 5.2 OF THE AGENDA

Shareholder information on the  
compensation votes at the  
Annual General Meeting 2018





# DEAR SHAREHOLDER,

We would like to acknowledge the shareholder support for the compensation-related proposals at the 2017 AGM.

During 2017, the Nomination, Compensation and Governance Committee, together with the Board of Directors, reviewed the compensation system applicable to the Board of Directors and to the Executive Committee to ensure that it is well aligned with the business strategy and with the shareholders' interests, while taking into consideration the evolving context in which the company operates.

As in previous years, in line with the Ordinance Against Excessive Compensation and our Articles of Incorporation, we are asking shareholders to vote on three compensation-related proposals at the upcoming Annual General Meeting:

#### **Advisory vote on the 2017 Compensation Report**

**Agenda item 1.2** relates to the advisory vote on the 2017 Compensation Report, which can be found on pages 84–107 of the 2017 Annual Report (also available at [www.lafargeholcim.com](http://www.lafargeholcim.com)).

#### **Binding votes on future maximum aggregate amounts of compensation for the Board of Directors and the Executive Committee**

**Agenda item 5.1** requires your approval of the maximum aggregate amount of compensation of the Board of Directors for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019.

**Agenda item 5.2** requires your approval of the maximum aggregate amount of compensation of the Executive Committee for the financial year 2019.

The Compensation Report 2017 provides the information and the context for the Board and Executive Committee compensation system and programs. The key considerations and changes from the prior year are summarized in this brochure. We will be available at the Annual General Meeting to answer any question you may have regarding compensation at LafargeHolcim.

On behalf of the LafargeHolcim Ltd Board of Directors,  
Respectfully,

Beat Hess  
Chairman of the Board of Directors

Nassef Sawiris  
Chairman of the Nomination,  
Compensation and Governance Committee

# COMPENSATION VOTES

## AGENDA ITEM 1.2

### Advisory vote on the 2017 Compensation Report

**Motion of the Board of Directors:** Acceptance of the compensation report in an advisory vote.

**Notes:** The Compensation Report describes the compensation system and programs as well as the governance framework related to the compensation of the Board of Directors and the Executive Committee. The report also informs shareholders about the compensation awarded to the members of the Board of Directors and the Executive Committee for 2017. The Compensation Report can be found on pages 84–107 of the 2017 Annual Report (also available at [www.lafargeholcim.com](http://www.lafargeholcim.com)).

## AGENDA ITEM 5.1

### Binding vote on the approval of the maximum aggregate amount of compensation of the Board of Directors for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019

**Motion of the Board of Directors:** Approval of the total maximum amount of compensation for the members of the Board of Directors for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019 of CHF 4,800,000.

#### Overview of the compensation system applicable to the Board of Directors for the period between the Annual General Meetings 2018 and 2019

All members of the Board of Directors receive an annual retainer, paid 50% in cash and 50% in LafargeHolcim Ltd shares, subject to a five-year sale and pledge restriction period. They are also entitled to an expense allowance and the Chairman of the Board also receives a secretarial allowance. Board members receive additional compensation for their assignments to the various Board committees.

After careful consideration of market practice in comparable Swiss companies, a number of changes will be introduced to the compensation system of the Board of Directors for the term starting after the Annual General Meeting 2018:

- The Chairman's compensation will be increased to CHF 825,000 in cash and CHF 825,000 in shares. The Chairman is not entitled to additional committee fees;
- The Vice-Chairman is not entitled to additional committee fees;
- To reflect the significant time commitment required from the Chairman of the Finance and Audit Committee, the committee chairmanship fee will be increased to CHF 160,000. The committee membership fee remains unchanged;
- The Strategy Committee will be discontinued. Strategy discussions will be held during the Board meetings.

The structure of the compensation of the Board of Directors for the upcoming term is summarized in the following table.

Role	Cash compensation CHF	Share-based compensation <sup>1</sup> CHF	Expense allowance CHF	Secretarial allowance CHF	TOTAL CHF
<b>Base compensation</b>					
Chairman of the Board <sup>2</sup>	825,000	825,000	10,000	60,000	1,720,000
Vice-Chairman of the Board <sup>2</sup>	200,000	200,000	10,000		410,000
Member of the Board	100,000	100,000	10,000		210,000
<b>Committee membership and chairmanship fees</b>					
Finance and Audit Committee Chairman	160,000				160,000
Finance and Audit Committee Member	40,000				40,000
Nomination, Compensation and Governance Committee Chairman	125,000				125,000
Nomination, Compensation and Governance Committee Member	40,000				40,000
Health, Safety and Sustainability Committee Chairman	125,000				125,000
Health, Safety and Sustainability Committee Member	40,000				40,000

<sup>1</sup>The shares are subject to a five-year sale and pledge restriction period

<sup>2</sup>The Chairman and the Vice-Chairman do not receive additional committee membership or chairmanship compensation

In exceptional circumstances, additional compensation may be paid to Board members for additional tasks going beyond their function as Board member or to reflect any prolonged period during which their time commitment is significantly above what would normally be expected.

Board members are not entitled to receive any performance-based compensation or stock options, nor do they participate in the LafargeHolcim employee benefit plans.

**Proposed maximum aggregate amount of compensation of CHF 4,800,000 for the members of the Board of Directors for the period between the Annual General Meetings 2018 and 2019**

The maximum aggregate amount of compensation of CHF 4,800,000 is a **reduction of 11%** compared with the amount approved at the last Annual General Meeting for the previous compensation period.

The following table illustrates the maximum aggregate amount of compensation for the Board members for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019. The proposed amount has been calculated based on the structure of the compensation system described above and assumes a total of 10 Board members (including the Chairman and the Vice-Chairman). The proposed amount also includes a reasonable buffer for any potential increase in the number of committee members or for any additional compensation for unforeseen extraordinary activities of a Board or committee member.



Role	TOTAL CHF	Expected number	TOTAL COST CHF
<b>Base compensation</b>			
Chairman of the Board <sup>1</sup>	1,720,000	1	1,720,000
Vice-Chairman of the Board <sup>2</sup>	410,000	1	410,000
Member of the Board	210,000	8	1,680,000
<b>Committee membership and chairmanship fees</b>			
Finance and Audit Committee Chairman	160,000	1	160,000
Finance and Audit Committee Member	40,000	3	120,000
Nomination, Compensation and Governance Committee Chairman <sup>2</sup>	125,000	-	-
Nomination, Compensation and Governance Committee Member	40,000	4	160,000
Health, Safety and Sustainability Committee Chairman	125,000	1	125,000
Health, Safety and Sustainability Committee Member	40,000	3	120,000
<b>Buffer for changes in committee composition or for additional compensation for exceptional work</b>			<b>305,000</b>
<b>PROPOSED MAXIMUM AGGREGATE COMPENSATION AMOUNT<sup>3</sup></b>			<b>4,800,000</b>
<b>Envelope approved for the period AGM 2017 – AGM 2018</b>			<b>5,400,000</b>

<sup>1</sup>The Chairman of the Board is not entitled to additional committee fees

<sup>2</sup>Subject to his election at the AGM 2018, the Vice-Chairman of the Board is considered for the role of Chairman of the Nomination, Compensation and Governance committee and would not receive additional compensation for the chairmanship of the committee

<sup>3</sup>Excludes compulsory Swiss social security payments applicable to the compensation of certain Board members

In addition to the maximum aggregate amount of compensation shown above, mandatory Swiss social security payments are to be made by LafargeHolcim Ltd for certain Board members. The amount paid for Swiss social security for the period from 1 January 2017 until 31 December 2017 was CHF 141,897. The amount to be paid for the period from the Annual General Meeting 2018 to the Annual General Meeting 2019 will depend on the individual social security status of each Board member.

## AGENDA ITEM 5.2

### Binding vote on the maximum aggregate amount of compensation of the Executive Committee for the financial year 2019

**Motion of the Board of Directors:** Approval of the total maximum amount of compensation of the Executive Committee for the financial year 2019 of CHF 39,500,000.

#### Overview of the compensation system applicable to the Executive Committee in 2019

The compensation system applicable to the Executive Committee is designed to reinforce the LafargeHolcim strategy by helping the company attract, motivate and retain talent, while aligning their interests with those of shareholders. The compensation of the members of the Executive Committee includes a fixed compensation, participation in the LafargeHolcim employee benefit plans as well as variable compensation delivered in the form of an annual incentive and long-term incentives.

While the overall compensation system for the Executive Committee remains unchanged, the Board of Directors has decided to introduce several adjustments to the incentive plans. Those adjustments support the Strategy 2022 – Building for Growth and drive stretch performance. They will be introduced gradually in the financial years 2018 and 2019 and are summarized below:

- To further focus Executive Committee members on the delivery of pre-determined targets, in 2018, the proportion of the annual incentive that relates to financial performance will increase to 85%. An annual relative performance measure which compares the annual financial performance of LafargeHolcim to a sector peer group will be introduced. The relative performance measure will have a weighting of 30% of the total incentive opportunity and will combine relative Group revenue growth and relative Group recurring EBITDA growth. The other 55% will continue to be absolute financial objectives that are set either at Group level (for corporate roles) or at Regional level (for regional roles). 15% of the annual bonus opportunity will be linked to a Health & Safety score. This score will reflect improvements in the lost-time injury frequency rate. The review of the annual incentive design will be pursued during 2018 to further align with the Strategy 2022.

- The maximum payout opportunity of the annual incentive will be increased from 150% to 200% of target in 2019.
- To support the Strategy 2022, the grant that will be awarded under the long-term incentive to members of the Executive Committee will consist of both performance shares and stock options. The decision was made to keep performance shares subject to a three-year vesting period based on Group Earnings Per Share before Impairment and Divestments (EPS) and Group Return On Invested Capital (ROIC) and to introduce stock options to provide a stronger focus on shareholder value creation. The stock options will be subject to a vesting period of five years, the performance condition will be Total Shareholder Return (TSR) over three to five years and the options have a ten-year maturity. This change has already been introduced for financial year 2018.

Fixed pay (base salaries and benefits) of Executive Committee members is considered competitive; therefore no substantial changes are expected for 2019.

The compensation system applicable to the CEO and the Executive Committee members for financial year 2019 is summarized in the following table.

**Fixed compensation**

<b>Element</b>	<b>Role</b>	<b>Structure</b>	<b>Quantum</b>	<b>Drivers</b>
<b><i>Base salary</i></b>	- Attract and retain	- Fixed amount paid monthly in cash	- Set at a competitive level comparable to Swiss companies of similar size	- Role - Responsibilities - Experience - Market value
<b><i>Pensions</i></b>	- Attract and retain	- Pension and insurances	- Executive Committee members are eligible for pensions according to the policies of their country of employment	- Market practice - Role
<b><i>Benefits and perquisites</i></b>	- Attract and retain, protect against risks	- Perquisites - Car or allowance - Relocation benefits	- Amounts consistent with the LafargeHolcim policies applicable to all members of staff	- Market practice - Role

## Variable compensation

Element	Role	Structure	Quantum	Drivers
<b>Annual incentive</b>	<ul style="list-style-type: none"> <li>- Reward for short-term performance</li> </ul>	<ul style="list-style-type: none"> <li>- Variable amount paid half in cash and half in shares deferred for 3 years</li> </ul>	<ul style="list-style-type: none"> <li>- On-target bonus opportunities 125% of salary and 75% of salary for CEO and Executive Committee respectively. Maximum opportunity set at 2x on-target bonus opportunity</li> </ul>	<ul style="list-style-type: none"> <li>- Annual financial and non-financial performance</li> </ul>
<b>Long-Term Incentives</b>	<ul style="list-style-type: none"> <li>- Reward long-term performance</li> <li>- Align with shareholders</li> <li>- Retain</li> </ul>	<ul style="list-style-type: none"> <li>- Performance Shares: shares subject to, and delivered after, a 3-year performance period</li> <li>- Stock Options: stock options vesting subject to a 3 to 5 year performance period</li> </ul>	<ul style="list-style-type: none"> <li>- LTI fair value at grant is set to ensure a competitive total compensation compared with SMI companies of similar size</li> </ul>	<ul style="list-style-type: none"> <li>- Financial performance over 3 years</li> <li>- Total Shareholder Return over 3 to 5 years</li> </ul>

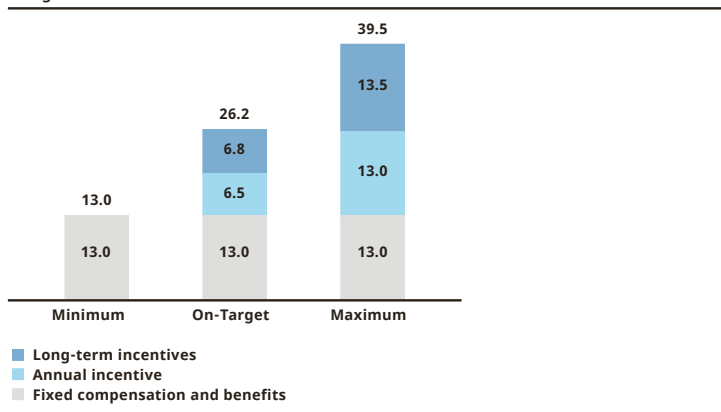
Looking ahead, the Board of Directors will continue to assess and review the compensation system and programs to ensure that they are still fulfilling their purpose in line with the business strategy and context of the company.

### Proposed maximum aggregate amount of CHF 39,500,000 for the compensation of the Executive Committee for the financial year 2019

The proposed maximum aggregate amount of CHF 39,500,000 is a **reduction of 2.5%** compared with the maximum aggregate amount approved at the last Annual General Meeting for financial year 2018.

The following chart illustrates the potential outcome in terms of total compensation for the Executive Committee members in three different scenarios:

All figures in million CHF



**In the “Minimum” scenario**, only fixed compensation and benefits are paid out because the minimum performance thresholds under the incentive plans are not met, resulting in nil annual and long-term incentive payouts.

**In the “On-target” scenario**, the achievements under the incentive plans correspond to the expected level of performance on all objectives.

**In the “Maximum” scenario**, all performance objectives under the incentive plans are outperformed. Thus the annual incentive is paid at maximum and the long-term incentive granted in 2019 is assumed to vest in full. This scenario implies that all Executive Committee members have substantially outperformed all performance objectives under both the annual and the long-term incentive plans. Therefore, the effective compensation awarded in 2019 is likely to be below the amount shown under this scenario.

A number of assumptions were used in the calculation of the maximum aggregate amount of compensation:

- The Executive Committee comprises 9 members, including the CEO. Pursuant to the Company's Articles of Incorporation, the Company is authorized to make payments to any member(s) that join(s) the Executive Committee during a period for which the Annual General Meeting has already approved the maximum aggregate amount of compensation, where the total amount approved is not sufficient, provided that any amount paid in excess of the aggregate amount approved does not exceed 40% of the maximum aggregate amount approved.
- The impact of share price variations and dividend equivalents for the share-based compensation will not be taken into account.
- The impact of future currency variations will not be taken into account for those Executive Committee members who are paid in foreign currencies (currently EUR and CAD).
- For the purpose of determining this envelope, the long-term incentive amount has been calculated based on the face value of the performance shares (i.e. assuming maximum vesting) and on the fair value at grant of the stock options.
- The amount shown under fixed compensation includes the estimated value of international assignment benefits provided in line with the LafargeHolcim policy, such as housing, school fees and travel allowances.
- All amounts are gross, but exclude any employer-paid mandatory social security contributions.

The split of total compensation into fixed compensation, annual incentives and long-term incentives is indicative and non-binding. However, the total compensation awarded will not exceed the maximum aggregate amount of compensation proposed.

Please refer to the Compensation Report on pages 84–107 of the 2017 Annual Report for further information.

