Triodos Investment Management

**VARIAN MEDICAL SYSTEMS AGM Date: 2014-2-20**

**1.01 Election of Susan L. Bostrom** **Withhold**
Non-Executive Director standing for election until 2017. Not considered to be independent as she has sat on the board for over nine years. There is insufficient independence on the Board.

**1.02 Election of Regina E. Dugan** **For**
Independent Non-Executive Director standing for election until 2017.

**1.03 Election of Venkatraman Thyagarajan** **For**
Independent Non-Executive Director standing for election until 2017.

**1.04 Election of Dow R. Wilson** **For**
Chief Executive Officer standing for election until 2017.

**2 Approve executive compensation** **Oppose**
As a result of new SEC legislation that has entered into force (Section 951 of The Dodd-Frank Wall Street Reform and Consumer Protection Act), the company has submitted a proposal for shareholder ratification of its executive compensation policy and practices.
Disclosure: The company discloses specific performance targets for the annual bonus plan. Non-financial individual performance measures are not disclosed.
Balance: The compensation committee does not provide enough information to assure shareholders that targets are challenging under the annual bonus. Stock options and restricted stock have no performance hurdles attached and begin to vest after one year.
Contracts: The company has severance agreements between the company and all the NEOs. The change in control agreements are potentially excessive considering accelerated vesting of long-term incentives is followed by a change-in-control.
Based upon these concerns, Triodos opposes.

**3 Approve new Management Incentive Plan** **Oppose**
The Board is seeking approval of the Varian Medical Systems, Inc. Management Incentive Plan (the “MIP”) that "provides for performance-based incentive compensation to executives and key employees". Section 162(m) of the Internal Revenue Code (“Section 162(m)”) requires that the stockholders approve the material terms of the MIP at least every five years. The MIP was last approved by the stockholders at the 2009 Annual Meeting of Stockholders.
Shareholders approval is necessary in order to maintain the tax

deductibility of payments made under the MIP that is available under Section 162(m) of the Internal Revenue Code. In fact the MIP is intended to allow the company to pay incentive compensation that qualifies as “performance-based compensation” if all of the requirements of Section 162(m) are satisfied. Among other requirements, Section 162(m) requires that the material terms of plans that provide for incentive compensation, including the performance goals and maximum award amounts, be approved by the stockholders every five years.
The MIP is administered by the Compensation Committee. The plan proposes a maximum bonus payable to an individual in any year, the limit being $3,000,000. Also, the total of all awards for any performance period cannot exceed 8% of the Company’s EBIT before incentive compensation for our most recently completed fiscal year. It is considered best practice for an incentive plan to be capped, however this increase might allow a significant increase in base salaries without the need of obtaining shareholders' approval. The company has also introduced a Recoupment Policy under which in the event of a restatement of incorrect financial results the company will be allowed to seek reimbursement of the performance-based compensation from those executives that have acted in misconduct or other violations of the Company’s code. This policy is in line with best practice, but it is believed that it should be stretched to allow the company to recoup awards also when there is no misconduct. Whilst the specific performance conditions are disclosed it is noted that the board may amend the MIP at any time and for any reason without shareholders approval, which is not considered to be best practice.
Due to these concerns Triodos opposes the approval of the new Management Incentive Plan.

**4 Appoint the auditors** **For**
PricewaterhouseCoopers LLP proposed.

**5* Board proposal to declassify the board/introduce annual director election** **For**
The Board is proposing a resolution in response to a shareholder proposal receiving 74.8% of the votes cast for the removal of the classified board at the 2013 Annual Meeting.
The Board is seeking shareholder approval to amend to the Company's Charter in order to phase out the present three-year staggered terms of directors and provide for the annual election of all directors. If this proposal is approved, directors will be elected to one-year terms of office after their three-year terms expire.
The use of a classified board is not supported as it can be used as an anti-takeover device and could serve to entrench underperforming management. Shareholder concerns in relation to specific issues can more appropriately be raised in the context of individual directors’ responsibilities if all directors face election each year. It is considered that declassification will move the company towards best practice but that true accountability will not be achieved unless ""plurality plus"" voting is replaced with affirmative majority voting.

**6* Board proposal to eliminate cumulative voting** **For**