

Basel, January 27, 2016

To the shareholders of Novartis AG

## Notice of Annual General Meeting

**Date:** Tuesday, February 23, 2016, 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 Operating and Financial Review of Novartis AG, the Financial Statements of Novartis AG and the Group Consolidated Financial Statements for the 2015 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 2015 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	805,551,128
2015 net income of Novartis AG	CHF	8,040,648,710
Available earnings as per balance sheet	CHF	8,846,199,838

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

Gross dividend (before taxes and duties) of CHF 2.70 per dividend bearing share* of CHF 0.50 nominal value	CHF	-6,806,284,143
Balance to be carried forward	CHF	2,039,915,695

\* 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 February 29, 2016. The last trading day with entitlement to receive the dividend is February 24, 2016. As from February 25, 2016 the shares will be traded ex-dividend.

#### **4 Reduction of Share Capital**

The Annual General Meeting held on February 26, 2008 authorized the Board of Directors to repurchase up to a maximum of CHF 10 billion worth of shares under a sixth share repurchase program. In 2015, 49,878,180 shares were repurchased under this program via the SIX Swiss Exchange second trading line. With those repurchases, the sixth share repurchase program is completed. The shares repurchased in 2015 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 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 49,878,180 shares repurchased under the sixth share repurchase program in 2015, to reduce the share capital accordingly by CHF 24,939,090, from CHF 1,338,496,500 to CHF 1,313,557,410, 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 1,313,557,410, fully paid-in and divided into 2,627,114,820 registered shares. Each share has a nominal value of CHF 0.50.

#### **5 Further Share Repurchase Program**

The Board of Directors proposes that shareholders authorize the Board of Directors to launch a seventh share repurchase program to repurchase shares up to a maximum of CHF 10 billion. The repurchased shares are to be cancelled and the corresponding share capital reductions will then be submitted to the shareholders for approval.

#### **6 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 2016 Annual General Meeting. The enclosed brochure "Shareholder Information on the Compensation Votes at the 2016 Annual General Meeting" sets out further details in relation to the proposed votes on compensation. The 2015 Compensation Report is available electronically under <http://www.novartis.com/annualreport2015>.

##### **6.1 Binding Vote on Total Compensation for Members of the Board of Directors from the 2016 Annual General Meeting to the 2017 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 2016 Annual General Meeting to the 2017 Annual General Meeting, i.e. CHF 8,160,000 (as further described in the enclosed brochure "Shareholder Information on the Compensation Votes at the 2016 Annual General Meeting").

##### **6.2 Binding Vote on Total Compensation for Members of the Executive Committee for the next Financial Year, i.e. 2017**

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 2017 to the members of the Executive Committee, i.e. CHF 93,000,000 (as further described in the enclosed brochure "Shareholder Information on the Compensation Votes at the 2016 Annual General Meeting").

##### **6.3 Advisory Vote on the 2015 Compensation Report**

The Board of Directors proposes that shareholders endorse in an advisory vote the 2015 Compensation Report.

## **7 Re-elections of the Chairman and the Members of the Board of Directors, Elections to the Board of Directors**

Verena A. Briner, M.D., has decided not to stand for re-election at the 2016 Annual General Meeting. The Board of Directors sincerely thanks Verena A. Briner for her distinguished service and for her dedication and commitment to Novartis.

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., MBA, Srikant Datar, Ph.D., 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 Ton Buechner and Elizabeth Doherty 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/annualreport2015>).

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

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

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

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

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

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

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

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

### **7.9 Re-election of Enrico Vanni, Ph.D.**

### **7.10 Re-election of William T. Winters**

### **7.11 Election of Ton Buechner**

Mr. Ton Buechner received his master's degree in Civil Engineering from the Delft University of Technology, Netherlands, in 1988. He holds an MBA from IMD, Switzerland. Currently he serves as CEO of the Dutch multinational industrial company AkzoNobel. From 2007 to 2011, he served as president and CEO of Sulzer Corporation in Switzerland. He is independent from Novartis according to the independence criteria set forth by the Board of Directors.

### **7.12 Election of Elizabeth Doherty**

Ms. Elizabeth Doherty received her bachelor's degree in Liberal Studies in Science (Physics) from the University of Manchester, UK. She began her career as an auditor and held senior finance and accounting roles at Unilever plc, Tesco plc, Brambles Ltd and Reckitt Benckiser Group plc. She currently serves as a non-executive director and chairman of the audit committee of Dunelm Group plc, in the UK. She is also a non-executive director and member of the audit committee at Delhaize Group in Belgium and Nokia Corp. in Finland. From 2006 to 2010, she served as a non-executive director of SABMiller plc, in the UK. She is also a Fellow of the Chartered Institute of Management Accountants (FCMA). She is independent from Novartis according to the independence criteria set forth by the Board of Directors.

## **8 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.

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

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

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

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

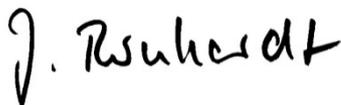
## **9 Re-election of the Statutory Auditor**

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, 2016.

## **10 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 2016 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 2015 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/annualreport2015>. In addition, from February 5, 2016 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 8 to 19, 2016 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 18, 2016).

### 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.

### 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  
2016 Annual General Meeting

Item 6 of the Agenda  
(The original German text is binding)





Dr. Chang As Xinh, 37, updates records in his office at a community hospital in northeast Vietnam. Dr. Xinh is one of just 15 doctors who deliver medical care to more than 40 000 mostly ethnic H'mong people here.

## Dear shareholder,

At Novartis, our mission is to discover new ways to extend and improve people's lives. We use science-based innovation to address some of society's most challenging healthcare issues, discovering and developing breakthrough treatments and finding new ways to deliver them to as many people as possible.

The Compensation Committee has carefully considered the results of the 2015 AGM on compensation votes, in which our compensation systems and practices were strongly supported by our shareholders as well as our chosen voting approaches with regard to the compensation for the members of the Board and the members of the Executive Committee.

Our company wants to be an employer of choice and to provide superior returns to our shareholders. Feedback on Board and Executive Committee compensation was received through an on-going dialogue between the Chairman of the Compensation Committee and Management on the one hand and numerous shareholders, including Novartis' largest shareholders, on the other hand. These conversations have provided us with an excellent opportunity to discuss the alignment between pay and performance at Novartis. The Committee is committed to continued engagement between shareholders and the company to fully understand diverse viewpoints and discuss the important connections between Novartis' compensation programs, business strategy, and long-term financial and operating performance.

As last year, in line with the Minder Ordinance and our Articles of Incorporation, we are asking shareholders at the 2016 AGM to cast separate binding votes on the two aggregate amounts of compensation, and an advisory (non-binding) vote on our compensation report as described below.

**VOTE 6.1: BINDING VOTE ON TOTAL COMPENSATION FOR MEMBERS OF THE BOARD OF DIRECTORS FROM THE 2016 ANNUAL GENERAL MEETING TO THE 2017 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 2016 Annual General Meeting to the 2017 Annual General Meeting, i.e. CHF 8 160 000.

**VOTE 6.2: BINDING VOTE ON TOTAL COMPENSATION FOR MEMBERS OF THE EXECUTIVE COMMITTEE FOR THE NEXT FINANCIAL YEAR, I.E. 2017**

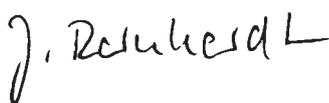
The Board of Directors proposes that shareholders approve the total maximum amount of compensation to be paid, promised or granted during, or in respect of 2017 to the members of the Executive Committee, i.e. CHF 93 000 000.

**VOTE 6.3: ADVISORY VOTE ON THE 2015 COMPENSATION REPORT**

The Board of Directors proposes that shareholders endorse in an advisory vote the 2015 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 2015 Novartis 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 6.1

### *Binding Vote on Total Compensation for Members of the Board of Directors from the 2016 Annual General Meeting to the 2017 Annual General Meeting, i.e. CHF 8 160 000*

#### COMPENSATION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

The annual compensation of our Chairman will be CHF 3.8 million from the 2016 AGM to the 2017 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 2016 AGM to the 2017 AGM, the Chairman decided to waive his right to receive an increase in annual compensation equal to the average compensation increase for Swiss associates. 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 Board membership and Committee fees shall remain unchanged for the period from the 2016 AGM to the 2017 AGM.

Members of the Novartis Board of Directors receive only fixed compensation. They receive no variable, or performance-based compensation, no stock 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), which are paid at least 50% in Novartis shares (up to 100% at the option of each Board member), are summarized below:

	Annual Fee (CHF 000)
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 2016 AGM TO THE 2017 AGM

The table below shows the total maximum amount of compensation (in Swiss Francs) to be paid to the members of the Board of Directors, including the Chairman, proposed for the period from the 2016 AGM to the 2017 AGM. It assumes that all proposed Board members (and Compensation Committee members) will be elected by the AGM.

Compensation for the members of the Novartis Board of Directors (2016 AGM – 2017 AGM)	Total fixed compensation (CHF 000) <sup>1</sup>
Joerg Reinhardt, Chairman of the Board	3 805
Other 11 Board members to be paid in accordance with the annual fee structure above <sup>2</sup>	4 355
<b>Total maximum amount of compensation for the 12 members of the Novartis Board of Directors for the period from the 2016 AGM to the 2017 AGM<sup>2</sup></b>	<b>CHF 8 160</b>

<sup>1</sup> It includes an estimated amount of CHF 20 000 for mandatory employer contributions payable by Novartis to Swiss governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 350 000, 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.

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 11 to 12 Board members) and potential committee chairmanships and memberships that the Board will put into action after the 2016 AGM.

### EVOLUTION OF TOTAL COMPENSATION FOR MEMBERS OF THE BOARD OF DIRECTORS FROM THE 2014 AGM TO THE 2016 AGM

	2014 AGM – 2015 AGM <sup>1</sup>	2015 AGM – 2016 AGM <sup>2</sup>
Number of Board members (including the Chairman)	11	11
Compensation (CHF)		
Chairman of the Board	3 945 521 <sup>3</sup>	3 804 357
Other members of the Board	4 027 561	3 936 563
<b>Total compensation of the Board</b>	<b>CHF 7 973 082</b>	<b>CHF 7 740 920</b>
<b>Total maximum Board compensation approved by AGM</b>	<b>CHF 8 022 000</b>	<b>CHF 7 745 000</b>

<sup>1</sup> It excludes an amount of CHF 24 318 for mandatory employer contributions paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of approximately CHF 465 000, 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 2016 AGM. It also includes an estimated amount of CHF 20 543 for mandatory employer contributions payable by Novartis to Swiss governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 450 000, and provides a right to the maximum future insured government pension benefit for the Board member.

<sup>3</sup> This amount excludes the full value of the compensation for lost entitlements with Joerg Reinhardt's previous employer (EUR 2 665 051) which was disclosed in the 2014 and 2013 Compensation Reports.

Additional information regarding compensation for the Board may be viewed in the 2015 Compensation Report on pages 129–133. Page 132 of the 2015 Compensation Report shows a reconciliation of the amount paid to Board members to the amounts approved by the shareholders of the 2014 AGM and the 2015 AGM for the period 2014 AGM–2015 AGM and 2015 AGM–2016 AGM, respectively. The amounts paid are within the maximum amounts approved.

## VOTE 6.2

### *Binding Vote on Total Compensation for Members of the Executive Committee for the next financial year, i.e. CHF 93 000 000 for 2017*

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 twelve companies in our healthcare peer group<sup>1</sup>. In the event of under- or over-performance, the actual compensation may be lower or higher than the benchmark median.

#### **KEY FEATURES OF OUR 2017 EXECUTIVE COMMITTEE COMPENSATION SYSTEM**

- Performance measures aligned directly to our business strategy
- All variable compensation is performance-based
- Annual Incentive format is an integrated balanced scorecard that considers performance holistically against Group and divisional financial targets, individual objectives and a focus on the Novartis Values and Behaviors
- The total long-term incentive has two separate plans, which are each subject to a three-year performance period: one based on our internal financial performance and our results in innovation; the other based on our relative Total Shareholder Return measured against 12 other companies that form our healthcare peer group<sup>1</sup>
- Simplified program: No share options, matching grants or time-only vesting long-term incentives<sup>2</sup>

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

<sup>1</sup>Peer group consists of Abbott, AbbVie, Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly & Co., GlaxoSmithKline, Johnson & Johnson, Merck & Co., Pfizer, Roche and Sanofi.

<sup>2</sup>Excludes any payment beyond the approved amount 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 2017 may be summarized as follows:

<b>2017 EXECUTIVE COMMITTEE COMPENSATION SYSTEM</b>					
	<b>Fixed compensation and benefits</b>		<b>Variable compensation</b>		
	<b>Annual base compensation</b>	<b>Pension and other benefits</b>	<b>Annual Incentive</b>	<b>Long Term Performance Plan (LTPP)</b>	<b>Long Term Relative Performance Plan (LTRPP)</b>
<b>Purpose</b>	Reflects associates' responsibilities, job characteristics, experience and skill sets	Establish a level of security for associates and their dependents tailored to local market practices 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 (2017)	3 years (2017–2019)	3 years (2017–2019)
<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 12 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> Peer group consists of Abbott, AbbVie, Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly & Co., GlaxoSmithKline, Johnson & Johnson, Merck & Co., Pfizer, Roche and Sanofi.  
<sup>2</sup> Executive Committee members may elect to receive more of their Annual Incentive in shares instead of cash.

### COMMUNICATION OF TARGETS AND ACHIEVEMENTS

In line with our principle to allow shareholders to assess the relationship between company performance and pay, the financial, innovation and individual targets under the Annual Incentive plan and the LTPP will be disclosed in the Compensation Report with the achievements against such targets at the end of each performance cycle.

Targets under the Annual Incentive plan and the LTPP are considered confidential at the time of setting. Communicating such targets before the end of the performance cycle would allow substantial insight into the company's forward-looking strategies and could therefore place the company 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. 2017**

The table below presents a breakdown of the expected minimum, target and maximum 2017 total compensation for the expected members of the Executive Committee (in Swiss Francs).

Amounts in CHF millions <sup>1</sup>	Fixed compensation		Variable compensation			Total compensation
	Annual Base Compensation	Pension and Other Benefits <sup>2</sup>	Annual Incentive <sup>3</sup>	LTPP <sup>4</sup>	LTRPP <sup>4</sup>	
Fixed amount <sup>5</sup> (minimum)	11.0	4.5	0.0	0.0	0.0	15.5
Target amount <sup>5</sup> (if 100% of target reached)	11.0	4.5	12.3	18.0	8.5	54.3
<b>Maximum amount requested to AGM<sup>5</sup></b> (if 200% of target reached)	11.0	4.5	24.5	36.0	17.0	<b>CHF 93.0</b>

<sup>1</sup> Some members are foreseen to be paid in USD. Exchange rate used is 1 CHF: 1.040 USD and the amounts proposed exclude any currency exchange rate fluctuation between the time of the release of this brochure and December 31, 2017.

<sup>2</sup> Includes service costs of pension, post-retirement healthcare benefits. It also includes an amount of approximately CHF 55 000 for estimated mandatory employer contributions payable by Novartis to governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 7 700 000, 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 1 200 000).

<sup>3</sup> Page 7 of this brochure includes a summary of the Annual Incentive. 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 dividends that are paid each year on the shares.

<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 target number of PSUs originally granted). This value excludes any change in share price over the vesting period, as well as dividend equivalents that are reinvested in additional PSUs and paid at vesting to the extent that performance conditions have been met.

<sup>5</sup> Includes budget for merit increases, if any.

Target compensation will be reached if members of the Executive Committee members reach an average payout of 100% in all incentive plans.

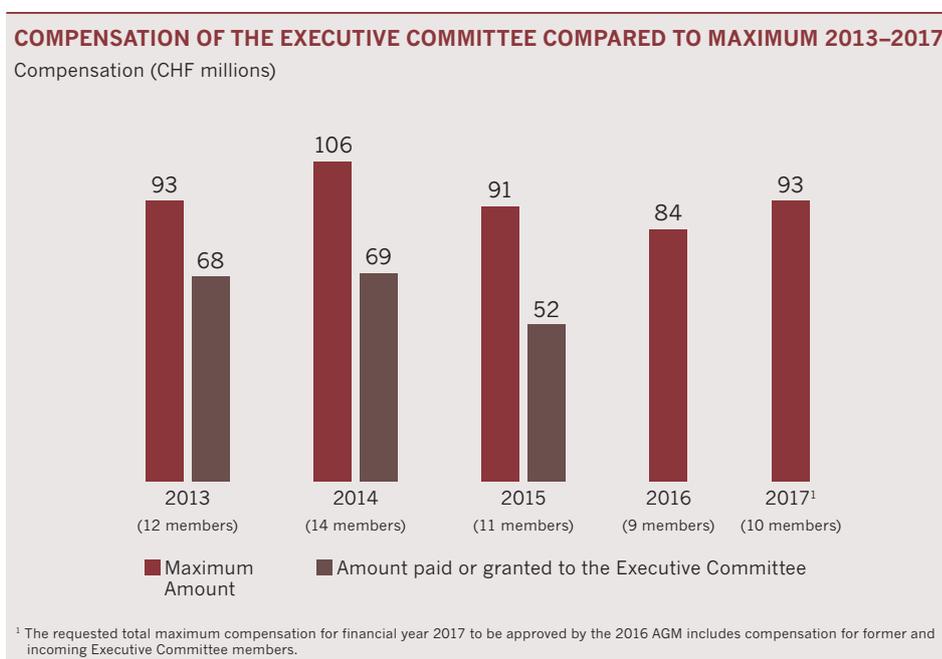
The maximum amount of compensation requested to the AGM will only be reached if all members of the Executive Committee reach a payout of 200% in all incentive plans. This would require all targets to be exceptionally exceeded, and Novartis to be positioned number one out of our peer group for relative 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 at Novartis.

**EVOLUTION OF EXECUTIVE COMMITTEE COMPENSATION**

The proposed total maximum compensation to be paid, promised or granted to the members of the Executive Committee for 2017 (i.e. CHF 93m) is higher than the amount approved by shareholders at the 2015 AGM for 2016 (i.e. CHF 84m) as a result of:

- the appointment of one additional member on the Executive Committee with effect from February 2016 in line with the company’s organizational changes and business strategy, and
- a merit increase for certain Executive Committee members based on their 2015 performance and an adjustment on the variable compensation (i.e. Annual Incentive, LTPP and LTRPP) to position their total compensation closer to the median of the external peer group benchmark.

The table below presents an overview of the compensation of the Executive Committee compared to the approved or to be approved total maximum amount of compensation over the period from 2013-2017.



Year over year changes in total compensation are impacted mainly by the number of Executive Committee members, each member’s target compensation as well as company and individual performance during the relevant performance cycles. In addition, the compensation system changed between 2013 and 2014, as did the reporting methodology of Long-Term Incentives in the Compensation Report.

Additional information regarding compensation for the Executive Committee may be viewed in the 2015 Compensation Report on pages 113 – 128.

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## VOTE 6.3

### *Advisory vote on the 2015 Compensation Report*

The purpose of our Compensation Report is to clearly inform shareholders regarding our Board and Executive Committee compensation systems, policies and practices.

In addition, it provides transparency regarding the relationship between the company performance against our 2015 Group targets, and the actual compensation paid to our Executive Committee.

We request that shareholders endorse in an advisory vote the 2015 Novartis Compensation Report, which is available electronically on our website at the following address:

[www.novartis.com/annualreport2015](http://www.novartis.com/annualreport2015)

# 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 discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible. We also aim to provide a shareholder return that rewards those who invest their money, time and ideas in our company.*

