

Basel, January 28, 2013

To the shareholders of Novartis AG

## Notice of Annual General Meeting

**Date:** Friday, February 22, 2013, 10.00 a.m. (doors open at 8.30 a.m.)

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

### Agenda

**1 Approval of the Annual Report, the Financial Statements of Novartis AG and the Group Consolidated Financial Statements for the Business Year 2012**

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 of its members and those of the Executive Committee for the business year 2012.

**3 Appropriation of Available Earnings of Novartis AG and Declaration of Dividend**

The Board of Directors proposes to use the available earnings of Novartis AG of 2012 for the purpose of distributing a gross dividend of CHF 2.30 per share as follows. This will result in a payout ratio of 65% of the Group's consolidated net income expressed in USD\*.

Balance brought forward	CHF	—
Net income of 2012	CHF	5,141,036,034
Partial use of free reserves	CHF	<u>853,530,441</u>
Available earnings at the disposal of the AGM	CHF	5,994,566,475
Gross (before taxes and duties) dividend of CHF 2.30 per dividend bearing share** of CHF 0.50 nominal value	CHF	<u>-5,994,566,475</u>
Balance to be carried forward	CHF	<u>—</u>

\* Payout ratio is calculated by converting into USD the proposed total gross dividend amount in CHF at the CHF-USD exchange rate of December 31, 2012 based on an estimated number of shares outstanding on dividend payment date and dividing it by the USD consolidated net income attributable to shareholders of Novartis AG based on the 2012 Novartis Group consolidated financial statements.

\*\* 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 1, 2013. The last trading day with entitlement to receive the dividend is February 25, 2013. As from February 26, 2013 the shares will be traded ex-dividend.

#### **4 Consultative Vote on the Compensation System**

According to article 18 paragraph 2 of the Articles of Incorporation of Novartis AG, the General Meeting holds a consultative vote on the compensation system of Novartis before every significant change to the compensation system, but at least every third Annual General Meeting. Since changes are proposed, shareholders are asked to hold a consultative vote on the compensation system of Novartis at the Annual General Meeting 2013.

To enhance alignment with the interests of the shareholders and to foster long-term value creation, the Board of Directors proposes to introduce changes to the compensation system for the CEO and the members of the Executive Committee. The proposed changes are scheduled to enter into effect on January 1, 2014. The current compensation system will continue to be applicable until the end of the current performance cycles.

The enclosed summary sets out further details regarding the proposed compensation system for the CEO and the members of the Executive Committee. In addition, the current compensation system of Novartis is described in the Annual Report – Compensation Report (<http://www.novartis.com/annualreport2012>).

The Board of Directors proposes that the shareholders endorse the newly proposed compensation system of Novartis (non-binding consultative vote).

#### **5 Elections to the Board of Directors**

At this Annual General Meeting, the terms of office of Daniel Vasella, M.D. and Marjorie M.T. Yang expire. At their own wish, Daniel Vasella and Marjorie M.T. Yang are not standing for re-election to the Board of Directors.

The Board of Directors proposes the election of Verena A. Briner, M.D., Joerg Reinhardt, Ph.D., Charles L. Sawyers, M.D. and William T. Winters for a three-year term each. Subject to his election, Joerg Reinhardt will take up his duties as director on August 1, 2013, on which date he will also become Chairman of the Board of Directors. For the transition period until the assumption of office by the new Chairman, the Board of Directors has designated its current Vice-Chairman, Ulrich Lehner, Ph.D., as Chairman of the Board of Directors *ad interim*, starting February 22, 2013.

##### **5.1 Election of Verena A. Briner, M.D.**

Dr. Verena A. Briner is Professor of Internal Medicine at the University of Basel and Chief Medical Officer and Head of the Department of Medicine of the Lucerne Cantonal Hospital, Switzerland.

She obtained her M.D. degree at the Medical School of the University of Basel in 1978 and completed residencies in several Swiss hospitals as well as at the Health Sciences Center of the University of Colorado, Denver, USA. She holds a specialized degree of the Swiss Medical Association in Internal Medicine and in Nephrology and is a member and a past President of the Swiss Society of Internal Medicine. She has received several prestigious scholarships and scientific grants, including the President's Grant of the Society of General Internal Medicine in 2011.

Dr. Briner is an internationally recognized specialist in internal medicine and a prolific researcher. She is member of several medical and ethical institutions and commissions, including the Board of the Foundation for the Development of Internal Medicine in Europe, the Senate and the Board of the Swiss Academy of Medical Sciences and the supervisory group "Personalized Medicine" of the Centre for Technology Assessment TA-SWISS. She is an honorary fellow of the American College of Physicians, the European Federation of Internal Medicine, the Polish Association of Internal Medicine and the Swiss Society of General Internal Medicine.

Dr. Briner was born in 1951. She is a Swiss citizen.

##### **5.2 Election of Joerg Reinhardt, Ph.D. (term of office beginning on August 1, 2013)**

Joerg Reinhardt graduated with a Ph.D. in Pharmaceutical Sciences from Saarland University, Saarbruecken, Germany. He joined Sandoz Pharma Ltd in 1982 and held positions of increasing responsibility in Research and Development for the company in Switzerland. In 1994, he was named Head of Development at Sandoz Pharma Ltd. After the merger that created Novartis in 1996, Joerg Reinhardt became Head of Preclinical Development and Project Management at Novartis, and assumed the position of Head of Pharmaceutical Development in 1999.

From 2006 to 2008, he served as Head of the Vaccines and Diagnostics Division. In 2008, he became Chief Operating Officer of the Novartis group, a position he held until January 31, 2010. From 2000 to 2010, Joerg Reinhardt served also as Chairman of the Board of the Genomics Institute of the Novartis Foundation in the United States.

Since August 15, 2010, Joerg Reinhardt has been Chairman of the Board of Management of Bayer HealthCare AG and Chairman of the Bayer HealthCare Executive Committee. If elected, he would step down from these positions at Bayer prior to August 1, 2013. Since April 2012, Joerg Reinhardt has also been a member of the Board of Directors of Lonza Group Ltd, Basel. Furthermore, he is a member of the Council of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA).

Joerg Reinhardt was born in 1956. He is a German citizen.

### **5.3 Election of Charles L. Sawyers, M.D.**

Dr. Charles L. Sawyers is Chair of the Human Oncology and Pathogenesis Program at Memorial Sloan-Kettering Cancer Center in New York, USA, and Professor of Medicine and of Cell and Developmental Biology at the Graduate School of Medical Sciences at Weill-Cornell University, USA. He is also an Investigator of the Howard Hughes Medical Institute, Maryland, USA.

He obtained his M.D. degree at the Johns Hopkins School of Medicine, completed his residency in Internal Medicine at the University of California in San Francisco, USA and his hematology-oncology fellowship training at the University of California in Los Angeles, USA.

Dr. Sawyers is an internationally acclaimed cancer researcher. His research has focused on characterizing signal transduction pathway abnormalities in various cancers, including chronic myeloid leukemia and prostate cancer, and developing molecularly targeted cancer drugs for both diseases. In particular, he co-developed Novartis' targeted cancer drug, *Gleevec/Glivec*. Prior to joining Memorial Sloan-Kettering Cancer Center in 2006, he worked at the Jonsson Comprehensive Cancer Center of the University of California, Los Angeles, USA, for nearly 18 years.

Dr. Sawyers has received numerous honors and awards, including the Lasker-DeBakey Clinical Medical Research Award, often considered America's Nobel prize, in 2009. He is past President of the American Society for Clinical Investigation, President-Elect of the American Association of Cancer Research and serves on President Obama's National Cancer Advisory Board. He is a member of the US National Academy of Sciences and Institute of Medicine.

Dr. Sawyers was born in 1959. He is a US citizen.

### **5.4 Election of William T. Winters**

William T. Winters is CEO and Chairman of Renshaw Bay, London, an alternative asset management and advisory company founded in partnership with Mr. Johann Rupert's Reinert Investments and Lord Jacob Rothschild's RIT Capital Partners.

He was a member of the UK Independent Commission on Banking, which made its recommendations to the Government on the structure of the UK financial industry in September 2011. He recently completed a review which was presented to the Court of the Bank of England in October 2012, covering the Bank's framework for providing liquidity to the banking system as a whole.

William T. Winters left JPMorgan in 2010, having been the Co-CEO of the JPMorgan Investment Bank since 2003. He had joint responsibility for the firm's global businesses across sales, trading, research, capital raising, lending and associated risk management. Having joined JPMorgan in 1983, he held management roles across several market areas and in corporate finance. He moved from New York to London in 1992.

William T. Winters received an MBA from the Wharton School at the University of Pennsylvania and a Bachelor degree in International Relations from Colgate University. He is a member of the Boards of the International Rescue Committee, Colgate University, the Young Vic Theatre and The Print Room.

William T. Winters was born in 1961. He is a dual UK/US citizen.

## **6 Appointment of the Auditor**

The Board of Directors proposes the re-election of PricewaterhouseCoopers AG as auditor of Novartis AG for one year.

For the Board of Directors  
The Chairman:

A handwritten signature in black ink, appearing to read 'Daniel Vasella', written in a cursive style.

Daniel Vasella, M.D.

(The original German text is binding)

Enclosures: - Registration form with reply envelopes  
- Summary of the proposed compensation system for the CEO and the members of the Executive Committee

## **Organizational notes**

### **No Trading Restriction on Novartis Shares**

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

### **Annual Report**

The Annual Report containing the financial statements of Novartis AG, the Group's consolidated financial statements and the auditors' reports for the business year 2012 will be available for inspection by shareholders at the Registered Office of the Company\* from Monday, January 28, 2013 onwards. The Annual Report is available on the Company website at <http://www.novartis.com/annualreport2012>. In addition, from February 4, 2013 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 7 to 20, 2013 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 in time. Voting rights may only be exercised for shares registered with the right to vote on the Record Date (February 19, 2013).

### **Appointment of Proxy**

Pursuant to Article 15 paragraph 2 of the Articles of Incorporation, a shareholder of Novartis AG may only be represented by his or her legal representative, another shareholder with the right to vote, the Corporate Proxy (Novartis AG), the Independent Proxy (lic. iur. Peter Andreas Zahn, Advokat, St. Jakobs-Strasse 7, P.O. Box, 4091 Basel, Switzerland), or a Custody Proxy (please use the instrument of proxy on the registration form or on the ticket of admission). Representatives may only be designated for one Annual General Meeting.

Please note that family members who are not themselves shareholders cannot be appointed as proxies.

### **Representatives**

Institutions subject to the Federal Law regarding Banks and Savings Banks of November 8, 1934 and professional asset managers are required to notify the number of shares they represent to the Company as early as possible, at the latest before the start of the Annual General Meeting, at the AGM desk (*GV-Büro*).

### **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 and partially in English. 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 Corporate Proxy (Novartis AG) or the Independent Proxy cannot act as individual proxies 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).



## Shareholder Information on the Proposed Compensation System for the CEO and the Members of the Executive Committee

Information on Item 4 proposed at  
the Annual General Meeting 2013

Under item 4 of the Annual General Meeting 2013, the Board of Directors is seeking shareholders' approval by way of a consultative vote (Article 18 paragraph 2 of the Articles of Incorporation) in relation to proposed changes to the compensation of the CEO and the members of the Executive Committee of Novartis to be effective in 2014. This document describes the background, rationale and content of the proposed compensation system.

To enhance alignment with the interests of shareholders and to foster long-term value creation, the Board of Directors unanimously recommends that the shareholders approve the proposed compensation system in the consultative vote.

### The global healthcare industry and Novartis aspiration

While healthcare is expected to remain a growth industry, it also is a rapidly changing environment, which creates new opportunities and major challenges. Long-term demographic and socioeconomic trends worldwide are increasing demand for, and use of, medicines and other healthcare products. Scientific advances continue to open new frontiers in patient treatment, creating major opportunities to enhance patient outcomes. At the same time, the growing burden of healthcare costs in many countries and more stringent regulatory demands are creating a business environment with significant risks.

Novartis is strategically well-positioned to operate successfully in this evolving landscape. Novartis aspires to be the most respected and successful global healthcare company. Novartis is the only healthcare company globally with leading positions in pharmaceuticals, eye care, generics, vaccines and diagnostics, over-the-counter medicines and animal health. Our strategy is to focus on science-driven innovation in growing areas of the healthcare industry, meet the evolving needs of patients around the world, grow our presence in new and emerging markets and enhance our productivity to invest for the future and increase shareholder returns.

### Strong link between compensation and performance

Novartis is engaged in a fierce competition for the best talent worldwide. A competitive compensation system is fundamental to attract, develop and retain such talent. Top talent are critical to drive the Group's success and attain sustainable returns for our shareholders.

The Novartis compensation system is strongly linked to performance. Novartis compensation programs are designed to reward for sustained superior performance measured against Group, divisional and individual goals, and for individual behavior in line with our values.

# Proposed compensation system for the CEO and the members of the Executive Committee to be effective in 2014

## Background and rationale

Our proposed compensation system is intended to even better align with the interests of our shareholders and foster long-term value creation. It is designed to reward sustained superior performance.

We continually engage with our shareholders, external advisors and other relevant parties toward this important objective. We seek to adapt our compensation system to our changing business environment and to further align with the interests of our shareholders.

In 2012, the Compensation Committee of the Board, with the support of its independent external advisor, Frederic W. Cook & Co., undertook an extensive review of international best practice and has proposed a new compensation system for the CEO and the members of the Executive Committee of Novartis (ECN) to be effective in 2014. The following aims were considered by the Compensation Committee in the design of the new compensation system:

- Further enhance alignment with the interests of our shareholders and foster long-term value creation;
- Better differentiate between the performance measures to be used for the short-term and long-term incentive plans;
- Grant only performance-vesting awards under the long-term incentive plans;
- Eliminate discretionary grants and matching share award programs for the CEO and the members of the ECN; and
- Further enhance disclosure and simplicity, allowing shareholders to better evaluate the performance.

## Compensation principles

The proposed compensation system is based on five key principles:

- **Pay for performance:** Variable compensation is conditional on the achievement of pre-defined Group, divisional and individual objectives;
- **Business ethics:** Strong governance processes and stringent risk management policies are in place to safeguard our shareholders' interests;
- **Balanced rewards to create sustainable value:** Long-term incentives for the CEO and the members of the ECN motivate and encourage behavior that is aligned with sustainable value creation and does not incentivize excessive risk-taking;
- **Equity ownership:** A substantial proportion of total compensation of the CEO and the members of the ECN is granted in the form of equity to align with the interests of our shareholders; and
- **Competitive compensation:** Total target compensation and benefits are comparable to peer companies in the healthcare industry.



## Key changes of the proposed compensation system

Effective from January 1, 2014, the following changes to the compensation programs for the CEO and the members of the ECN would apply:

- All variable compensation is performance-based, with separate performance measures used for the short-term and long-term incentive plans;
- The short-term incentive plan is based on an individual balanced scorecard of 1-year financial and non-financial performance measures, together with assessed values and behaviors. This incentive is paid annually half in cash and half in shares (the latter deferred for 3 years);
- The two long-term incentive plans are based on different performance measures, and are paid in shares after a 3-year performance period;
- The Long-Term Performance Plan (LTPP) includes 3-year forward-looking financial and innovation measures, either at Group or divisional level, depending on the role and responsibilities held by the executive;
- The Long-Term Relative Performance Plan (LTRPP) rewards for performance of the Group's Total Shareholder Return (TSR) measured over a 3-year period relative to a peer group of comparator companies; and
- The new compensation system for executives no longer contains discretionary or matching share awards or stock options.

The proposed compensation system will enhance disclosure and simplicity, allowing shareholders to better evaluate the performance. The performance measures are aligned with Novartis' stated strategy and are fundamental to delivering long-term value creation for our shareholders.

	Annual Base Salary	+	Annual Incentive	+	LTPP	+	LTRPP
Performance measures			1-year targets on area of individual responsibility and assessed values and behaviors		3-year targets based on internal divisional or Group financial and innovation measures		3-year relative Group TSR against an external peer group
Delivery at end of performance period	Cash		50% cash immediately / 50% shares with 3-year time vesting		Shares subject to performance thresholds		Shares subject to a performance threshold

Pension and healthcare benefits are also provided based on applicable local market practices and regulations.

The current compensation system will remain applicable after 2013 to awards made until December 31, 2013. No further awards under the current system will be made after December 31, 2013.

## Performance measures to foster shareholder value creation

The Novartis compensation system is principally based on performance – we aim to pay competitive compensation at the upper quartile level against our benchmark peers for sustained high performance and at the median for on-target performance.

A rigorous annual performance management system is applied to define business objectives for the CEO and each member of the ECN, which are reviewed and approved by the Board of Directors. The Novartis Performance Management Process ensures reward for performance and adherence to our values and behaviors.

<b>Annual Incentive</b>	1-year balanced scorecard of financial and non-financial measures, and assessed values and behaviors		
	<b>Measure</b>	<b>Illustrative Weighting</b>	<b>Illustrative objectives for the CEO and the ECN members</b>
	Financials	25%	Sales, operating income, net income, free cash flow
	Growth	25%	New product sales, key/emerging market sales, market share
	Innovation	20%	New approvals, filings, proofs of concept
	Productivity	10%	Cost of goods sold, outstanding inventory & payables, personnel costs
	Quality assurance	10%	Regulatory compliance, remediation
	People	10%	Turnover & retention, engagement, training & development, diversity & inclusion
	Half of the Annual Incentive is granted in the form of equity, deferred for 3 years, to align with the interests of our shareholders. Annual Incentive is expressed as a percentage of Annual Base Salary, is subject to a minimum performance threshold and capped at 200% of target.		
<b>Long-Term Performance Plan (LTPP)</b>	3-year forward-looking internal financial and innovation measures		
	<b>Measure</b>	<b>Illustrative Weighting</b>	<b>Objectives for the CEO and the ECN members</b>
	Financial	75%	Novartis Economic Value Added (NVA)
	Innovation	25%	Key R&D and product milestones and assessed patient & scientific impact
Awards under the Long-Term Performance Plan are granted in the form of equity, subject to a 3-year performance period and a minimum performance threshold, to foster long-term value creation. Awards are expressed as a percentage of Annual Base Salary and are capped at 200% of target.			
<b>Long-term Relative Performance Plan (LTRPP)</b>	3-year relative Total Shareholder Return (TSR)		
	Awards under the Long-Term Relative Performance Plan are granted in the form of equity, and determined based on a ranking of 3-year TSRs relative to peer companies in the healthcare industry. No awards are paid for lower quartile performance. Median, or above median performance is required for target or above target payouts. Awards are expressed as a percentage of Annual Base Salary and are capped at 200% of target.		

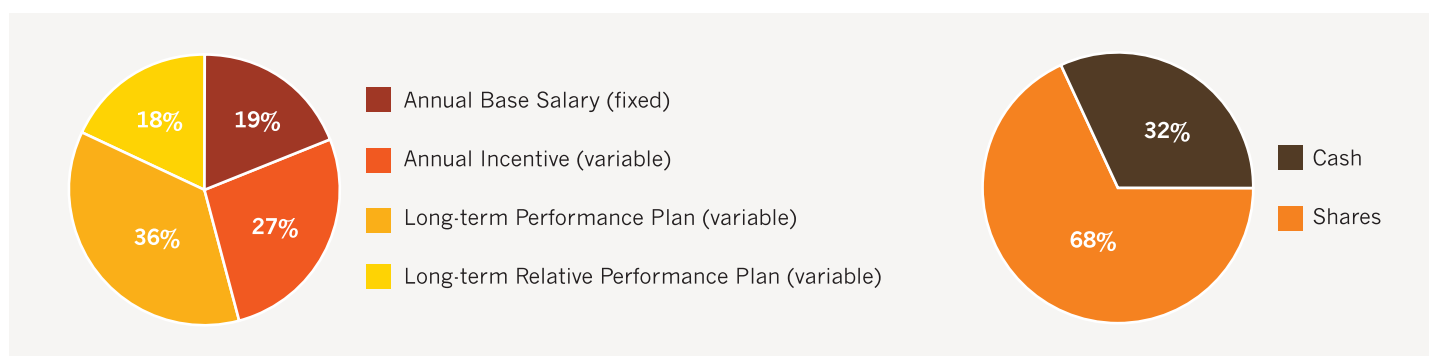
Performance under the Annual Incentive and Long-Term Performance Plan (LTPP) is measured based on Group performance for the CEO and Function Heads (Chief Financial Officer, Group General Counsel and Group Head Human Resources), and based on divisional performance for Division Heads. Under the Long-Term Relative Performance Plan (LTRPP), Total Shareholder Return (TSR) is based on Group performance.

Performance measures and weightings are determined by the Board of Directors in the context of the business environment, with due regard to the aims and principles set out above.

Novartis intends to continue to increase its level of disclosure regarding its performance measures, which will allow shareholders to make a broad and balanced evaluation of the CEO's performance.

## Proposed CEO target compensation mix effective for 2014

Under the proposed compensation system, a significant proportion of the CEO's target compensation is variable. All variable compensation is performance based and separate performance measures are used for the short-term and long-term incentive plans.



## Benchmarking

The peer group of companies set out below is used for benchmarking the compensation of the CEO and the members of the ECN. It consists of companies in the healthcare industry that operate on a global basis with whom we compete for talent and is subject to continuing review by the Compensation Committee.

The peer group set out below is also used to determine the relative Total Shareholder Return (TSR) under the new Long-Term Relative Performance Plan (LTRPP) for the CEO and the members of the ECN.

Benchmark peer companies		
Abbott Laboratories	Eli Lilly and Company	Pfizer
Amgen	GlaxoSmithKline	Roche
AstraZeneca	Johnson & Johnson	Sanofi
Bristol-Myers Squibb	Merck & Co.	

## Risk management

The Compensation Committee continually reviews the compensation system to ensure that prudent judgment and appropriate risk-taking is encouraged while, at the same time, fostering innovation and entrepreneurship that contribute to our long-term success.

Our compensation system is designed with strong governance processes and stringent policies in place to safeguard our shareholders' interests:

- **Rigorous Performance Management Processes** are applied each year to measure performance against pre-defined objectives and to define future objectives;
- **Novartis Values and Behaviors** are an integral part of all performance reviews;
- **Balanced rewards** with separate performance measures applied for the short-term and long-term incentive plans to promote a balance of focus;
- **Balanced scorecard approach for the Annual Incentive Plan** with financial and non-financial objectives applied for the CEO and the other members of the ECN in the individual areas of responsibility, together with an assessment of values and behaviors;
- **Performance vesting** conditions are applied for all long-term incentive plans, with three-year measurement periods and minimum performance thresholds to promote sustainable performance and behaviors;
- **Variable compensation is capped** under all the variable incentive plans at 200% of targets;
- **Clawback provisions** on all variable compensation are part of each employment contract;
- **Equity ownership guidelines** for the CEO and the members of the ECN specify minimum holding requirements; and
- **No provisions for severance payments or change-of-control clauses** and no discretionary payments or awards for the CEO and the members of the ECN are made.

## Conclusion

The proposed compensation system is intended to provide Novartis with a competitive advantage in attracting key executive talent and in motivating executives to deliver and drive performance. It supports our aspiration to be the most respected and successful global healthcare company.

To enhance alignment with the interests of shareholders and to foster long-term value creation, the Board of Directors unanimously recommends that the shareholders approve the proposed compensation system in the consultative vote.

On Behalf of the Board of Directors,



Daniel Vasella, M.D.  
Chairman of the Board of Directors



Enrico Vanni, Ph.D.  
Member of the Board of Directors  
Chairman of the Compensation Committee

## Glossary of terms

**Annual Base Salary** – the base element of compensation paid in cash to provide a competitive level of fixed compensation in recognition of the position and responsibilities held.

**Annual Incentive** – the variable short-term incentive plan based on performance against short-term (annual) Group or divisional and individual targets, as well as adherence to Novartis Values and Behaviors. Target awards under the Annual Incentive plan are expressed as a percentage of Annual Base Salary.

**Balanced scorecard** – the approach used to measure individual performance against short-term (annual) Group or divisional and individual targets under the Annual Incentive plan.

**Clawback** – Provisions included in employment contracts, under which Novartis may choose not to pay future variable incentive compensation or may seek to recover past variable incentive compensation where the payout has been proved to conflict with internal management standards.

**LTPP** – the variable Long-Term Performance Plan for key executives, based on 3-year forward looking internal financial and innovation measures at the Group or divisional level. Target awards under the LTPP are expressed as a percentage of Annual Base Salary.

**LTRPP** – the variable Long-Term Relative Performance Plan for key executives, based on 3-year Total Shareholder Return (TSR) for the Group against the 3-year Total Shareholder Returns of peer companies in the healthcare industry. Target awards under the LTRPP are expressed as a percentage of Annual Base Salary.

**Novartis Values and Behaviors** – a set of internal measures that are an integral part of the Performance Management Process and provide a focus on quality, innovation and integrity.

**NVA** – Novartis Economic Value Added, used as a value-based financial performance metric under the Long-Term Performance Plan (LTPP) that measures performance, taking into account operating income adjusted for interest, taxes and charge for the cost of capital.

**Performance Management Process** – the internal annual process used for the Annual Incentive plan to set individual short-term objectives for each associate and to evaluate their performance against these objectives.

**Performance vesting** – this means that an award granted is subject to continued performance criteria.

**Time vesting** – means that an award granted is solely subject to continued employment criteria.

**TSR** – Total Shareholder Return, used as a measure of investor return on shares, based on share price appreciation and dividends paid.

**Vesting period** – the period of time following which an associate unconditionally owns an award granted subject to continued employment or performance criteria.

