Submitted for the Record; City Council Meeting, 2/25/2013, on the Agenda Item to up-zone the "MIT Area Block" at 300 Mass. Ave. for Forest City and MIT to provide a Bio-Lab for "Millennium Pharmaceuticals – Takeda Oncology" ~

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Thank you.

Critics of Executive Pay Put Pressure on Novartis

By JULIA WERDIGIER

LAURENT GILLIERON/E.P.A.

Daniel Vasella, departing chairman of Novartis, is to receive $78 million to keep company secrets.

LONDON — A plan by Novartis, one of Switzerland's biggest drug makers, to pay its departing chairman $78 million to keep him from sharing his knowledge with competitors has added fuel to an already heated debate about executive pay.

The announcement of the payment to the chairman, Daniel Vasella, was made last Friday, just two weeks before a Swiss referendum to give shareholders more power to determine executive compensation. Mr. Vasella, who had previously said that he would step down as chairman at Novartis's annual shareholder meeting on Friday, is to receive the sum, 72 million Swiss francs, over six years.

In a statement, Mr. Vasella said that "it has been very important to Novartis that I refrain from making my knowledge and know-how available to competitors and to take advantage of my experience with the company." He added that the annual payments were "according to fair market value" and that he decided to use the money for "philanthropic activities."

Swiss lawmakers and shareholder activists criticized the company over the weekend for not making the amount public earlier. They also contended that the planned payment was just the latest of several bad decisions by Novartis on executive pay.

Ethos, a Swiss group of investors, on Monday called on Novartis to immediately cancel the contract with Mr. Vasella and take back any money already paid.

Christophe Darbellay, president of the Christian Democratic People's Party, told a Swiss newspaper, SonntagsZeitung, that Mr. Vasella's compensation was "beyond evil." Simonetta Sommaruga, the Swiss federal justice minister, told another newspaper, SonntagsBlick, that the payment was an "enormous blow for the social cohesion of our country" and that such "help-yourself mentality" was damaging confidence in the economy.

Even before the latest revelation, Mr. Vasella's pay had been at the center of shareholder complaints. Mr. Vasella is currently receiving 12.4 million francs (about $13.4 million) a year, according to the firm's 2012 annual report. The board has promised to consider changes in the way it pays its senior executives next year.

Pressure on companies to cut executive pay and give shareholders a greater say on the compensation levels is mounting. Recent opinion polls showed that Swiss voters were likely to approve changes at a referendum on March 3 that would effectively allow shareholders to determine executive pay. The referendum also proposes no payments when new executives join or executives leave and no payments in advance.

At least five of Europe's 20 highest-paid chief executives work for a Swiss company, including the food company Nestlé and the drug maker Roche, according to Bloomberg News. Swiss business lobby groups warned that such a change would harm the Swiss economy by discouraging companies from moving business to Switzerland.

Mr. Vasella helped orchestrate the merger between Sandoz and Ciba-Geigy that created Novartis in 1996 and was chief executive of Novartis for 14 years after that. He was named chairman in 1999. Jörg Reinhardt, who was once in the running to become the Novartis chief executive but then left to run the drug division at Bayer, is to replace Mr. Vasella.

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Novartis Chairman Daniel Vasella

Novartis $78 Million Pay Deal Abandoned

ZURICH—Novartis AG on Tuesday abandoned a 72-million-Swiss-franc ($78 million) exit package for its chairman, bowing to pressure from shareholders and Swiss politicians after four days of withering criticisms.

The Swiss drug maker said its board of directors and Chairman Daniel Vasella agreed to cancel a six-year noncompete and related-compensation agreement designed to prevent him from joining or advising rivals and which would have paid him 12 million francs a year.

By John Revill, Jeanne Whalen and Andrew Morse

The agreement was scheduled to take effect on Friday, when Dr. Vasella, 59 years old, is planning to leave the Basel-based company at its annual shareholder meeting. A Novartis spokesman said on Tuesday Dr. Vasella would receive some benefits tied to his past performance. He said he was unaware of any other compensation Dr. Vascella would receive.

In its latest annual report, Novartis said Dr. Vasella would receive "fair market compensation" over a "multiyear period" for providing "know-how" to Novartis and refraining from activities that compete with the company.

The annual report didn't say how much he would be paid, triggering criticism from Ethos, a shareholder activist group in Switzerland. Dr. Vasella confirmed the financial details of the deal late last week after a Swiss blog, Inside Paradeplatz, reported his package would cover five years and total about 75 million francs.

Dr. Vasella's package has since triggered a storm of controversy in Switzerland. Politicians have spoken out against the payments and shareholders have complained Novartis could put the

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Novartis Axes Chairman's $78 Million Exit Package

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money to better use. The payout has prompted at least one legal complaint from a shareholder.

"We believe the decision to cancel the agreement and all related compensation addresses the concerns of shareholders and other stakeholders," said Ulrich Lehner, Novartis's vice chairman. He said directors "understood the importance of full transparency and will strengthen its efforts in this regard."

Late last week, Dr. Vasella said he planned to make the net proceeds of the compensation package "available for philanthropic activities."

In the Novartis statement on Tuesday, Dr. Vasella acknowledged that his offer hadn't soothed public opinion: "I have understood that many people in Switzerland find the amount of the compensation linked to the noncompete agreement unreasonably high," he said.

A Novartis spokeswoman said Dr. Vasella was unavailable for further comment.

The debate over Dr. Vasella's exit package could fuel support for a March 3 referendum in Switzerland that would give shareholders the power to veto executive pay plans, including golden parachutes. A competing but less-stringent proposal put forward by the Swiss government would give shareholders a nonbinding vote on pay.

Over the weekend, Swiss newspapers and television shows were filled with commentary about the scale and duration of Dr. Vasella's package. Simonetta Sommaruga, the head of the Switzerland's Justice Department, told Swiss television the package left her "speechless," while Johann Schneider-Ammann, head of the economic affairs, education and research department, called the controversy arising from the payout an "unpleasant situation."

On Tuesday, Hans-Jacob Heitz, a lawyer for Novartis shareholders, said he filed a complaint in Basel on Monday against Novartis, Dr. Vasella and members of the compensation committee of Novartis's board, alleging "criminal offenses" in relation to the compensation deal.

A spokesman for the Basel public prosecutors' office confirmed that it had received an anonymous complaint. The spokesman said the office had opened a preliminary investigation to see if the complaint had merit.

The payment's size was 'unjustified,' said the head of one shareholder group.

A Novartis spokesman said the company hadn't yet received a copy of the complaint and declined to comment on it.

Gregor Greber, chief executive of Zug, Switzerland's **zCapital** AG, said the news of the payout prompted him to get in touch with Novartis to learn more about the package and express his concerns.

The money manager said he had been frustrated by the lack of detail regarding the chairman's exit package in the Novartis annual report.

"You can invest that 72 million [francs] in research and development, which will result in a better return for shareholders than paying a departing chairman," Mr. Greber said.

Roby Tschopp, the head of shareholder advisory group Actares, said many of the roughly 200 Novartis shareholders his firm represents contacted him to register their concern over the payout.

By Monday, Actares had decided to put out a statement outlining its opposition to the pay package and declaring its intent to vote against the board of directors at Friday's annual shareholder meeting.

"The size of the payment was unjustified," said Mr. Tschopp. "It is not normal that someone who has been paid millions and millions every year needs more money just to make sure they don't go to the competition."

Birgit Kulhoff, a fund manager at Novartis shareholder **Rahn & Bodmer** Co. in Zurich, criticized Novartis for not publicly disclosing the size of the deal.

"I do think that the total compensation represents a relevant, meaningful sum that should have been disclosed," Ms. Kulhoff said.

A Novartis spokesman said that under Swiss law the company didn't have to disclose the compensation package until a first payment was made, which would have been in 2014.

—Neil MacLucas contributed to this article.