

Novartis AG

To the shareholders of Novartis AG

# Notice of Annual General Meeting

**Date:** Tuesday, February 28, 2017, 10.00 a.m. (doors open at 8.30 a.m.)

**Place:** St. Jakobshalle, Basel (entrance Brüglingerstrasse/St. Jakobs-Strasse)

Basel, January 25, 2017

# Agenda

**1 Approval of the Operating and Financial Review of Novartis AG, the Financial Statements of Novartis AG and the Group Consolidated Financial Statements for the 2016 Financial Year**

The Board of Directors proposes approval.

**2 Discharge from Liability of the Members of the Board of Directors and the Executive Committee**

The Board of Directors proposes discharge from liability for each of its members and for each of the members of the Executive Committee for the 2016 financial year (in a single vote for all members of the Board of Directors and of the Executive Committee).

**3 Appropriation of Available Earnings of Novartis AG as per Balance Sheet and Declaration of Dividend**

Balance brought forward	CHF	2,039,915,695
2016 net income of Novartis AG	CHF	8,140,581,612
Available earnings as per balance sheet	CHF	10,180,497,307

The Board of Directors proposes appropriation of the available earnings as per balance sheet as follows:

Gross dividend (before taxes and duties) of CHF 2.75 per dividend bearing share* of CHF 0.50 nominal value	CHF	-6,925,972,903
Balance to be carried forward	CHF	3,254,524,404

\* No dividend will be declared on treasury shares held by Novartis AG and certain other treasury shares held by other Group companies.

Assuming that this proposal by the Board of Directors is approved, payment of the dividend will be made as from March 6, 2017. The last trading day with entitlement to receive the dividend is March 1, 2017. As from March 2, 2017 the shares will be traded ex-dividend.

**4 Reduction of Share Capital**

The Annual General Meeting held on February 23, 2016 authorized the Board of Directors to repurchase up to a maximum of CHF 10 billion worth of shares under a seventh share repurchase program. In 2016, 10,270,000 shares were repurchased under this program via the SIX Swiss Exchange second trading line. The shares repurchased in 2016 are to be cancelled and the share capital reduced accordingly. PricewaterhouseCoopers AG, the statutory auditor of Novartis AG, has confirmed in a special report prepared for the Annual General Meeting that, from today's perspective, the claims of creditors remain fully covered even with the proposed reduction in share capital.

The Board of Directors proposes to the Annual General Meeting to state in accordance with the special report of PricewaterhouseCoopers AG that, from today's perspective, the claims of creditors are fully covered even with the proposed reduction of the share capital, to cancel 10,270,000 shares repurchased under the seventh share repurchase program in 2016, to reduce the share capital accordingly by CHF 5,135,000, from CHF 1,313,557,410 to CHF 1,308,422,410, through the cancellation of the said repurchased shares and to amend Article 4 paragraph 1 of the Articles of Incorporation as follows:

The share capital of the Company is CHF 1,308,422,410, fully paid-in and divided into 2,616,844,820 registered shares. Each share has a nominal value of CHF 0.50.
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## **5 Votes on Compensation for the Members of the Board of Directors and the Executive Committee**

The Board of Directors proposes to hold separate votes on the compensation of the Board of Directors and the Executive Committee at the 2017 Annual General Meeting. The enclosed brochure “Shareholder Information on the Compensation Votes at the 2017 Annual General Meeting” sets out further details in relation to the proposed votes on compensation. The 2016 Compensation Report is available electronically under <http://www.novartis.com/annualreport2016>.

### **5.1 Binding Vote on Total Compensation for Members of the Board of Directors from the 2017 Annual General Meeting to the 2018 Annual General Meeting**

The Board of Directors proposes that shareholders approve the total maximum amount of compensation for the members of the Board of Directors covering the period from the 2017 Annual General Meeting to the 2018 Annual General Meeting, i.e. CHF 8,525,000 (as further described in the enclosed brochure “Shareholder Information on the Compensation Votes at the 2017 Annual General Meeting”).

### **5.2 Binding Vote on Total Compensation for Members of the Executive Committee for the next Financial Year, i.e. 2018**

The Board of Directors proposes that shareholders approve the total maximum amount of compensation to be paid, promised or granted during, or in respect of, 2018 to the members of the Executive Committee, i.e. CHF 99,000,000 (as further described in the enclosed brochure “Shareholder Information on the Compensation Votes at the 2017 Annual General Meeting”).

### **5.3 Advisory Vote on the 2016 Compensation Report**

The Board of Directors proposes that shareholders endorse in an advisory vote the 2016 Compensation Report.

## **6 Re-elections of the Chairman and the Members of the Board of Directors, Election to the Board of Directors**

The Board of Directors proposes the re-election of Joerg Reinhardt, Ph.D. (also as Chairman of the Board of Directors in a single vote), Nancy C. Andrews, M.D., Ph.D., Dimitri Azar, M.D., Ton Buechner, Srikant Datar, Ph.D., Elizabeth Doherty, Ann Fudge, Pierre Landolt, Ph.D., Andreas von Planta, Ph.D., Charles L. Sawyers, M.D., Enrico Vanni, Ph.D., and William T. Winters as well as the election of Frans van Houten as members of the Board of Directors, each until the end of the next Annual General Meeting. You will find information on the members of the Board of Directors in the Annual Report, Corporate Governance Report – Our Board of Directors (<http://www.novartis.com/annualreport2016>).

### **6.1 Re-election of Joerg Reinhardt, Ph.D., and re-election as Chairman of the Board of Directors (in a single vote)**

### **6.2 Re-election of Nancy C. Andrews, M.D., Ph.D.**

### **6.3 Re-election of Dimitri Azar, M.D.**

### **6.4 Re-election of Ton Buechner**

### **6.5 Re-election of Srikant Datar, Ph.D.**

### **6.6 Re-election of Elizabeth Doherty**

### **6.7 Re-election of Ann Fudge**

### **6.8 Re-election of Pierre Landolt, Ph.D.**

### **6.9 Re-election of Andreas von Planta, Ph.D.**

### **6.10 Re-election of Charles L. Sawyers, M.D.**

**6.11 Re-election of Enrico Vanni, Ph.D.**

**6.12 Re-election of William T. Winters**

**6.13 Election of Frans van Houten**

Mr. van Houten is CEO and Chairman of the Executive Committee and the Board of Management of health technology leader Royal Philips, a position he took up in 2011. He held multiple senior global leadership positions across Philips on three continents, including co-CEO of the Consumer Electronics division and CEO of the successful Philips spin-off NXP Semiconductors. With his many years as a leader in the IT, consumer health and medical technology industries, Mr. van Houten will deepen the Board's expertise in digital health solutions. He is independent from Novartis according to the independence criteria set forth by the Board of Directors.

**7 Re-elections to the Compensation Committee**

The Board of Directors proposes the re-election of Srikant Datar, Ph.D., Ann Fudge, Enrico Vanni, Ph.D., and William T. Winters as members of the Compensation Committee, each until the end of the next Annual General Meeting. The Board of Directors intends to designate Enrico Vanni, Ph.D., as Chairman of the Compensation Committee again, subject to his re-election as a member of the Compensation Committee.

**7.1 Re-election of Srikant Datar, Ph.D., as member of the Compensation Committee**

**7.2 Re-election of Ann Fudge as member of the Compensation Committee**

**7.3 Re-election of Enrico Vanni, Ph.D., as member of the Compensation Committee**

**7.4 Re-election of William T. Winters as member of the Compensation Committee**

**8 Re-election of the Statutory Auditor**

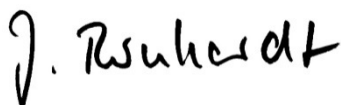
The Board of Directors proposes the re-election of PricewaterhouseCoopers AG as statutory auditor of Novartis AG for the financial year starting on January 1, 2017.

**9 Re-election of the Independent Proxy**

The Board of Directors proposes the re-election of lic. iur. Peter Andreas Zahn, Attorney at Law, Basel, as Independent Proxy of Novartis AG until the end of the next Annual General Meeting.

For the Board of Directors

The Chairman:



Joerg Reinhardt, Ph.D.

(The original German text is binding)

Enclosures: - Registration form with reply envelopes  
- Brochure "Shareholder Information on the Compensation Votes at the 2017 Annual General Meeting"

# Organizational notes

## No Trading Restriction on Novartis Shares

The registration of shareholders for voting purposes does not affect the trading of shares held by registered shareholders before, during or after a General Meeting.

## Annual Report

The Annual Report for the 2016 financial year (including the operating and financial review of Novartis AG, the financial statements of Novartis AG, the Group's consolidated financial statements, the Compensation Report as well as the statutory auditor's reports) is available for inspection by shareholders at the Registered Office of the Company\* and on the Company's website at <http://www.novartis.com/annualreport2016>. In addition, from February 3, 2017 a printed edition of the Annual Report will be sent to all registered shareholders who have requested one or who request one\* after receiving this notice.

## Tickets of Admission

Tickets of admission and voting materials will be sent from February 13 to 24, 2017 to shareholders who register for the Annual General Meeting. It will greatly facilitate the preparations for the meeting if the enclosed registration form is returned as early as possible. Voting rights may only be exercised for shares of Novartis AG registered with the right to vote on the Record Date (February 23, 2017).

## Appointment of Proxy

A shareholder of Novartis AG may only be represented by his or her legal representative, another shareholder with the right to vote or the Independent Proxy (lic. iur. Peter Andreas Zahn, Attorney at Law, St. Jakobs-Strasse 7, P.O. Box, 4091 Basel, Switzerland). Proxies may only be appointed for one General Meeting.

Please note that family members who are not themselves shareholders cannot be appointed as proxies. This does not apply to family members acting as legal representatives.

## Use of the Sherpany online platform

Novartis shareholders may use the Sherpany online platform and thus receive notices of future General Meetings exclusively by e-mail. By using the Sherpany online platform, shareholders may electronically order their ticket of admission, appoint a proxy or give their instructions to the Independent Proxy. Shareholders who are not yet registered on the Sherpany online platform may do so by contacting the Novartis Share Registry (Novartis AG, Share Registry, Forum 1-P.75, 4002 Basel, Switzerland, fax: +41 61 324 32 44, e-mail: [share.registry@novartis.com](mailto:share.registry@novartis.com)).

## Leaving the Annual General Meeting early

Shareholders who leave the Annual General Meeting early are requested to hand in their unused voting materials and the electronic voting unit on their way out.

## Means of Transport

Shareholders are requested to use public transport since parking facilities at the St. Jakobshalle are limited.

## Simultaneous Translations

The Annual General Meeting will be held partially in German, partially in English and partially in French. Simultaneous translation into German, English and French will be available. Headsets will be provided in the foyer.

## Speakers' Desk

Shareholders who wish to speak are requested to notify the speakers' desk (Wortmeldeschalter) near the podium before the Annual General Meeting begins.

## Proposals from Shareholders on Agenda Items

Proposals from shareholders on agenda items are only permissible if they are put to the Annual General Meeting by the shareholders themselves or by an individual proxy acting on their behalf. The Independent Proxy cannot act as individual proxy in this sense.

## Mobile Phones

Please switch off your mobile phones during the Annual General Meeting.

## Webcast

The Annual General Meeting can be watched as a webcast on [www.novartis.com](http://www.novartis.com).

\*At the Office of the Corporate Secretary, Lichtstrasse 35, 4056 Basel, Switzerland

# Shareholder Information on the Compensation Votes at the 2017 Annual General Meeting

Item 5 of the Agenda  
(The original German text is binding)





# Dear shareholder,

At Novartis, our mission is to discover new ways to improve and extend people's lives. We use science-based innovation to address some of society's most challenging healthcare issues. We discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible. Our company also wants to be an employer of choice and to provide a shareholder return that rewards those who invest their money, time and ideas in our company.

The Board of Directors would like to acknowledge the strong shareholder support at the 2016 Annual General Meeting on all compensation-related voting items. We would like to thank shareholders and proxy advisors for their input and engagement during 2016 and early this year, and continue to welcome all feedback on Novartis compensation and governance practices.

As last year, in line with the Ordinance against Excessive Compensation in Listed Companies and our Articles of Incorporation, we are asking shareholders at the 2017 AGM to cast separate binding votes on two aggregate amounts of compensation, and an advisory (non-binding) vote on our Compensation Report as described below.

## **Vote 5.1: Binding Vote on Total Compensation for Members of the Board of Directors from the 2017 Annual General Meeting to the 2018 Annual General Meeting**

The Board of Directors proposes that shareholders approve the total maximum amount of compensation for the members of the Board of Directors covering the period from the 2017 Annual General Meeting to the 2018 Annual General Meeting, i.e. CHF 8 525 000.

## **Vote 5.2: Binding Vote on Total Compensation for Members of the Executive Committee for the next Financial Year, i.e. 2018**

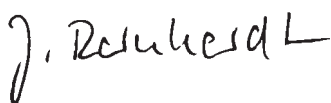
The Board of Directors proposes that shareholders approve the total maximum amount of compensation to be paid, promised or granted during, or in respect of, 2018 to the members of the Executive Committee, i.e. CHF 99 000 000.

## **Vote 5.3: Advisory Vote on the 2016 Compensation Report**

The Board of Directors proposes that shareholders endorse in an advisory vote the 2016 Compensation Report.

This brochure provides information on the three compensation-related votes. Further details regarding our compensation systems for our Board and Executive Committee are contained in the Compensation Report of the 2016 Annual Report.

On behalf of the Novartis Board of Directors,



**Joerg Reinhardt, Ph.D.**  
Chairman, Board of Directors



**Enrico Vanni, Ph.D.**  
Vice Chairman, Board of Directors  
Chairman, Compensation Committee



# Vote 5.1

Binding Vote on Total Compensation for Members of the Board of Directors from the 2017 Annual General Meeting to the 2018 Annual General Meeting, i.e. CHF 8 525 000

## Compensation of the Chairman of the Board of Directors

The annual compensation of our Chairman will be CHF 3.8 million from the 2017 AGM to the 2018 AGM (to be paid 50% in cash, 50% in Novartis shares), as determined by an agreement entered into between the Chairman and the company in 2013. For the period from the 2017 AGM to the 2018 AGM, the Chairman decided to waive his contractual right to receive an increase in annual compensation equal to the average compensation increase for associates based in Switzerland. In addition, Novartis does not contribute to company pension or insurance benefits for the Chairman.

## Compensation of the other members of the Board of Directors

The compensation policy applicable to Board members (excluding the Chairman of the Board) is outlined below. It reflects our governance structure and the responsibilities of the Board, as per applicable laws and its own regulations, and it aligns our aggregate Board compensation to the current levels of other large Swiss companies. Compared to last year, the annual Board and Committee membership fees shall remain unchanged for the period from the 2017 AGM to the 2018 AGM and have remained unchanged since the 2014 AGM.

Members of the Board of Directors receive only fixed compensation. They receive no variable, or performance-based compensation, no share options and no additional fees for attending meetings. Board Members do not receive any company pension or insurance benefits.

The Board members' annual fees (excluding the Chairman of the Board), which are paid at least 50% in Novartis shares (up to 100% at the option of each Board member), are summarized below:

	<b>Annual Fee (CHF 000)</b>
Board member	300
Vice Chairman of the Board	50
Audit and Compliance Committee Chairman	120
Audit and Compliance Committee member	60
Other Board Committee Chairman <sup>1</sup>	60
Other Board Committee member <sup>1</sup>	30

<sup>1</sup> Applies to the Compensation Committee, the Governance, Nomination and Corporate Responsibilities Committee, the Research & Development Committee, and the Risk Committee. The Chairman receives no additional committee fees for chairing the Research & Development Committee.

### Proposed total compensation for members of the Board of Directors from the 2017 AGM to the 2018 AGM

The table below shows the total maximum amount of compensation to be paid to the members of the Board of Directors, including the Chairman, proposed for the period from the 2017 AGM to the 2018 AGM. It assumes that all proposed Board members (and Compensation Committee members) will be elected at the AGM.

Compensation for the members of the Novartis Board of Directors (2017 AGM – 2018 AGM)	Total fixed compensation (CHF 000) <sup>1</sup>
Joerg Reinhardt, Chairman of the Board	3 805
Other 12 Board members to be paid in accordance with the annual fee structure above <sup>2</sup>	4 720
<b>Total maximum amount of compensation for the 13 members of the Novartis Board of Directors for the period from the 2017 AGM to the 2018 AGM<sup>2</sup></b>	<b>CHF 8 525</b>

<sup>1</sup> It includes an estimated amount of CHF 25 000 for mandatory employer contributions for all Board members payable by Novartis to Swiss governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 370 000, and provides a right to the maximum future insured government pension benefit for the Board member. These estimates exclude potential changes to governmental social security rates.

<sup>2</sup> This figure includes fees for committee memberships and chairmanships, as outlined on page 4, as well as CHF 60 000, the equivalent of two additional committee memberships, for flexibility reasons.

Compared to last year (see information in the table below), the increase in the total maximum amount of compensation for members of the Board of Directors is the result of the proposed increase in the total number of Board members (from 12 to 13 Board members) and potential committee memberships that the Board will put into action after the 2017 AGM.

### Evolution of total compensation for members of the Board of Directors from the 2015 AGM to the 2017 AGM

	2015 AGM – 2016 AGM <sup>1</sup>	2016 AGM – 2017 AGM <sup>2</sup>
Number of Board members (including the Chairman)	11	12
<b>Compensation (CHF)</b>		
Chairman of the Board	3 804 357	3 804 336
Other members of the Board	3 936 563	4 292 726
<b>Total compensation of the Board</b>	<b>CHF 7 740 920</b>	<b>CHF 8 097 062</b>
<b>Total maximum Board compensation approved at the AGM</b>	<b>CHF 7 745 000</b>	<b>CHF 8 160 000</b>

<sup>1</sup> It includes an amount of CHF 21 502 for mandatory employer contributions for all Board members paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of approximately CHF 430 000, and provides a right to the maximum future insured government pension benefit for the Board member.

<sup>2</sup> It includes the estimated compensation to be paid until the 2017 AGM. It also includes an estimated amount of CHF 17 062 for mandatory employer contributions for all Board members payable by Novartis to Swiss governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 390 000, and provides a right to the maximum future insured government pension benefit for the Board member.

Additional information regarding compensation for the Board may be viewed in the 2016 Compensation Report on pages 137-140. Page 139 of the 2016 Compensation Report reconciles the amounts paid to Board members with the amounts approved by the shareholders at the 2015 AGM and at the 2016 AGM for the periods 2015 AGM-2016 AGM and 2016 AGM-2017 AGM respectively. The amounts paid are within the maximum amounts approved.

# Vote 5.2

Binding Vote on Total Compensation for Members of the Executive Committee for the next Financial Year, i.e. CHF 99 000 000 for 2018

To attract and retain key talent, it is important for us to offer compensation that is competitive compared to global market levels. In line with our pay for performance philosophy, members of the Executive Committee who achieve their objectives are generally awarded target compensation at a level around the median level of comparable roles at the companies in our global healthcare peer group. In the event of under- or over-performance, the actual compensation may be lower or higher than the benchmark median.

## Key features of our 2018 Executive Committee compensation system

- All variable compensation is performance-based aligned to shareholders' interests and our business strategy. There are no share options, matching grants or time-only vesting long-term incentives<sup>1</sup>
- The Annual Incentive format is an integrated balanced scorecard that considers performance holistically against business and individual targets as well as our Values and Behaviors. Half of the Annual Incentive payout is deferred for 3 years in Novartis equity to further align with shareholders' interests
- The total Long-Term Incentive has two separate plans, which are each subject to a three-year performance-period and delivered in Novartis equity:
  - One based on our internal financial performance and our results in innovation, and
  - The other based on our relative total shareholder return measured against the other companies that form our global healthcare peer group

The Executive Committee compensation system has the full support of our Board. We believe it provides a competitive advantage to Novartis in the global marketplace for executive talent, it is aligned with shareholders' interests and it supports our aspiration to be one of the world's most successful healthcare companies.

In 2016 and early 2017, the Compensation Committee had the opportunity to discuss with shareholders and proxy advisors many important topics including peer group definition, a topic of importance for Novartis which, as a global company, competes against other US and European companies for top executive talent. Reflecting the evolution of the healthcare industry with the emergence of large and global biotechnology companies, the Compensation Committee has introduced a revised global healthcare peer group for performance-periods starting in 2017 (for further details see page 136 of the 2016 Compensation Report). As an additional reference point, a European-headquartered cross-industry peer group is also used to assess regional pay practices and trends (see page 115 of the 2016 Compensation Report).

<sup>1</sup> Excludes any payment that may be required for loss of entitlements with a previous employer or additional performance based awards for any external new hire to the Executive Committee.

The compensation of the Executive Committee members for 2018 may be summarized as follows:

### 2018 Executive Committee compensation system

	Fixed compensation and benefits		Variable compensation		
	Annual base compensation	Pension and other benefits	Annual Incentive	Long-Term Performance Plan (LTPP)	Long-Term Relative Performance Plan (LTRPP)
<b>Purpose</b>	Reflects associates' responsibilities, job characteristics, experience and skill sets	Establishes a level of security for associates and their dependents tailored to local market practice and regulations	Rewards performance against key short-term targets, and Values and Behaviors	Rewards long-term shareholder value creation and long-term innovation	Rewards relative total shareholder return
<b>Performance period</b>	n/a	n/a	1 year (2018)	3 years (2018-2020)	3 years (2018-2020)
<b>Performance measures</b>	n/a	n/a	Based on a payout matrix made up of: <ul style="list-style-type: none"> <li>– Individual Balanced Scorecard, including financial targets and individual objectives</li> <li>– Assessed Values and Behaviors</li> </ul>	Based on: <ul style="list-style-type: none"> <li>– 75% Novartis Cash Value Added</li> <li>– 25% divisional long-term innovation milestones</li> </ul>	Based on Novartis relative total shareholder return vs. our peer group of global healthcare companies <sup>1</sup>
<b>Delivery (at the end of the performance period for variable compensation)</b>	Cash	Country-specific	50% cash 50% deferred equity <sup>2</sup> (3-year holding of restricted shares/restricted share units)	Equity (includes dividend equivalents)	Equity (includes dividend equivalents)

<sup>1</sup> The anticipated peer group is consistent with our global healthcare peer group for performance-periods starting in 2017, and consists of AbbVie, Amgen, AstraZeneca, Biogen, Bristol-Myers Squibb, Celgene, Eli Lilly & Company, Gilead, GlaxoSmithKline, Johnson & Johnson, Merck & Co., Novo Nordisk, Pfizer, Roche and Sanofi.

<sup>2</sup> Executive Committee members may elect to receive more of their Annual Incentive in equity instead of cash.

### Communication of targets and achievements

To allow shareholders to assess the link between company performance and compensation, Novartis is committed to disclosing in the Compensation Report the targets of our compensation programs at the end of each performance-period – including judgment used in assessing actual performance versus targets. In line with this principle, the targets and achievements of the CEO for performance-periods that concluded in 2016 can be found on pages 124-126 of the 2016 Compensation Report.

This approach is proposed to our shareholders given that disclosing our short- and long-term targets under our compensation programs before the end of the relevant performance-period would give substantial insight into the company's confidential, forward-looking strategies, and could therefore place the company and its shareholders at a competitive disadvantage.

### Proposed total maximum compensation to be paid, promised or granted to members of the Executive Committee for the next Financial Year, i.e. 2018

The table below presents a breakdown of the expected minimum, target and maximum 2018 total compensation for the 11 expected members of the Executive Committee.

in CHF millions <sup>1</sup>	Fixed compensation		Variable compensation			Total compensation
	Base Compensation	Pension and other benefits <sup>2</sup>	Annual Incentive <sup>3</sup>	LTPP <sup>4</sup>	LTRPP <sup>4</sup>	
Fixed amount (minimum)	11.5	4.5	0.0	0.0	0.0	16.0
Target amount (if 100% of target reached)	11.5	4.5	13.0	19.5	9.0	57.5
Maximum amount requested at the AGM (if 200% of target reached)	11.5	4.5	26.0	39.0	18.0	<b>CHF 99.0</b>

<sup>1</sup> Some members are foreseen to be paid in USD. Exchange rate used is 1 CHF: 1.015 USD and the amounts proposed exclude any currency exchange rate fluctuation between the time of the release of this brochure and December 31, 2018.

<sup>2</sup> Includes service costs of pension and post-retirement healthcare benefits. It also includes an amount of approximately CHF 55 000 for estimated mandatory employer contributions for all Executive Committee members payable by Novartis to governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 4 000 000, and provides a right to the maximum future insured government pension benefit for the Executive Committee member. It also includes any other perquisites and benefits in kind, such as a company car or tax and financial planning services. Finally, it includes international assignment benefits where applicable in accordance with company standard policies (e.g. housing, international health insurance, children's school fees and an estimated amount of tax equalization of approximately CHF 1 600 000).

<sup>3</sup> The value of the portion paid in deferred equity is determined at the time the shares are granted, and excludes any share price evolution over the vesting period and any dividends that are paid each year on shares. Page 7 of this brochure outlines the key features of the Annual Incentive.

<sup>4</sup> The value of the Long-Term Incentives, LTPP and LTRPP, is determined at the grant date and is divided by the share price on that date to determine a number of performance share units (PSUs) which are subject to three-year performance vesting. The value mentioned here assumes maximum performance vesting (capped at 200% of the target number of PSUs originally granted). This value excludes share price movements and any dividend equivalents accrued during the vesting period.

The target amount of compensation of CHF 57.5 million will be reached if all expected members of the Executive Committee reach an average payout of 100% in all incentive plans.

The maximum amount of compensation of CHF 99 million requested at the AGM will only be reached if all expected members of the Executive Committee reach a payout of 200% in all incentive plans. This would require all targets to be exceptionally exceeded, and Novartis to be positioned as one of the top companies out of our global healthcare peer group for relative total shareholder return, while also providing shareholders with an excellent return on their investment in Novartis. To date, this level of payout for all Executive Committee members on an aggregate basis has never occurred.

## Evolution of Executive Committee compensation

The proposed total maximum compensation to be paid, promised or granted to the members of the Executive Committee for 2018 (i.e. CHF 99 million) is higher than the amount approved by shareholders at the 2016 AGM for 2017 (i.e. CHF 93 million) as a result of:

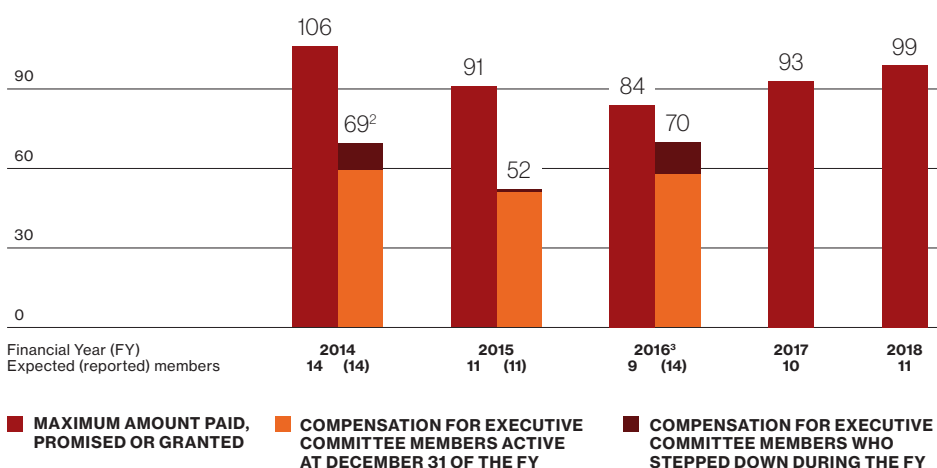
- the appointment of one additional member to the Executive Committee which became effective on July 1, 2016 following the company's organizational changes, and
- a merit increase for certain Executive Committee members and an adjustment on the variable compensation (i.e. Annual Incentive, LTPP and LTRPP) applicable for 2017 to position their total compensation closer to the median of the external peer group benchmark.

The table below presents an overview of the compensation at grant value of the Executive Committee members over the period from 2014 to 2018 compared to the maximum amount of compensation for the respective year. Year over year changes in total compensation are impacted mainly by the number of Executive Committee members, each member's target compensation, any compensation for lost entitlements at former employers as well as company and individual performance during the relevant performance-periods.

The compensation of the Executive Committee members for financial years 2016 and 2015 in the below table can be found on pages 130 and 131 of the 2016 Compensation Report, and for financial year 2014 on page 123 of the 2015 Compensation Report.

### Compensation of the Executive Committee members compared to maximum 2014–2018<sup>1</sup>

(in CHF millions)



<sup>1</sup> Approval by shareholders has been requested on the total maximum amount for the first time for FY 2016.

<sup>2</sup> A review of total Executive Committee members' compensation for the 2014 FY following the vesting of the Long-Term Incentive plans for performance period 2014-2016 concluded that this was within the total maximum amount paid, promised or granted for the year.

<sup>3</sup> With regard to the 2016 FY, the CHF 84 million approved by shareholders at the 2015 AGM was based on an anticipated Executive Committee of 9 members. This amount is expected to be used for a total of 14 Executive Committee members as a result of the company's organizational changes during 2015 and 2016. In line with the disclosure on page 130 of the 2016 Compensation Report, the compensation at grant value of the 14 Executive Committee members for the 2016 FY is CHF 70.3 million and includes CHF 11.9 million relating to Executive Committee members who stepped down during 2016. The compensation for active Executive Committee members at December 31, 2016 was CHF 58.4 million, which includes compensation for lost entitlements at former employers (CHF 4.1 million) and a one-off Long-Term Incentive performance based award (CHF 3.8 million).

# Vote 5.3

## Advisory Vote on the 2016 Compensation Report

We request that shareholders endorse in an advisory vote the 2016 Compensation Report, which is available electronically on our website at the following address:

[www.novartis.com/annualreport2016](http://www.novartis.com/annualreport2016)

The purpose of our Compensation Report is to clearly inform shareholders regarding our Board and Executive Committee compensation systems, policies and practices. Based on our discussions with shareholders and proxy advisors, we continued to improve the clarity of our disclosures and additional information has been provided on the process for setting compensation targets and determining the payout outcomes. For the first time we also disclose, on a voluntary basis, the realized total compensation of our CEO (pages 124 to 126 of the 2016 Compensation Report) following the completion of the three-year performance-period for the two new Long-Term Incentive plans introduced in 2014. We consider that reporting realized compensation is an important way to illustrate the alignment between the Compensation Committee's decisions on CEO pay for performance and shareholders' interests.

In line with this principle, the Compensation Committee regularly reviews pay and performance alignment against company achievements versus our targets on an absolute and relative basis. Relative comparisons are made against the companies in our global healthcare peer group. Based on an analysis prepared by its independent external compensation advisor, the Compensation Committee concluded that Novartis executive pay and performance is well aligned both on an absolute and relative basis.

**Front Cover image:** Nurse Evelin Alvarado Fuentes drew blood from Maria Magdalena Vasquez Lopez as part of a study of chronic obstructive pulmonary disease in rural Guatemala, where widespread use of wood fires for cooking contributes to respiratory disease.

**Inside Front Cover image:** Antonina Hernández, who suffers from Alzheimer's, exercises four days a week under the guidance of her son, Juan Pedro García Hernández, who is also her full-time caregiver.

**Back Cover image:** Field worker Expedita Ramírez Marroquín works with women in rural Guatemala, focusing on diet, prenatal health and household characteristics. She also assists with a program around the town of San Lorenzo aimed at reducing the health impact of smoke from cooking fires, which contributes to respiratory illness.





# Novartis mission

Our mission is to discover new ways to improve and extend people's lives. We use science-based innovation to address some of society's most challenging healthcare issues. We aim to lead in growing areas of healthcare where innovation can make a meaningful difference for patients and society.

We also want to be an employer of choice and to provide a shareholder return that rewards those who invest their money, time and ideas in our company.