Triodos Investment Management

ROCHE AGM Date: 2014-3-4

1.1 Receive the Financial Statements and statutory Reports **For**

1.2 Approve the Remuneration Report **Oppose**
Roche's remuneration report is contained within the annual report. The board is seeking separate advisory approval for the report. The remuneration report incorporates details of payments made to the Board of Directors and the Corporate Executive Committee for the year under review in addition to details of the policy that informs remuneration going forwards. Disclosure is lacking in particular areas and this is frustrates proper analysis of the kind needed to hold the company accountable for executive pay quantum and design. The maximum quantum of executive remuneration appears to be potentially excessive. Contractual terms for executives appear overly generous given overall pay levels.

2.1 Approve bonus for Corporate Executive Committee members **Oppose**
Pursuant to Switzerland's new Ordinance against excessive compensations in listed corporations, Roche has elected to seek binding retrospective approval for payment of total aggregate bonus amounts for the financial year just ended to the Corporate Executive Committee.
Authority is sought to pay an aggregate bonus for the year under review to the Corporate Executive Committee totalling CHF 9,316,780. It is noted that the aggregate includes the CEO's bonus valued at a discount due to the holding period applied.
It is proposed that the bonus will be paid in cash to all executive committee members except for Severin Schwan, the CEO, who will receive Roche shares. The decision to prevent Mr Schwan from selling these shares for a period of ten years is welcomed. On an un-discounted basis the proposed bonus for the CEO is less than 100% of 2013 salary, however two other executive committee members would receive bonuses in excess of 100% of 2013 salary under this proposal.
There are also concerns that the payments proposed are based on undisclosed performance criteria despite the fact these are retrospective payments. 70% of the annual bonus depends on group financial targets but it is unclear from disclosure which targets are used and the extent to which each target informs the pay out. The possible range given is profit, sales growth, OPAC (Operating Profit After Capital Charge), Earnings per Share and NES growth, pipeline. No details are provided on the precise measure of EPS used to inform bonus. 30% of bonus depends on personal performance. The company regards disclosure of such targets as commercially sensitive. Triodos considers disclosure of the nature of such targets appropriate. Based on our concerns, we oppose.

2.2 Approve bonus to Chairman of the Board of Directors **Oppose**

Authority is sought to pay the Chairman of the Board for the year under review (Mr Humer stands down as Chairman at the AGM) a bonus of 20,406 Roche shares which he will be unable to sell for 10 years. The award is valued by the company at CHF 2,791,950 however this estimate assumes that the holding period reduces the market value of the award by as much as 45%. It would be preferred that the proposal sought approval for the market value of the award before assumed discount. The value of the payment when not discounted is equivalent to more than 100% of the Chairman's 2013 salary and, as such, we oppose.

3 Ratification of the Board of Directors' actions **For**

4 Approve the dividend **For**

5.1 Election of Christoph Franz as chairman **For**

Newly nominated Chairman of the Board. Considered independent.

5.2 Election of Dr Christoph Franz as a member of the Remuneration Committee **For**

Newly nominated Non-Executive Chairman. Considered independent.

5.3 Election of Mr André Hoffmann **Oppose**

Non-Executive Director. Independent by the Company, but not considered independent as he has been on the board for more than nine years. There is insufficient independent representation on the Board.

5.4 Election of Mr André Hoffmann as a member of the Remuneration Committee **For**

Non-Executive Director. Independent by the Company, but not considered independent as he has been on the Board more than nine years. It is considered that the Remuneration Committee should be comprised by independent directors only.

5.5 Election of Prof. Pius Baschera **For**

Independent Non-executive Director.

5.6 Election of Prof. Sir John Bell **For**

Non-executive Director. Independent by the Company but not considered independent as he has been at the board for more than nine years. There is insufficient independent representation on the Board.

5.7 Election of Mr Paul Bulcke **For**

Independent Non-Executive Director.

5.8 Election of Dame DeAnne Julius **Oppose**

Non-Executive Director. Independent by the Company, but not considered independent as she has served on the Board for more than nine years. There is insufficient independent representation on the Board.

5.9 Election of Dr Arthur D. Levinson **Oppose**

Non-Executive Director. Not considered independent as he was CEO of Genentech when it was taken over by Roche in April 2009. Moreover, he received payments for his consulting work at Genentech amounting to 23,441 Swiss francs during the year under review. There is insufficient independent representation on the Board.

5.10 Election of Dr Arthur D. Levinson to the Remuneration Committee — **For**

It is considered that the Remuneration Committee should be comprised by independent directors only.

5.11 Election Dr Andreas Oeri — **Oppose**

Non-executive Director. Independent by the Company, but not considered independent since he is a member of the founding family's shareholder pool which holds 45% of the Company's issued share capital. He has served on the Board for more than nine years. There is insufficient independent representation on the Board.

5.12 Election of Dr Severin Schwan — **For**

Chief Executive Officer. It is noted that Dr. Schwan has been appointed to the Board as part of the Company's plan to move toward a one-tier governance structure.

5.13 Election of Mr Peter R. Voser — **For**

Independent Non-Executive Director.

5.14 Election of Mr Peter R. Voser to the Remuneration Committee — **For**

Independent Non-Executive Director.

5.15 Election of Prof. Beatrice Weder di Mauro — **For**

Independent Non-Executive Director.

6.1 Amendment of Articles 6 and 12 — **For**

Amendments are sought in order to reflect new regulations in the form of the updated Federal Act on Intermediated Securities. No concerns were identified.

6.2 Amendment of Article 10 — **For**

It is proposed to amend Article 10 to reduce the advance notice required for shareholders to submit proposals to the AGM from 60 to 28 days. As this facilitates shareholder participation in company meetings, Triodos votes in favour.

6.3 Amendment of Article 15 — **For**

It is proposed to amend Article fifteen so that votes to abstain on approvals by the general meeting regarding the board of directors and executive committee's remuneration and resolutions regarding the appropriation of available earnings particularly votes to determine the dividend do not count as votes cast. These resolutions require an absolute majority of votes to pass.
The change is supported as it complements the new prohibition on using depositories or the Company itself as a proxy for voting. The use of an independent proxy is supported, particularly where uninstructed ballots are given to a proxy.

6.4 Amendment of Article 18 **For**

It is proposed to amend Article 18 as follows. The amendment will require all Board members to stand for annual election. Currently directors stand for election biannually. Annual elections are considered best practice. Second, the remuneration committee will be directly elected by shareholders, which is welcomed.

6.5 Amendment of Article 22 **For**

The purpose of the proposed amendment to Article 22 is to limit the directors contracts to one year instead of the current biannual contractual agreements. It will also limit the number of current other positions at any listed company to five. This is still higher than best practice, but is a significant improvement.

6.6 Amendment of Articles 24 and 25 **Oppose**

The amendment to Article 24 and the inclusion of a new Article 25 set out the Company's remuneration policy.
This requires the Board to submit the total remuneration for the Board and the total remuneration for the Executive Committee as a binding resolution to shareholders annually as well as setting limits in the case that additional directors join during the year. If shareholders reject the proposals, an EGM must be called.
The new Article 25 will prohibit the Board from receiving credit or loans or participating in profit sharing or equity based incentive plans. However, they may receive mortgage credits or loans for a residential property intended for their own use, payments from subsidiaries of the Company, and pension contributions up to 60% of base pay.
It sets out the responsibilities of the Remuneration committee and the basic terms and conditions of the Company's incentive plans: Stock-settled Stock Appreciation Rights (S-SARs) Plan, Restricted Stock Unit (RSU) Plan, Performance Share Plan (PSP) and Roche Connect.
The Articles would require the annual bonus to be based on performance, but the SSARs and RSUs could be allocated at the discretion of the committee and are not subject to performance conditions. The performance share plan would allow up to 1/3 of base salary to be awarded in shares annually. Shares would vest following a three year performance period depending on Roche's shares performance in comparison with a peer group. Targets are not disclosed. If the shares perform better than a peer group average and TSR grows more than 10%, then the amount awarded can be doubled.
Roche Connect is an all employee plan allowing the issue of shares up to a 20% discount.
The amendment to Article 25 will renumber it as Article 26 and will remove the separate requirement to appoint a group auditor and the possibility for this to be performed by a different auditor.
Though some of the proposed changes are welcomed, there is no requirement that incentive pay will be linked to performance other than share price nor is there an overall cap on variable remuneration. Triodos therefore opposes.

6.7 Approval of all proposed amendments to the Articles of Incorporation. **For**

In March 2013, Swiss voters voted in favour of the popular initiative “against excessive pay”, frequently named the Minder Initiative after its initiator, the council of states member Thomas Minder. The implementing ordinance of the Federal Council was adopted on 20th November 2013 and entered into force on 1 January 2014. The ordinance has a significant impact on shareholder rights and governance and will be valid until implementing legislation is enacted. Companies will be required to change their articles to give effect to the new regulations. In particular, depending on the existing article provisions, companies may need new powers in their articles to:

Propose separate annual binding shareholder votes on the total amount of aggregate compensation of the Board of Directors and the executive management;

Propose an annual shareholder vote on the election of all members of the Board and, specifically, the Chairman and members of the Compensation Committee;

Prohibit Certain forms of compensation, including severance payments, compensation paid in advance and transaction bonuses;

Introduce an independent proxy as the only valid institutional shareholder representative; and

Introduce a remote indirect electronic voting capability for shareholders wishing to vote in advance of the AGM.

Roche is proposing article changes which require all Board members including the Compensation Committee to stand for annual election, limits director's contracts to one year, and sets out the remuneration policy and votes required.

In addition the company is seeking to introduce the following changes which clarify the conversion form of securities, reduce the notice required to submit shareholder proposals, prohibit abstentions on the new votes, and limit the number of positions a director can hold.

The new article changes which seek to give effect to these new and significant shareholder rights are supported.

7 Approval of the total amount of future remuneration for the Board of Directors **Oppose**

Pursuant to Switzerland's new Ordinance against excessive compensations in listed corporations Roche has elected to seek binding forward looking approval for payment of total aggregate remuneration for the year ahead to the Board of Directors. An aggregate total of CHF 11m is proposed. The aggregate amount paid to the board in 2013 excluding bonuses and excluding Mr Schwan, the CEO, was CHF 10,046,691. The board will comprise less directors post 2014 AGM than during the year. The authority does not appear to be consistent with the intent of the new regulations.

8 Approval of the total amount of future remuneration for the Corporate Executive Committee **Oppose**

Pursuant to Switzerland's new Ordinance against excessive compensations in listed corporations Roche has elected to seek binding forward looking approval for payment of total aggregate remuneration for the year ahead to Corporate Executive Committee. An aggregate total of CHF 36m is proposed. The aggregate amount paid to the CEC in 2013, excluding bonuses and including Mr Schwan, the CEO, was CHF 28m plus indirect benefits. The amount sought is well in excess of the 2013 aggregate and as such the authority does not appear to be consistent with the intent of the new regulations.

9 Election of the independent proxy **For**

The Board of Directors proposes the election of BDO AG as the independent proxy for the period from 2014 until the conclusion of the 2015 ordinary Annual General Meeting of Shareholders. Regulatory changes in Switzerland now prohibit the appointment of a depositary or a corporate proxy. This changed is welcomed. Roche is seeking approval for the appointment of BDO AG to act on behalf of shareholders voting at the meeting. The term sought is for no longer than one year. The named proxy has no other commercial relationship with the company. A vote in favour is recommended.

10 Appoint the auditors **For**

KPMG Ltd. proposed. Acceptable proposal.

11 Transact any other business **Oppose**

It is proposed that shareholders authorise their proxies to vote on any other proposals which might be brought at the meeting. Such proposals are not considered appropriate as shareholders are not sufficiently informed of the consequences of support.