CORPORATE FINANCE

Financing Benchmark 2008

The strategic financial focus of Swiss companies

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1 Preface

Objective, content and participants

Benchmarking is an efficient method to identify one's position.

Current, reliable information is of great use to all companies in improving their position. This is the third Financing Benchmark reviewing the subject of Swiss corporate financing arrangements that KPMG, as an independent advisor has compiled.

What was the objective of the survey, and what are the benchmarking topics?

KPMG Corporate Finance independently advises companies, institutions, and investors on all matters relating to financing. To provide a broad analytical measure of the experiences gained from serving its various clients, KPMG implemented similar benchmarking exercises in 2005 and 2006. The current survey addresses in depth the strategic financial focus of corporate's financing arrangements, and takes a broader look at group balance sheet structuring and the strategic role of the Chief Financial Officer (CFO).

The benchmark can be divided into the following sections:

- Group projections as a basis for strategic decision-making
- Financing strategies in detail
- The CFO's role in the strategy development process
- Current assessment of the financial market crisis

Who participated in the benchmarking exercise?

The participants in this benchmarking exercise were selected trade, industrial, and service companies in Switzerland. In December 2007 KPMG invited the CFOs of mid and large cap corporates with headquarters in Switzerland to take part in an online survey. Prior to this, selected interviews with CFOs of Swiss large cap corporates were conducted.

We set out valuable suggestions based on the benchmark results.

The results presented here are intended to provide readers with benchmarking information for their own strategic financial positioning, internal strategic processes, and the strategic role of their company's CFO. All statements in this report relate to data gathered from this survey. KPMG hopes that this document will provide you with useful information and suggestions.

On behalf of KPMG Corporate Finance
Patrik Kerler, Head of Corporate Finance Switzerland
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2 Overview

Many companies have not developed good financing positioning strategies. The CFO's strategic role can be improved.

Does financing strategy impact enterprise value?

The question at the forefront of the investigation for the Financing Benchmark 2008 was: does strategic financing positioning support a company's development and ultimately increases its enterprise value? In addition, we looked at the role of the CFO as financial strategist.

The survey's key outcomes are summarised as follows:

84% of Swiss companies have a strategic financial plan, but most do not fully exploit its inherent potential.

Financial projections are the basis for all strategic financing decisions. 84% of the companies surveyed have a strategic financial plan. Of the 16% of companies that do not plan strategically, 50% reported that long-term planning is simply not possible. A planning horizon of 3 years is seen as realistic by 96% of CFOs, but 42% go significantly further. However, the level of detail decreases markedly from year two with 44%, and year three with 62%. While sales, costs, capital expenditure, and now cash flows are common planning dimensions, only 41% use relevant financial ratios and still fewer use sensitivities (29%) or scenarios (8%). Only 8% actually break down cash flows into currencies, which is in turn a critical factor for foreign exchange strategy. The extent to which the plans are updated is good: 81% update their plan at least once a year. Additionally, the majority of CFOs have reservations about providing financial projections to external parties such as credit analysts and rating agencies.

Does the financing strategy support the aim to increase enterprise value?

The central question of the survey concentrated on the question whether the management of the financing position contributes systematically towards increasing enterprise value. By their own account only 50% of the companies surveyed have a financing strategy that is set out in writing. The lack of such a strategy has been justified partially by the fact that the companies (60%) are "cash rich," which may create new strategic issues when viewed from an economic perspective. 47% (of the 50% without a financing strategy set out in writing; multiple answers allowed) of the surveyed companies still have not given sufficient thought to the subject.

58% of companies with a financial plan update it at least once a year. Generally, the key financial ratios and qualitative criteria used by the CFOs in relation to the strategic plan have a marked lack of factors in common, although there are a few exceptions. Consideration of free cash flow (72%) and net working capital (55%) constituted two of the few dimensions that were commonly seen as high priority.

Only 56% of companies have defined their optimal capital structure.

44% of companies have defined an internal strategic target rating. Even more relevant for enterprise value, only 56% define their optimal capital structure. Operating flexibility (83%) and flexibility with regard to acquisitions (49%) is given the highest priority in the selection of the optimal capital structure. Other strategic financial objectives such as weighted average cost of capital (WACC) or enterprise value itself do not appear to be regarded as high priorities by the majority of companies. In contrast, a great deal of attention is paid to the optimization of financing costs. One cannot help but feel that the focus of the financing strategy is often not given sufficient thought. However, the strategy often has a much greater impact on enterprise value than the cost of financing.

Although the CFO now plays a significant role in the strategic planning process in most companies, he/she receives too little direct reward for financial optimization. From the shareholder perspective and the enterprise value, it would be a good idea to reinforce the position of the CFO as a financial strategist.

The range of tasks undertaken by a modern CFO spans multiple disciplines. Besides many other important tasks, providing support to the Board of Directors with respect to the focus of the company's financing strategy is certainly one of the CFO's main tasks. This requires the CFO to play a significant role in the strategic planning process. Although this is the case for the vast majority of CFOs, 18% are still involved in the strategic planning process only at the point when the strategy is decided, and 6% are not part of the strategic planning process at all. Developing a financing strategy and its execution is core competencies of CFOs yet 57% receive either no or limited rewards linked to financial optimization. In addition, 72% are not paid in line with success criteria relevant to financing arrangements. Therefore our interpretation of the data suggests that there is scope in many companies to build on the CFO's role as a financial strategist.

What are the key recommendations?

The key recommendations from the benchmark are summarized as follows:

- Internal use of financial projections should be extended using elements that are important to the strategic process, such as key financial ratios, scenarios, sensitivities, or a target rating.
- The Board of Directors should set out in writing the financing strategy to facilitate the operating business strategy, with the ultimate aim of increasing enterprise value. The strategy should also be discussed internally on a regular basis.
- The management tools should be expanded through relevant quantitative and qualitative strategic financial targets. The type of financial targets used depends primarily on the financing strategy.
- The financial strategy should be expanded to incorporate specific internal guidelines related to the debt position, or use of excess cash as well as the capital structure (e.g., asset/liability matching).
- When determining CFO remuneration, the role of the CFO as a financial strategist should be acknowledged by placing consistent focus on financial optimization, which increases enterprise value while simultaneously supporting the business strategy.
- The financial strategy should be as well embedded in the company as the business strategy.

3 Key data for the benchmark

The benchmark was carried out anonymously on behalf of KPMG.

The current benchmarking data is based on results from a qualitative survey conducted by Accelerom AG, Zurich on behalf of KPMG. It was administered in December 2007 using an electronic questionnaire in German and English. The data was collected and anonymously evaluated by Accelerom.

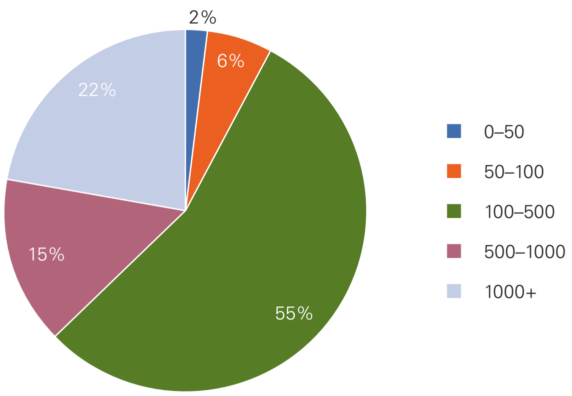
The survey response rate was 33%.

250 CFOs of large and mid cap Swiss corporates were approached. The turnover of these companies ranged between approximately CHF 50 million and 10 billion.

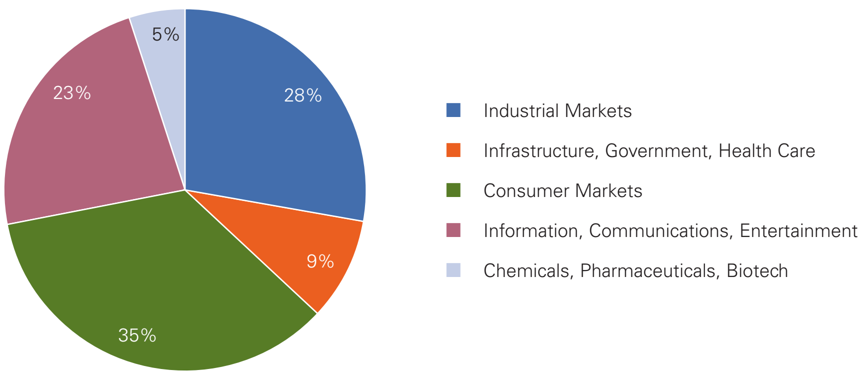
- 83 companies completed the questionnaire.
- 34 of these companies are listed on the Swiss stock exchange (41%).

The following two pie charts show the composition of the survey frame, broken down by the size of the companies' turnover and to which industry they belong:

Turnover distribution of the benchmarking sample (million CHF)



Industries in the benchmarking sample:



4 Strategic financial planning – perennial and indispensable

Financial projections form the basis for a group's financing strategy. Do Swiss companies plan strategically today?

In this section we deal with the following topics:

- Strategic planning in Switzerland – an appraisal
- Planning horizons, level of detail, and the planning process
- Dimensions of strategic planning (depth and breadth)
- Update cycles
- Internal and external use of the strategic plan

Why is a multi-year financial plan indispensable?

Just as the financial plan reflects the business strategy, the financing strategy must support the business strategy. The financial plan is the monetary basis for all strategic considerations. Consequently, the plan may incorporate very complex elements. External parties such as lenders or rating agencies also want to see multi-year comprehensive financial plans from the management. In assessing credit risk, for example, the forward-looking perspective plays a significant role.

The overwhelming majority of surveyed companies have a multi-year financial plan, yet there are exceptions...

...it is not just small companies that do not make long-term plans.

The multi-year financial plan is an indispensable tool for reaching financial decisions. In our opinion, a simple budget plan drawn up on an annual basis is of little help in the strategic context. In the survey, we determined that although the overwhelming majority (84%) have multi-year financial projections spanning over three or more years, 16% however still cannot draw on such long-term projections. Furthermore, although the overwhelming majority of companies without a long-term group financial plan are those with turnover below CHF 500 million, some companies with significantly higher turnover were also included in this group.

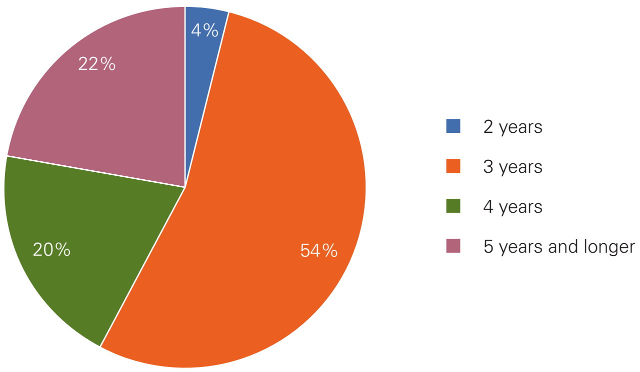
Most CFOs who do not plan for the long term state that there is no possibility for longer-term planning within their industry.

With respect to the reasons for not drawing up a multi-year financial plan, half of the respondents stated that it was not possible to plan funding needs and thereby company development in the long term. This finding surprised us and seems to suggest that the companies are simply responding to events as they happen. A few companies also mentioned low priority or a lack of planning tools as reasons for not being able to plan.

The majority of the CFOs consider a planning horizon of three years to be realistic, but some go significantly further.

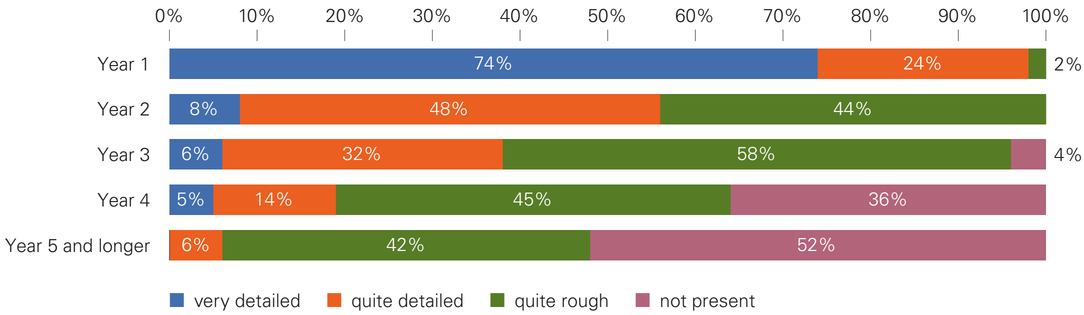
As far as companies with a long-term plan are concerned, 96% think that a plan covering three years is possible, based on an operational foundation. Twenty-two percent of CFOs even believe that they can plan for at least five years or longer into the future. No general correlation between the level of turnover and the planning horizon could be derived.

The planning horizon for the strategic financial plan



There are major differences in the levels of detail in the plans. From the second year onward the overwhelming majority of companies do not have a very detailed plan, and from the fourth year onward only 19% have a plan that is very or quite detailed. However, exceptions can also be found:

Level of detail in the financial plan



The majority of companies draw up their plan in a combined "bottom-up/top-down" process.

With regard to the plan creation process, 59% of companies carve out a combined “bottom-up” and “top-down” approach. The remaining 41% stated that they only planned in one direction, with the preference for “top-down” (29%).

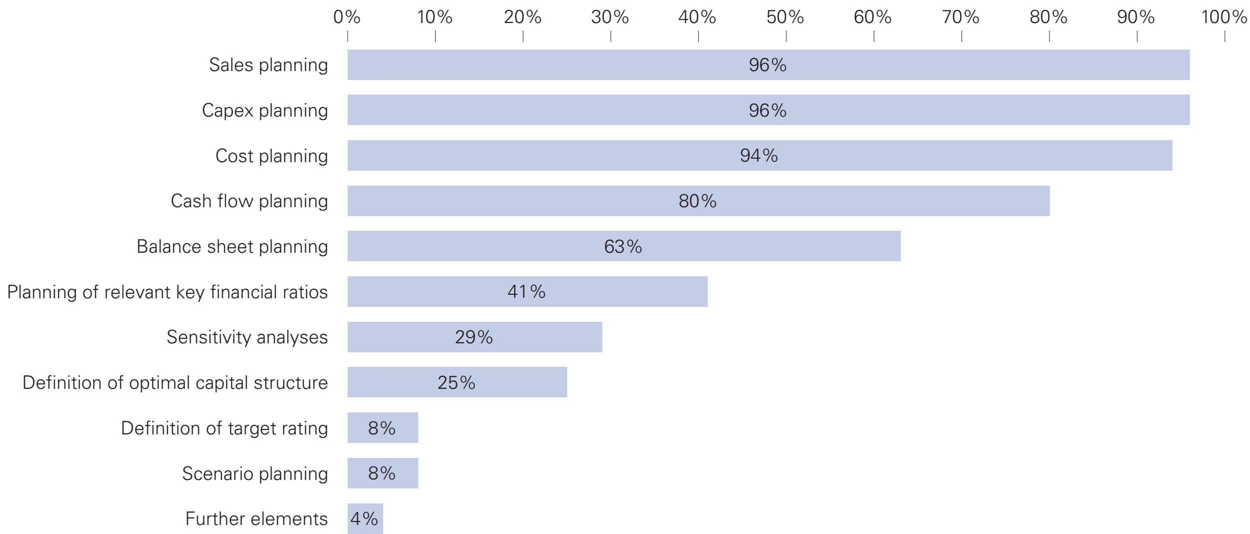
The majority of companies plan on group and business-division levels. A strategic foreign exchange or country plan is rarely found.

82% of companies prepare a strategic financial plan focused at the consolidated group level. However, 70% also break down the plan on a divisional basis. 44% subdivide even further, down to the individual company level, whilst only very few plan at a country (18%) or foreign exchange (8%) level. With respect to the planning of funding/balance sheets, the group plan is generally only relevant, or in exceptional cases, the divisional plan. For specific local funding or projects, a plan at the level of an individual company or project may also be necessary. Moreover, a foreign exchange plan focusing on cash flow may be meaningful for hedging considerations. An overwhelming majority of the companies (80%) currently plan for several years at the cash-flow level.

Only a few companies have a scenario plan or sensitivity analyses.

Surprisingly, scenario plans (8%) and sensitivity analyses (29%) are almost never or rarely developed. However, 41% of companies do implement planning for relevant key financial ratios, although this represents the minority. Individual companies stated that they carry out a SWOT analysis on a regular basis. Overall, it can be concluded that there is scope in many companies to further extend the internal use of the strategic plan as a management and benchmarking tool.

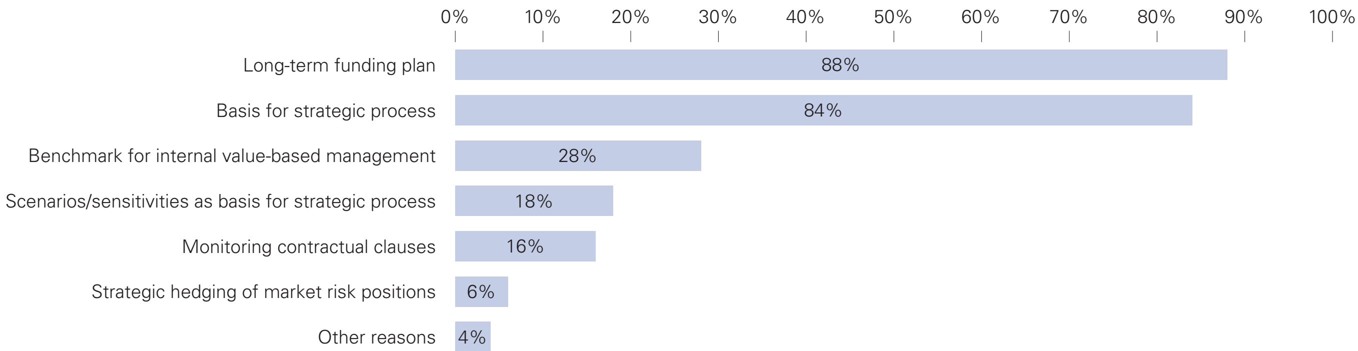
Elements of strategic financial planning



Why do Swiss companies draw up strategic financial plans?

The main motivation behind drawing up a strategic financial plan is to use it for the strategic process (84%) and for planning long-term funding needs (88%). Nevertheless, almost one-third (28%) also use the group strategic plan as a benchmark for internal value based management (e.g., ROCE, EVA, etc.). The strategic plan is rarely used for strategic scenario and sensitivity analyses (18%), for monitoring contractual provisions linked to key financial ratios (e.g., financial covenants, earn-out clauses, etc.), or as the basis for strategic hedging of market risk positions (6%). This is very surprising as it must be difficult to implement monitoring of contractual provisions or strategic hedging over a number of years without a multi-year financial plan. Further reasons given for having a strategic plan included assessing risks (sensitivity/scenario analyses) or to create a basis for discussions with banks/rating agencies.

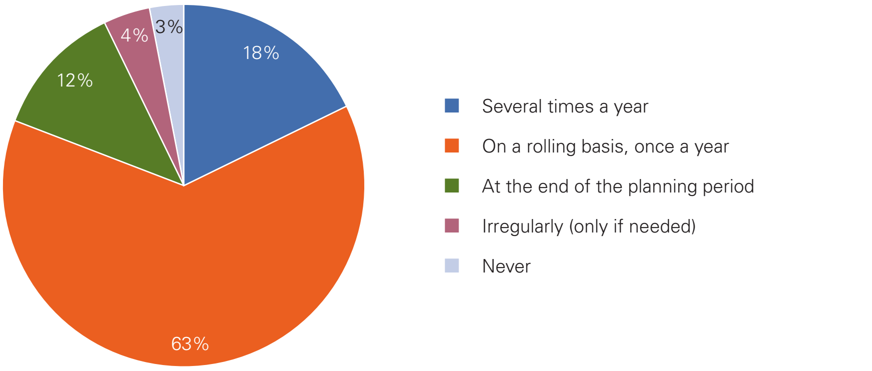
Reasons to create a group strategic financial plan



Most companies regularly update the strategic plan.

A very positive picture emerged with regard to updating the plan with the latest forecast: 81% of all companies updated their plan at least once a year, and 18% update several times a year.

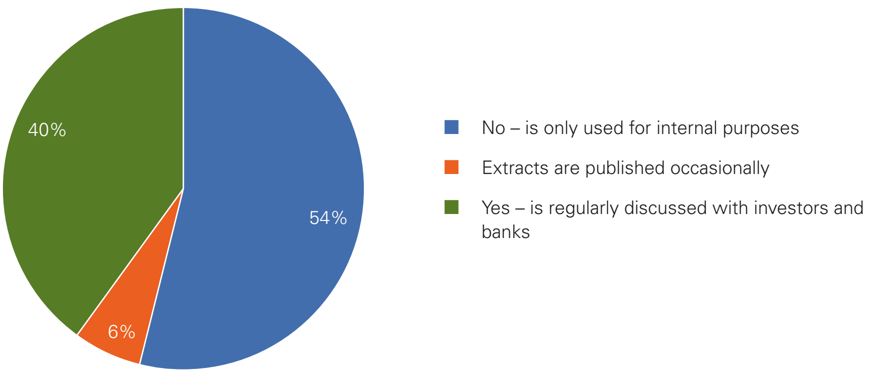
Update of the strategic financial plan with the current forecast



The majority of CFOs use the plan for internal purposes only.

Although the majority of plans are well up to date, far fewer than half of the CFOs use their planning figures actively as an instrument to improve their company's credit rating in negotiations with capital providers or when making submissions to analysts or rating agencies.

External use of the strategic plan



Conclusion
84% of companies possess a financial plan as the basis for their strategic process. A minority of 16% do not prepare a financial plan for various reasons. Those plans that are in place are generally updated regularly, although there is still room for improvement as far as the level of detail is concerned. Companies are reluctant to show their plans externally.

In many companies, there is scope to build further on elements of the plan and the in-depth strategic financial examination of the future that is linked to the plan.

5 The strategic financial view is often missing

When it comes to operational financial management, many Swiss companies are currently in a good position. However, many groups still have scope to optimize their strategic financial focus.

In this section we deal with the following topics:

- Operational view of debt funding
- Approved financing strategies – an appraisal
- Topicality, reason, and meaning of a financing strategy
- Quantitative and qualitative management strategic financial targets
- Target rating and optimal capital structure
- Financial strategic focal points in Swiss companies

Does debt funding in Swiss companies currently take place in a more centralized or local manner?

With regard to efficiency considerations, classic central finance functions have developed, even in companies that are managed in a rather decentralized fashion. An example of such a centralised function is debt funding. 70% of companies in Switzerland now fund themselves centrally and pass on any necessary funds to subsidiaries via intercompany loans. However, for 30% this is still not at all the case (3%) or not yet the case in all situations (27%).

Today a central in-house banking function is used by a majority of companies.

An analysis of the turnover correlation shows that smaller companies tend to fund their debt centrally as the setup of the in-house banking function might be less complex. According to our survey data more than 50% of companies with group sales upward of one billion do not raise their debt centrally, but instead use a combination of central and local financing sources. However, the overwhelming majority of this subset (85%) obtains at least 60–90% from central financing sources. It is often external restrictions, on which the financial management does not have any direct influence (e.g., exploitation of local tax legislation) which limit a company in taking a more centralized approach to funding. To this extent it can be assumed that the potential for improvement is not longer very great for most Swiss companies.

Tax considerations and liability issues in the group are frequently central topics in the structuring phase.

The main reasons stated for not having largely centralized funding are tax considerations (55%) or group liability issues (36%). Additional reasons (ranked by number of mentions):

Most important reasons for not having group financing that is largely centralized	
1.	Tax restrictions
2.	Liability group issues
3.	No central Group Treasury
4.	Country-specific restrictions (e.g., foreign exchange transfers)
Other reasons	
	Lack of central processes / IT solutions
	Insufficient resources
	Management of foreign exchange risk
	Legal entity limitations, e.g., joint ventures
	Transparency, particularly toward lenders

By their own admission, only 50% of the companies currently have a financing strategy that has been approved by the Board of Directors.

Regardless of how well positioned the companies currently are in the area of central funding, this positive picture (centralized in-house bank function) seems to reverse when it comes to the topic of financing strategy. Only 50% of the CFOs stated that they possess a financing strategy that has been appropriately approved. Interestingly, up to group sales of one billion there was no correlation between the level of sales and a positive response. On the other hand, companies with group sales in excess of one billion tend to have a financing strategy that is set out in writing and has been approved.

Companies with an approved financing strategy (by group sales)

Group sales in CHF million	0–50	50–100	100–500	500–1000	1000+
Yes	2%	0%	25%	5%	18%
No	0%	5%	30%	8%	7%

There are few differences between listed and non-listed companies with regard to having an approved strategy.

An additional investigation showed that when it comes to having an approved financing strategy, there is little difference between listed and non-listed companies, although among listed companies, the number that reported having no approved financing strategy was slightly higher.

Existing financing strategies are regularly

58% of the companies with an approved financing strategy update their financing strategy at least once a year, and 25% from this group do so several times a year. Another quarter only adapt their financing strategies occasionally, usually when required. This means companies that have a financing strategy use it regularly.

What are the reasons for not having a financing strategy?

The reasons listed for not having a financing strategy that has been explicitly approved by the Board of Directors were:

Most important reasons for not having a written financial strategy that has been explicitly approved	
1.	We are "cash rich"
2.	We have not yet given much strategic consideration to this topic in general
3.	No time/no budget/other priorities
4.	Finance needs cannot be planned for longer than 12 months
5.	Lack of qualified internal employees (External expertise is brought into the company, where necessary)
6.	No appropriate planning tool/IT system

Does a company that is regarded as "cash rich" not need a financing strategy?

60% of CFOs without an internally approved financing strategy described their organizations as "cash rich." Once again, this reflects the fact that many Swiss companies have, on average, great financial power. Yet here it is also vital to make appropriate strategic financial decisions with an eye to the enterprise value (i.e., excess cash/investment strategy). Moreover, even companies that are currently "cash rich" find that they require resources in the near future – for example, due to large acquisitions. For companies with an ambitious M&A strategy, it therefore makes sense to prepare using a suitable financing strategy before things become hectic when a significant transaction occurs. Just like the business strategy, an acquisition strategy should always be linked to a financing strategy. Therefore, the financing strategy should always have a holistic asset/liability view.

For companies with an ambitious M&A strategy, it makes sense to prepare with an appropriate financing strategy in advance in order to best position the company

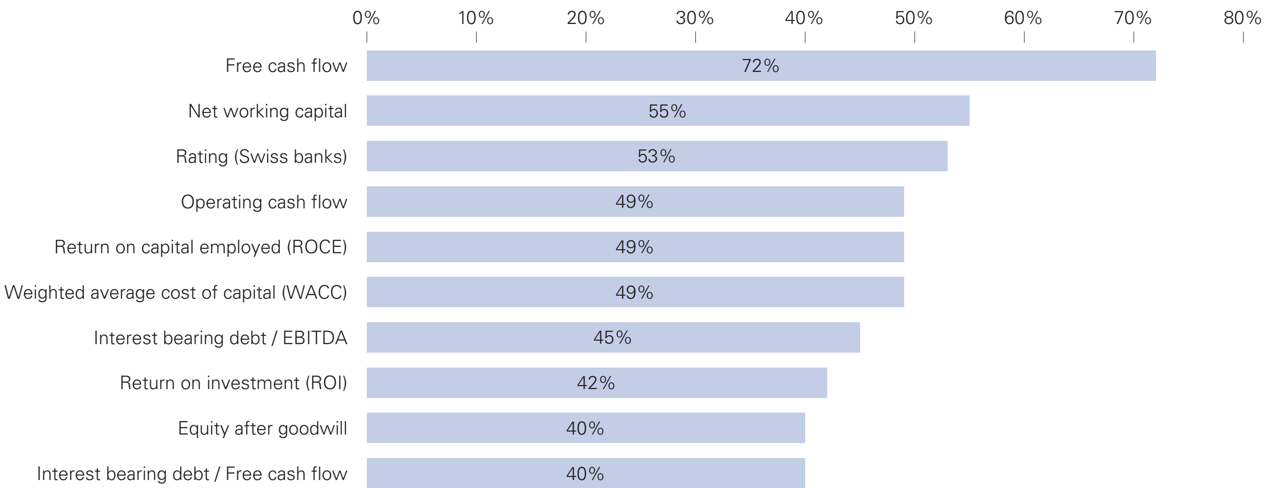
Every second company in Switzerland currently does not have an approved financing strategy.

47% of CFOs stated that they had not yet treated this topic as a priority. Once again, this confirms the conclusion that every second company in Switzerland still does not have an approved financing strategy. In addition, one-fifth of the companies believe that it is impossible to plan their funding requirements reliably more than 12 months into the future.

What key financial metrics do Swiss CFOs currently use to manage the balance sheet and capital structure of their companies?

As part of the benchmark exercise we asked the CFOs which criteria Swiss companies use to manage their financial structure. The following list provides an overview of the detailed results of this question:

Top 10 most important key financial metrics for the financial structure



The key strategic metrics favoured by Swiss CFOs are very diverse. The high importance of externally published bank ratings and the low significance of the external ratings from rating agencies is remarkable.

On the basis of the survey frame, there were almost no quantitative key metrics considered to be strategically important by the majority of Swiss companies. Only three management factors were classified as strategically important by more than 50% of the companies: free cash flow (72%), net working capital (55%), and the externally published rating from the credit research departments of Swiss banks (53%). Further focal points were ROCE (49%), WACC (49%), operating cash flow (49%), net debt/EBITDA (45%), and ROI (42%). On the other hand, the following held little importance: external rating (9%); the FFO/net debt, a key ratio that is very popular with rating agencies (8%); the capitalization key ratio net debt/net debt + equity (2%); and the economic value contribution from hedging (0%). Furthermore, other key ratios that are not listed were mentioned, such as return on net assets (RONA), although these had no statistical relevance.

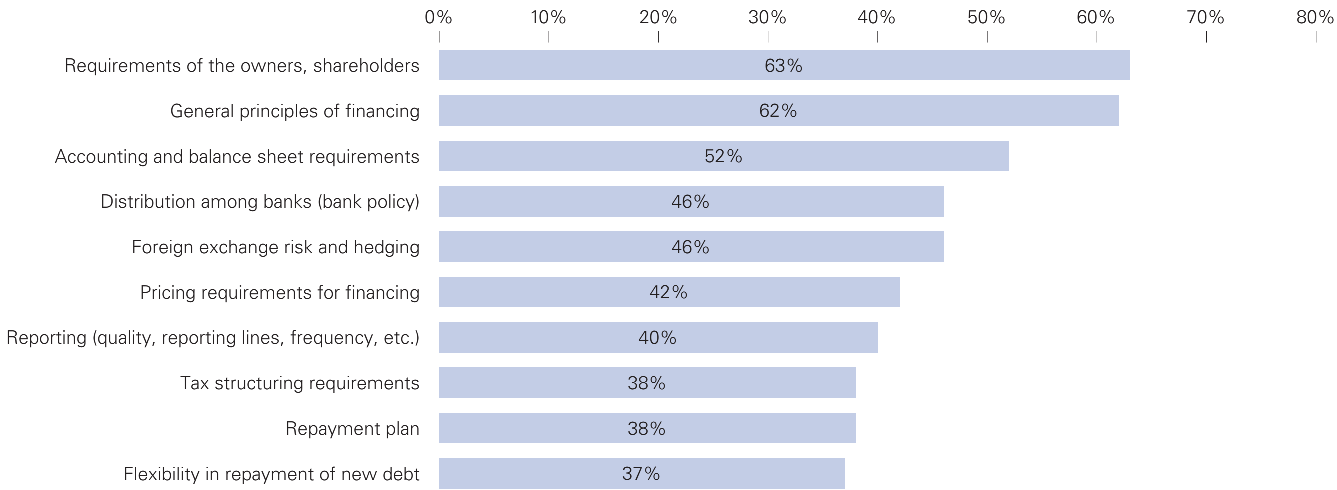
For many CFOs, optimization of cash flow and internal financing has high-ranking strategic significance.

The diversity of concepts and key metrics used by Swiss companies also applies with respect to the various sub-groups of key metrics we have formed within the questionnaire, with one exception: the theme of cash flow and internal funding/asset management (net working capital) is considered to be strategically exceptional important. This is understandable, as the potential for internal financing within individual company groups can be very high, meaning that the impact on the financial structure and ultimately on the enterprise value via the cost of capital can be enormous. However, a significant number of companies do not appear to be targeting the aforementioned effect of improved internal financing on the enterprise value as WACC plays a role in internal considerations for only 49% of the companies.

What qualitative aspects do CFOs focus on when formulating the financial strategy?

When formulating the qualitative elements of a financial strategy, the majority of CFOs found the following factors particularly important: requirements of the owners (63%), formulation of fundamental financing principles (62%), and accounting and balance sheet requirements (52%). Less than half, but nevertheless a large proportion, regard internal standards for business allocation to banks (46%), foreign exchange risk/hedging (46%), pricing (42%), and specific regulations pertaining to internal reporting (40%) as important. Other significant criteria for company financing, such as monitoring financial covenants (10%), the use of alternative financing sources (6%), financing documentation standards (4%), or the external rating strategy (4%) were regarded as lower priorities. Further criteria that are significant for company financing, such as a long-term repayment plan or flexibility in repayment, were only important to one-third of companies (38%) in their financial strategy.

Top 10 of the most important qualitative criteria pertaining to the financial structu



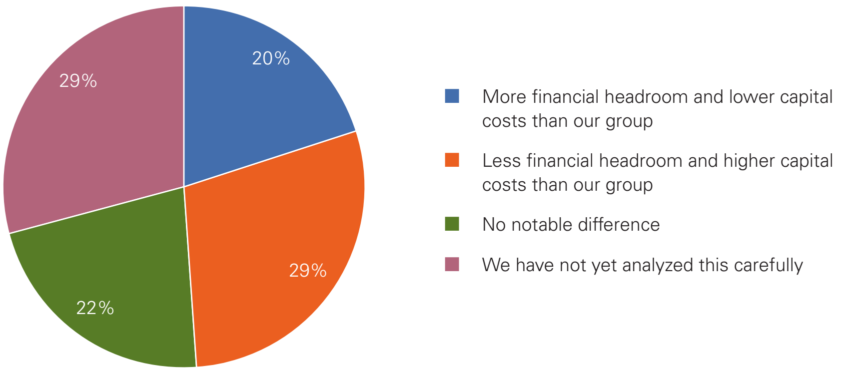
A purely quantitative focus on management factors for the financial strategy is quite rare in Switzerland.

The majority of CFOs in Switzerland do not appear to solely focus on quantitative management factors (23%). In fact, 64% stated that they regarded both quantitative and qualitative management factors as being important.

Although capital structures are generally strong, only 20% of all Swiss companies believe that they have greater financial power than their competitors.

Despite the relatively strong capital structure of many Swiss companies, only 20% of CFOs believe that their financial headroom is greater and their capital costs are lower than those of the competition. This is noteworthy given the fact that many companies in Switzerland are "cash rich." This also highlights the fact that many companies are faced with strong international competition despite their strong financial position.

Financial flexibility and capital costs of competitors, compared with own company



Only 44% of companies have a strategic internal target rating: to what extent is a rating suitable for use as a pricing benchmark for funding purposes?

Only 44% stated that they had a strategic internal target rating. Why should a company have a target rating? An external rating plays a significant role in the international capital markets, and therefore can be used to provide an indicative pricing benchmark for capital market transactions. This also applies to lending negotiations with banks, but there are other aspects beyond the rating that come into play as well. In addition, a rating has an important impact on debt capacity, which also applies for internal bank credit ratings that are not externally published and which drive the bank's internal capital consumption.

Those who define a target rating tend to use it actively in the process of reaching strategic decisions.

Interestingly, half of all companies that already have a target rating have never deviated from it. For one-third deviations have been tolerated in the past, but the consequences of deviating were weighed carefully in the decision making process. This suggests that companies with a target rating take this very seriously and use it as an important strategic management factor in the decision making process.

Deviation from target rating		Percentage
1.	No, we have never deviated from the target rating	48%
2.	Yes, but the impact on the rating was carefully weighed up in the decision making process	33%
3.	We do not have a target rating	19%
4.	The decision-making party is not generally aware of the implicit rating when making the decision	0%

More than one in two companies in Switzerland do not know what their current rating would be and the criteria behind it – and this situation is largely independent of the size of the company.

More than half (57%) of all CFOs do not currently know the significant factors that make up their individual company rating. The most probable reason is that they are not in constant contact with rating agencies and analysts. This contact is generally very useful for the management as it enables company information to be communicated more precisely, and the management obtains regular feedback. Only 43% of all companies in the survey frame had regular communication about their internal bank rating with their main banks. There was no statistical correlation with the size of turnover. In fact, there are companies with turnover in the billions that do not know their current rating drivers.

56% of all companies claimed to know their optimal capital structure, but 44% have not yet discussed their optimal capital structure at all.

In the context of the survey, a similar picture was revealed for the definition of the optimal capital structure: 44% of all companies have not yet defined their optimal capital structure. 56% claimed to know this. However, this does not mean that the structure is currently implemented or will be. A more detailed investigation into the content and quality of the target capital structures was not carried out as part of this benchmarking exercise.

Should companies that are "cash rich" define a capital structure?

57% of the companies without a target capital structure claimed that they had not defined one because they were "cash rich" (multiple responses were allowed). The meaning of this statement is difficult to understand as the capital structure is of relevance for the enterprise value, even in companies with a net liquidity position. Here again, there were a large number (43%) of companies that had not yet carefully considered the topic in general (30%) or still had not placed high priority on this matter for other reasons (13%). Other reasons were also given, but these are not statistically relevant:

Reason for the lack of an internal target capital structure	
1.	We are "cash rich"
2.	We have not yet given strategic consideration to this group of topics
3.	No time/no budget/other priorities
4.	Longer-term funding needs cannot be planned (> 1 year)
Further reasons	
	Lack of qualified internal employees (External expertise is brought into the company, where necessary)
	No suitable planning tool/IT system
	Change in strategic focus
	Basic legal principles
	Status quo is equivalent to the owners' targets
	To keep our options for organic or acquisitionled growth open
	Target structures in the individual holdings/business divisions are too disparate

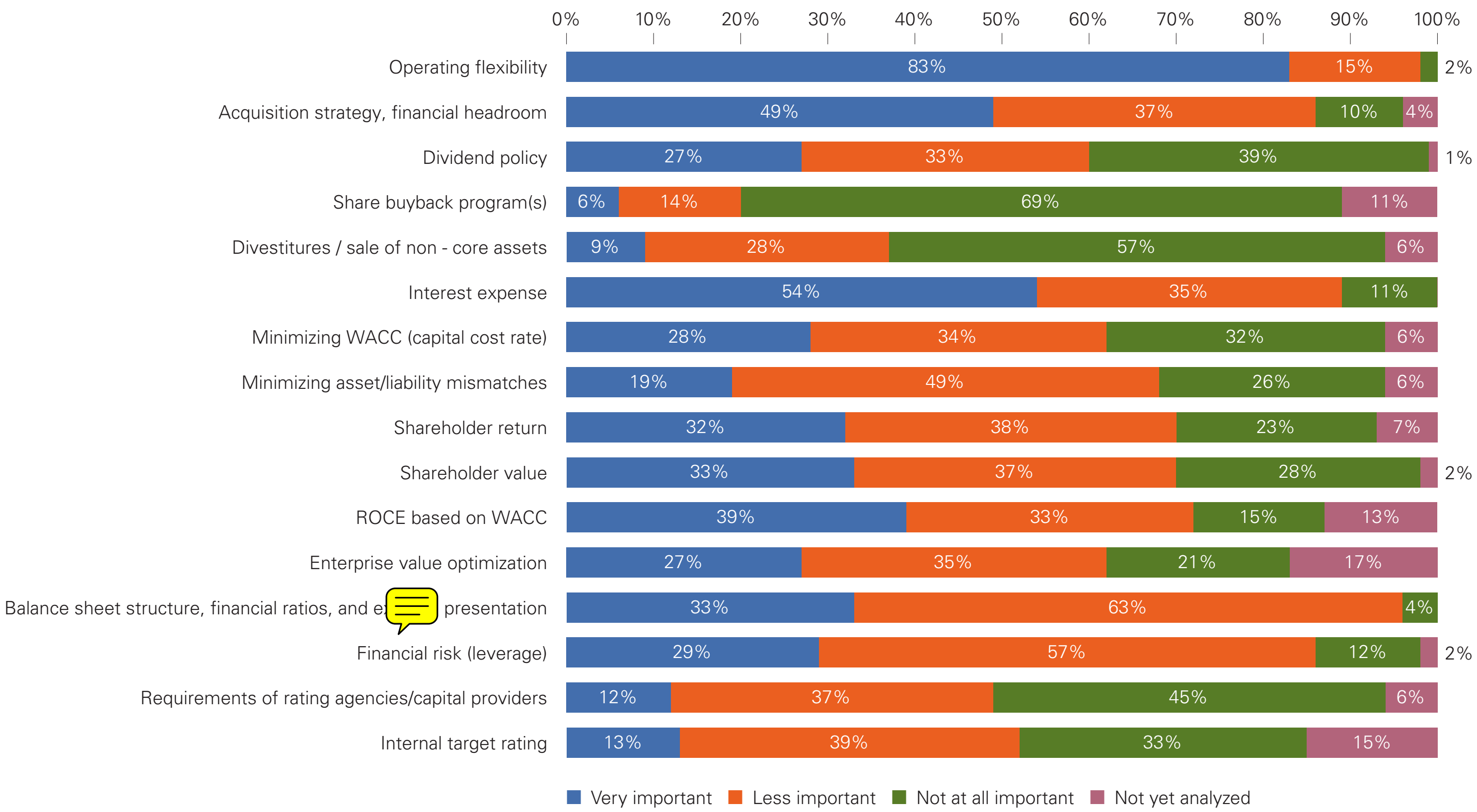
What is the significance of an optimal capital structure?

The very act of defining a group's individual optimal capital structure is a central strategic move, one that has a significant impact on the risk profile and the future development of the enterprise value of a company.

What do the CFOs regard as having the greatest strategic importance with regard to their target capital structure?

In a further step, the CFOs were asked which strategic criteria were of the greatest importance for the capital structure of their company (divided into various subgroups):

Strategic objectives linked to capital structure



Operating flexibility is considered to be the most important strategic objective with respect to capital structure.

Here again, the different weighting of strategic objectives is striking. However, there are certain trends: 83% of all companies regard operating flexibility as very important. In second place are the financing costs (54%), and in third is debt capacity (49%), in connection with the defined acquisition strategy. Fourth place is taken by value-based management on the basis of ROCE and WACC, i.e., the optimization of the cost of capital from a financing perspective (e.g., debt vs. equity; long-term vs. short-term, etc.).

On the other hand, an internal target rating (13%), the requirements of rating agencies and lenders (12%), the divestment strategy (9%), and the strategy regarding a share buyback program (6%) were said to be of low strategic relevance for the capital structure. The lack of importance of lender requirements was particularly noteworthy.

Only a minority of Swiss CFOs classify topics that are relevant to enterprise value as very important.

Strategic topics that are significant for enterprise value, such as shareholder value, enterprise value optimization as part of a defence strategy, or the dividend policy are surprisingly regarded by only one-third of surveyed CFOs as being very important. This also applies to targeting asset/liability management (less or not at all important for 75%) and minimizing WACC (less or not at all important for 68%). Overall, this means that important strategic components of the financial strategy are neglected in many companies.

Conclusion:

There is scope to increase the focus on enterprise value within the financial strategy further.

Although the professionalism of the financial management in many companies has risen considerably, there is still scope to improve the focus of the financial strategy to achieve ongoing economic optimization of enterprise value.

Seen relatively, the significance of the financial strategy for the enterprise value is completely independent of company size.

Qualitative and quantitative strategic financial management are very diverse. For the majority, operating flexibility and financing costs constitute major strategic objectives with regard to capital structure. In contrast, many other relevant objectives impacting enterprise value do not play a major role with respect to capital structure. In this respect, the perspective of very large companies is often broader. Seen relatively, however, the importance of the financial strategy for enterprise value is completely independent of company size.

The CFO plays the most important role with respect to the financial strategy, and this role will be examined in more detail in the next section.

6 The CFO's role should be strengthened

Although the CFO is generally an important player in the strategic team, they are not always directly rewarded for financial optimization. The CFO's role as a financial strategist should be strengthened.

In this section, we deal with the following topics:

- The strategic financial role of the CFO
- Decision makers in financing strategy
- Time pressure on the CFO in financing negotiations
- Direct remuneration of the CFO for financial optimization

The modern CFO is the financial strategist in the group – is this true?

Due to constantly increasing complexity in decision making there is clear demand for allocation of functions within modern top management. Therefore, the Chief Financial Officer is assigned nowadays the role of lead strategist in all financial issues. The range of tasks carried out by a CFO spans responsibilities in multiple disciplines, including a significant component relating to company strategy, namely collaborating with the Board of Directors to determine the focus of the group's financial strategy. To enable the CFO to fulfill their remit in accordance with the above description, it is important that they play a significant role in the process of developing the strategy. The benchmarking exercise investigated if this is the case in practice.

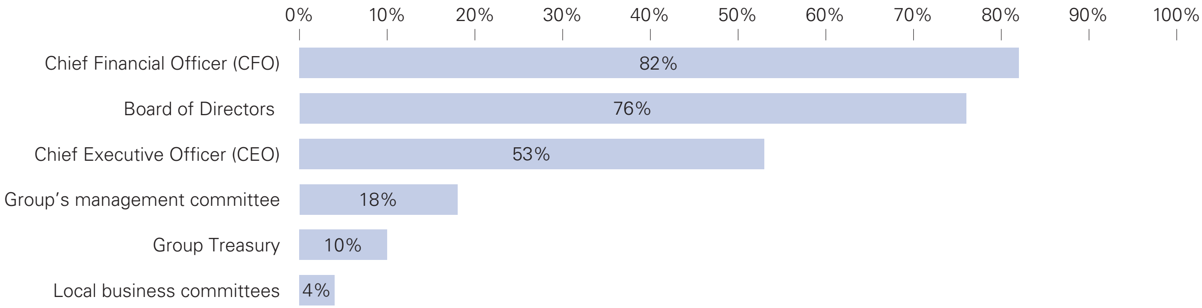
A strong position is a prerequisite for the CFO's role as financial strategist.

The survey highlighted that CFOs in most Swiss companies have a major influence and a strategic role, and a huge majority are involved in the process of developing the companyy's strategy from the outset. However, only a few CFOs manage the process of developing the strategy themselves, which would appear logical given that in Switzerland the business and financing strategy is the direct legal responsibility of the Board of Directors. Moreover, in 18% of companies the CFO is only brought into the process when a decision is taken on the strategy, or he/she has no strategic function at all (6%). In these companies, CFOs are not given the strategic financial role that they should have, or other people carry out parts of the CFO function.

Can the CFOs make independent decisions on matters affecting financing?

What freedom does the CFO have to make independent decisions on matters affecting financing? Due to corporate legal structures in Switzerland, the Board of Directors makes the final decision on strategic matters. Therefore the real influence of the CFO depends greatly on whether his/her suggestions and submissions are accepted by the authorized board.

Decision makers for financial issues



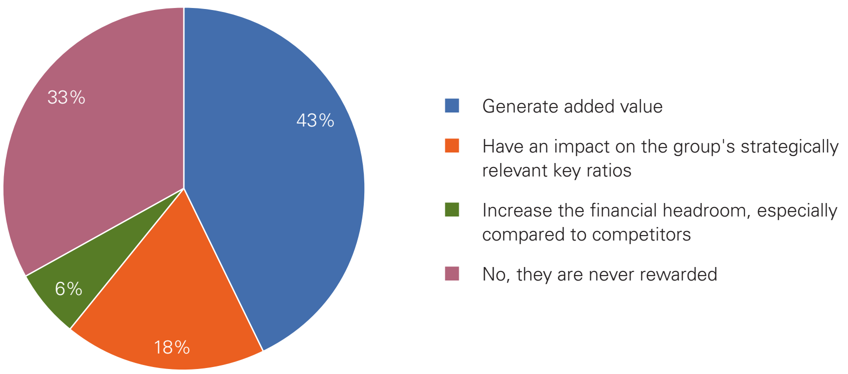
Time pressure during financing negotiations suggests that the CFO is unable to devise a long/term financing strategy.

In a further step, we investigated whether the CFO was under time pressure when conducting financing negotiations. In our opinion, a positive response would suggest that the CFO was unable to construct a long-term financing strategy. We are certainly aware that time pressure in exceptional cases cannot always be prevented, even when the best possible strategic financial preparations have been made. Such exceptions could occur when very large transactions or difficult market conditions arise. However, we still believe that it is possible to draw conclusions from the responses as to the trend described above: 68% of CFOs claimed to be never (6%) or rarely (62%) under time pressure. Conversely, 32% admitted that they frequently (26%) or always (6%) were under time constraints.

More than half of all CFOs are not directly rewarded for financial optimization, or they receive a limited reward.

Regarding whether the CFO is rewarded for financial optimization, more than 50% of CFOs claimed that they were never rewarded or received a limited reward. One-third claimed that they were never rewarded for financial optimization. Only 43% claimed that they were always rewarded if financial optimization measures generated added value for the company. This suggests that many CFOs in Switzerland are not assessed by their performance in the area of financing strategy, particularly in the successful implementation of the measures they put forward in financing strategic matters. Rather, they are measured by other factors. As a result, it seems that many CFOs are not regarded as being important players in determining the financing strategy, contrary to what is portrayed in the specialized press.

Financial optimizations are rewarded if they



Two-thirds of all CFOs are not remunerated in line with success criteria relevant to financing.

The picture becomes even clearer when CFOs are questioned regarding their bonus agreement: only 28% stated that their bonus agreement contained success criteria with respect to for financing.

Conclusion:

In many companies, the strategic role of the CFO could be strengthened.

Most CFOs included in the survey play a significant role in the strategic process. Many but not all of the CFOs are able to develop a long-term financial strategy and are never or rarely under time pressure. However, more than 50% received no or a limited direct reward for financial optimization that aim to increase enterprise value in conjunction with the business strategy. In fact, only 28% of CFOs received bonuses linked to financing success criteria.

From this it can be concluded that the CFO position in many companies is not yet ideal as far as involvement in financing strategy creation is concerned, and many companies still do not compensate financial optimization sufficiently.

7 Credit crunch: Switzerland takes it easy

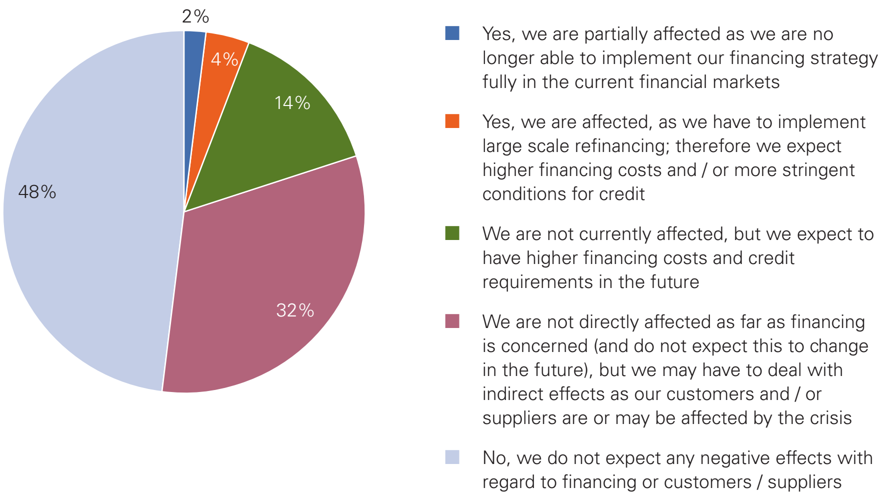
What are the "credit crunch" effects on Switzerland?

As a result of the US sub-prime crisis, a marked turnaround / downturn was visible on the global credit and capital markets in summer 2007. Due to the topicality of this issue, the Swiss CFOs were asked at the end of this benchmarking exercise whether they predicted future consequences for their companies as a result of the credit crunch. As can been seen from the diagram below, Swiss companies are fairly unconcerned in the face of current developments in the capital and international money markets.

Swiss CFOs believe that the international credit crisis will have a relatively small impact on their companies.

48% of all CFOs predict absolutely no impact on their companies, although 32% fear possible effects on their own value chain, but not on their financing. Only 20% foresee direct effects on their financing costs and credit requirements (18%) or strategic financial position (2%). This significant lack of worry is surprising at first, yet it also reflects the financial power and good market position of many Swiss companies, and the fact that they are frequently given preferential treatment by local banks due to local competition.

Negative effects of the financial market crisis ("credit crunch")



8 Conclusion

We hope that this survey will make a contribution toward further improvements in financing decisions, and that financial management will not remain merely the "enabler" for the business strategy, but will become an independent and important part of the management strategy. This would ideally occur without detachment from the "real" corporate world and in close alignment with the relevant business strategy. One of the basic ways to achieve this goal is to strengthen the CFO's role so that he / she can become a true financial strategist.

Based on the survey data, it was determined on average that companies with an approved financing strategy had higher leverage than those without one. Interestingly, this also correlated with the return on equity, which was slightly higher for companies with a financing strategy.

We would like to thank all of the companies that contributed to the success of this benchmarking exercise. Very special thanks go to the CFOs of Nestlé and Ciba Specialty Chemicals, who granted us extensive personal interviews.

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To order the survey (Financing Benchmark 2008, 1st edition 02/2008), go to www.kpmg.ch or contact KPMG by phone at +41 44 249 46 00.

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