NOVARTIS

Enrico Vanni
Vice Chairman of the Board and Chairman of the Compensation Committee
Postfach
4002 Basel
Switzerland

Published on the Novartis website

December 18, 2017

Dear Shareholders,

I had the opportunity to meet in person with many of our shareholders and proxy advisors in September 2017. Thank you to all those who met our team, for the constructive tone in which our meetings were conducted, and for our open dialogue around key compensation topics. Your insights, together with those of the other shareholders who wrote to me are extremely valuable to the Board as we think about our compensation practices in the evolving business environment.

In anticipation of the Compensation Report that we will publish in January 2018, I would like to provide you with an update on some of the decisions taken by the Compensation Committee, in addressing our shareholders' and proxy advisors' feedback.

Transparency in the 2017 Compensation Report

We have enhanced the disclosure in the Compensation Report to provide greater transparency to shareholders, including the following:

- CEO succession
  Following the announcement of the CEO, Joseph Jimenez' retirement, we will prospectively disclose his retirement conditions, as well as the target compensation of the newly appointed CEO, Vasant Narasimhan.

- Executive Committee target compensation increases
  To allow shareholders to make the connection between Executive Committee member performance and target compensation increases, we will disclose any increases in advance of the year of payment (rather than just retrospectively).

  We will also disclose our Executive Committee appointment compensation policy, so that shareholders understand fully our approach.

- Realized compensation
  In order to clearly show the link between pay and performance, we will continue to disclose the realized compensation of the CEO individually. For the first time, we will also disclose on an aggregated basis, the realized compensation of the other members of the Executive Committee. This means disclosing the annual incentive and the long-term incentives at the end of their respective performance cycles.

  In addition, in line with our voting approach and the Swiss Ordinance Against Excessive Compensation, we will also continue to publish the compensation at grant value for each individual member of the Executive Committee.

- Alcon CEO one-off performance award
  We have made the commitment to disclose the achievements of the Alcon CEO against the targets included in his one-off performance grant for the 2016-2018 cycle, once the

relative financial measures can be assessed. This will be after the end of the three-year performance cycle, together with the payout decision. In the 2017 Compensation Report, an interim update of performance tracking will be provided.

Changes to our Executive Compensation system

We have made some adaptations to our Executive Compensation system to better align with our business strategy, our principle of pay for performance and the evolving external governance environment, as follows:

- Annual Incentive Balanced Scorecard
  A simplified Annual Incentive Balanced Scorecard will be introduced, which places additional weighting on financial performance (60% weighting in the new Scorecard), and also focuses on five key strategic objectives in the areas of innovation, access, people and culture, data and digital (40% weighting in the new Scorecard). Values and Behaviors remains a key component of the Annual Incentive and is embedded in our culture. As such, members of the Executive Committee are expected to demonstrate these to the highest standard.

- Long Term Relative Performance Plan
  The performance condition for the Long-Term Relative Performance Plan has been made more stringent from the 2018-2020 performance cycle onwards. Going forward, Executive Committee members will receive no payout if relative total shareholder return is below the median of the companies in our global healthcare peer group.

- Long-Term Incentive retirement rules
  Finally, in line with evolving governance practices, we have revised our long-term incentive plan rules for retiring Executive Committee members, applicable to grants made from 2019 onwards. Going forward, members who fulfill the retirement conditions under the plan rules will receive pro-rata vesting, rather than full vesting, of outstanding long-term incentives. Those incentives will continue to have performance conditions applied, and will vest at the end of the cycle on the normal vesting date.

Changes to our Board Compensation system

Effective from the 2018 AGM, the Board has decided to make some adaptations to its compensation system and policy to align with evolutions in market practice, as follows:

- Board compensation system
  Board and committee membership fees have remained unchanged since the reduction that took place at the 2014 AGM. The Board has decided to rebalance its fee structure from the 2018 AGM in order to better recognize the responsibilities and time commitment of the committees, which have both increased as a result of the evolving governance and regulatory environment. In particular, developments in compensation governance requirements have resulted, over the last few years, in a greater number of interactions by the Compensation Committee with shareholders and other external stakeholders.

  The Board membership fee will decrease, and the committee membership fees will increase. The Board took into consideration external benchmarking information in the Swiss market and independent advice. The change is very close to cost neutral for the company.

- Share ownership policy
  Following a review of practices among our peer group companies, the share ownership requirement for Board members will be increased from 4,000 to 5,000 shares effective from the 2018 AGM (excluding the Chairman of the Board, whose share ownership requirement of 30,000 shares is unchanged).

  This minimum share ownership increase will strengthen the alignment of interests with those of shareholders. To allow sufficient time for Board members to achieve the increased requirement, they will have four years from appointment to acquire the minimum 5,000 shares under the new policy. In addition, Board members will continue to be required to hold these shares for 12 months after retiring from the Board.

Please contact me at investor.relations@novartis.com with any feedback or questions. I very much welcome continuing our dialogue on compensation matters, and thank you for your support.

Yours sincerely,

Enrico Vanni
Vice Chairman of the Board of Directors
Chairman of the Compensation Committee