Audit and Compliance Committee Pre-Approval Policy for use of services from the Principal Independent Auditor

1. Statement of Principles

The Audit and Compliance Committee (ACC) is required to pre-approve the audit and non-audit services performed by the principal independent auditor in order to assure that the provision of such services does not impair the principal independent auditor’s independence. Unless a type of service to be provided by the principal independent auditor has received general pre-approval, it will require individual approval. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the ACC.

Appendix A to this Policy describes the Audit, Audit-related and Other Services that have the pre-approval of the ACC. The term of any pre-approval is 12 months from the date of pre-approval, unless the ACC specifically provides for a different period. The ACC will periodically revise the list of pre-approved services, based on subsequent determinations.

This pre-approval policy is only relevant for services requested from the principal independent external auditor. For services requested from any other accounting or consulting firms the regular sourcing guidelines apply.

2. Urgent Cases

The chair person of the ACC is authorized to approve permissible services in urgent cases. Such approvals have to be minuted at the next meeting of the ACC.

3. Audit Services

The annual Audit Services engagement terms and fees for the principal independent auditor will be subject to the specific pre-approval of the ACC. The ACC will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Company structure or other matters.

In addition to the annual Audit Services engagement approved by the ACC, the ACC may grant pre-approval for other Audit Services, which are services that only the independent auditor reasonably can provide.

All other Audit Services not listed in Appendix A require specific pre-approval by the ACC.

4. Audit-Related Services

Audit-Related Services are assurance and related services that are reasonably related to the performance of the audit or review of the Company’s financial statements and that are traditionally performed by the principal independent auditor. The ACC believes that the provision of Audit-Related Services does not impair the independence of the auditor, and pre-approves the Audit-Related Services listed in Appendix A.

All other Audit-Related Services not listed in Appendix A require specific pre-approval by the ACC.
5. Tax Services

The ACC believes that the principal independent auditor can provide Tax Services to the Company such as tax compliance, tax planning and tax advice without impairing the auditor’s independence. However, the ACC will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations.

All Tax Services listed in Appendix A require specific and individual pre-approval by the ACC.

6. All Other Services

Novartis will only engage its principal independent auditor where such auditor is especially well qualified for a particular piece of work. In addition, the principal independent auditor may not perform any non-audit services that are prohibited by the U.S. Securities and Exchange Commission, the U.S. Public Company Accounting Oversight Board, the UK Auditing Practices Board, the Swiss Federal Audit Oversight Authority and the Financial Market Supervisory Authority, or any other organisation to whose jurisdiction Novartis may be subject.

The ACC may grant pre-approval to other permissible non-audit services that it believes are routine and recurring services, and would not impair the independence of the auditor, such as the services listed in Appendix A.

A list of the SEC’s prohibited non-audit services is attached to this policy as Appendix B. The SEC’s rules and relevant guidance should be consulted to determine the precise definitions of these services and the applicability of exceptions to certain of the prohibitions.

7. Pre-Approval Fee Levels

The ACC will establish pre-approval fee levels for audit and audit-related services to be provided by the principal independent auditor. In the event that the ACC has approved an estimated fee for a service, any invoice materially in excess of the estimated amount must be specifically approved by the ACC prior to payment. Any request to pay invoices in excess of the estimated amounts will include an explanation as to the reason for the extra charge.

8. Supporting Documentation

With respect to each proposed pre-approved service, the principal independent auditor will provide detailed back-up documentation, which on request will be provided to the ACC.

9. Procedures

Requests or applications to provide services that require separate approval by the ACC will be submitted to the ACC by both the principal independent auditor and the Novartis Chief Financial Officer or Head of Financial Reporting & Accounting, and must include a statement as to whether, in their view, the request or application is consistent with the SEC’s rules on auditor independence.
Management shall regularly inform the ACC of the services performed by the principal independent auditor pursuant to this policy.

This Policy was approved by the ACC on October 22, 2014.