

COMPENSATION REPORT



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 PHOTO ESSAY

Improving access to healthcare in rural Vietnam

Dr. Chang As Xinh, 37, is one of just 15 doctors who deliver medical care to more than 40 000 people living in Mù Cang Chai, a rural district of Yên Bái province in northeast Vietnam. It's a very poor part of the country rich in natural beauty and inhabited mostly by H'mong people, an ethnic minority.

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Dear shareholder,

As Chairman of the Compensation Committee of the Board of Directors, I am pleased to share with you the 2015 Compensation Report of Novartis AG.

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, discovering and developing breakthrough treatments and finding new ways to deliver them to as many people as possible. Our company also wants to be an employer of choice and to provide superior returns to our shareholders. During the last two years, the Compensation Committee undertook significant work to:

- Better align the executive compensation system with our long-term business strategy and shareholder interests
- Strengthen the corporate governance framework
- Implement all elements of the Minder Ordinance to Board and executive compensation

The Compensation Committee would like to acknowledge the strong shareholder support at the 2015 Annual General Meeting (AGM) for all of the remuneration-related resolutions, and express appreciation for the opportunity to engage many of our shareholders on compensation topics in 2015. The Compensation Committee would also like to thank Dr. Ulrich Lehner for his services on the Compensation Committee and welcome William Winters as a new member.

2015 company performance

In 2015, Novartis progressed in all of its key priorities. The company completed its portfolio transformation ahead of schedule, achieved major innovation milestones with *Entresto*, *Cosentyx* and biosimilars, captured cross-divisional synergies with the creation of the Novartis Business Services unit and continued to build a high-performing organization. Currencies had a very negative impact on our reported results in USD as the USD strengthened significantly vs. all major currencies in 2015. Operationally, in constant currencies, the company was marginally below its sales target but slightly above its net income and free cash flow targets. Pharmaceuticals and Sandoz delivered strong performances, while Alcon negatively impacted consolidated results. The company improved core margin despite the currency impact. Although, in USD, Novartis' TSR was -3.5% in 2015, TSR was +53.4% for the period 2013-2015, corresponding to the usual three-year cycle of our long-term plans.

2015 CEO compensation

For 2015, our CEO was awarded total compensation of CHF 11 596 560. This amount included an Annual Incentive of

CHF 3 090 758 (representing 100% of target) based on a combination of his and our company's performance, as summarized above. Half of the Annual Incentive was delivered in cash, and the remaining half was delivered in restricted share units, which will have a three-year vesting period. His total compensation also included Long-Term Incentive grants with a target value of CHF 6 181 580, which will be subject to performance conditions for the 2015–2017 cycle.

Compensation systems

While the Compensation Committee continued to evaluate the effectiveness of our compensation program, 2015 was a year of stability and refinement of our existing compensation systems following major changes to the Swiss and international regulatory environment. During 2015, the Compensation Committee made only small changes to further align compensation to long-term business strategy and shareholder interests for all associates of Novartis. With effect from 2016, the new compensation system for Executive Committee members will be rolled out to all key executives. Our company has also embedded our Values and Behaviors in the talent framework and ensured that our rigorous performance management process is upheld at all levels of the organization. The new program has the full support of our Board of Directors. We believe that it provides a competitive advantage to Novartis in the marketplace for executive talent.

2016 AGM

The Compensation Committee is committed to continued engagement between shareholders and our company to fully understand diverse viewpoints and discuss the important connections between our company's compensation program, business strategy, and long-term financial and operating performance. As was the case last year and in line with our Articles of Incorporation, shareholders will be asked to approve the following:

- Total maximum amount of Board compensation from the 2016 AGM to the 2017 AGM
- Total maximum amount of Executive Committee compensation for the 2017 financial year

Shareholders will also be asked to endorse this Compensation Report in an advisory vote.

On behalf of Novartis and the Compensation Committee, I would like to thank you for your continued support and feedback, which I consider extremely valuable in driving improvements in our compensation systems and practices. I invite you to send your comments to me at the following email address: investor.relations@novartis.com.

Respectfully,

Enrico Vanni, Ph.D.
Chairman of the Compensation Committee

COMPENSATION REPORT AT A GLANCE

Executive Committee compensation

2015 EXECUTIVE COMMITTEE COMPENSATION SYSTEM (page 114–117)

The following components are included:

	Fixed compensation and benefits		Variable compensation			Total variable compensation
	Annual base compensation	Pension and other benefits	Annual Incentive	Long-Term Performance Plan (LTPP)	Long-Term Relative Performance Plan (LTRPP)	
Purpose	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 & Behaviors	Rewards long-term shareholder value creation and long-term innovation	Rewards relative total shareholder return	
Performance period	n/a	n/a	1 year (2015)	3 years (2015–2017)	3 years (2015–2017)	
Performance measures	n/a	n/a	Based on a payout matrix made up of: <ul style="list-style-type: none"> Individual balanced scorecard, including financial targets and individual objectives Assessed Values and Behaviors 	Based on: <ul style="list-style-type: none"> 75% Novartis Cash Value Added 25% divisional long-term innovation milestones 	Based on Novartis relative total shareholder Return vs. versus our peer group of 12 healthcare companies ¹	
Delivery (at the end of the performance period for variable compensation)	Cash	Country specific	50% cash 50% deferred equity ² (3-year holding of restricted shares/ restricted share units)	Equity (includes dividend equivalents)	Equity (includes dividend equivalents)	
	¹ The companies in our peer group consist of Abbott, AbbVie, Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly & Co., GlaxoSmithKline, Johnson & Johnson, Merck & Co., Pfizer, Roche and Sanofi. ² Executive Committee members may elect to receive more of their Annual Incentive in shares instead of cash.					
CEO variable opportunity as % of base salary	n/a	n/a	Target: 150% (range 0–200% of target)	Target: 200% (range 0–200% of target)	Target: 100% (range 0–200% of target)	Target: 450% (range 0–200% of target)
Executive Committee variable opportunity as % of base salary (excluding CEO)	n/a	n/a	Target: 90%–120% (range 0–200% of target)	Target: 140%–190% (range 0–200% of target)	Target: 30%–90% (range 0–200% of target)	Target: 260%–400% (range 0–200% of target)

2015 EXECUTIVE COMMITTEE COMPENSATION (page 120–126)

Amounts paid or granted during the 2015 financial year:

(CHF)						Total compensation
CEO compensation	2 060 500	263 721	3 090 758	4 121 054 ¹	2 060 527 ¹	11 596 560
Executive Committee compensation (excluding CEO)	7 429 769	5 071 392	11 230 142	11 973 697 ¹	4 652 661 ¹	40 357 661
Total	9 490 269	5 335 113 ²	14 320 900	16 094 751	6 713 188	51 954 221 ²

¹ The amounts shown in these columns represent the underlying share value of the grant date target value of the number of Performance Share Units granted to each Executive Committee member for the performance cycle 2015–2017.

² It includes an amount of CHF 58 757 for mandatory employer contributions paid by Novartis to governmental social security systems. This amount is out of total employer contributions of CHF 3 457 097, and provides a right to the maximum future insured government pension benefit for the Executive Committee member.

2016 EXECUTIVE COMMITTEE COMPENSATION SYSTEM

Compensation opportunity

As for all associates, Executive Committee members may have received a merit increase, based on their 2015 performance, and/or an adjustment to benchmark.

Performance measures

Annual Incentive
No changes have been made to the performance measures under the Annual Incentive.

Long-Term Incentives

No changes have been made to the performance measures under either the Long-Term Performance Plan or the Long-Term Relative Performance Plan.

COMPENSATION REPORT AT A GLANCE

continued

Board compensation

2015 BOARD COMPENSATION SYSTEM (page 129)

Delivery: 50% cash, 50% shares	(CHF)	Annual fee
Chairman of the Board		3 800 000 ¹
Board membership		300 000
Vice Chairman		50 000
Chairman of Audit and Compliance Committee		120 000
Chairman of the following committees:		
— Compensation Committee		
— Governance, Nomination and Corporate Responsibilities Committee		
— Research & Development Committee ²		
— Risk Committee		60 000
Membership of Audit and Compliance Committee		60 000
Membership of the following committees:		
— Compensation Committee		
— Governance, Nomination and Corporate Responsibilities Committee		
— Research & Development Committee		
— Risk Committee		30 000

¹ The Chairman also received company pension contributions until the 2015 AGM (when they ceased), and payment for loss of other entitlements with his previous employer for a total value of EUR 2 665 051 staggered over the period from 2014 to 2016.

² The Chairman receives no additional committee fees for chairing the Research & Development Committee.

2015 BOARD COMPENSATION (page 130–133)

Amounts earned during the 2015 financial year	(CHF)	Cash	Equity	Other benefits ¹	Total
Chairman					
Dr. Joerg Reinhardt		1 900 000	1 900 000	29 197	3 829 197
Other Board members		1 601 417	2 331 917	17 145	3 950 479
Total		3 501 417	4 231 917	46 342	7 779 676²

¹ It includes an amount of CHF 21 502 for mandatory employer contributions paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of CHF 429 806, and provides a right to the maximum future insured government pension benefit for the Board member. No occupational pension contributions have been provided to the Chairman from the 2015 AGM onwards.

² Please see page 132 for a reconciliation between the amount reported in this table and the amount approved by shareholders at the 2015 AGM to be used to compensate Board members for the period from the 2015 AGM to the 2016 AGM. The amount paid is within the maximum amount approved by shareholders.

2016 BOARD COMPENSATION SYSTEM

The Board compensation system will remain unchanged in 2016.

Compensation governance

GOVERNANCE AND RISK MANAGEMENT (page 133–134)

Decision-making authorities with regard to compensation, within the parameters set by the shareholders' meeting	Decision on	Authority
	Compensation of Chairman and other Board members	Board of Directors
	Compensation of CEO	Board of Directors
	Compensation of Executive Committee members	Compensation Committee

Executive Committee compensation risk management principles

- Rigorous performance management process
- Balanced mix of short-term and long-term variable compensation elements
- Matrix approach to performance evaluation under the Annual Incentive, including an individual balanced scorecard and assessed Novartis Values and Behaviors
- Performance-vesting Long-Term Incentives only, with three-year overlapping cycles
- All variable compensation is capped at 200% of target
- Contractual notice period of 12 months
- Post-contractual non-compete limited to a maximum of 12 months (annual base compensation and Annual Incentive of the prior year only)
- No severance payments or change-of-control clauses
- Clawback principles apply to all elements of variable compensation
- Share ownership requirements; no hedging or pledging of Novartis share ownership position by Board and Executive Committee members

EXECUTIVE COMMITTEE COMPENSATION PHILOSOPHY AND PRINCIPLES

NOVARTIS COMPENSATION PHILOSOPHY

The compensation philosophy aims to ensure that the Executive Committee is rewarded according to its success in implementing the company strategy and to its contribution to company performance. The Executive Committee compensation system is designed in line with the following key elements:

Pay for performance	Variable compensation is tied directly to the achievement of strategic company targets
Shareholder alignment	A significant part of our incentives are equity-based. Also, one Long-Term Incentive rewards on the basis of relative total shareholder return
Balanced rewards to create sustainable value	Mix of targets based on financial metrics, innovation, individual objectives, Values and Behaviors, and performance vs. competitors
Business ethics	The Values and Behaviors are an integral part of our compensation system
Competitive compensation	Compensation competitive to relevant benchmarks ensures we are able to attract and retain the most talented global Executive Committee members

ALIGNMENT WITH COMPANY STRATEGY

The Novartis strategy is to use science-based innovation to deliver better patient outcomes. We aim to lead in growing areas of healthcare. To align the compensation system with this strategy, the Board of Directors determines specific, measurable and time-bound performance metrics, including financial metrics such as sales, profit and cash flow, as well as non-financial metrics, which indicate the success of its implementation. The Board of Directors then sets short-term and long-term targets for each of these performance metrics and compensates the Executive Committee according to the extent to which the targets are achieved. In line with the company's focus on science-based innovation, the Board of Directors sets a number of specific targets for each division to fulfill within specific timeframes. In line with the company's aim to lead in growing areas of healthcare, Novartis has focused its portfolio to have three market-leading divisions in innovative pharmaceuticals, eye care and generics. Finally, to ensure that Novartis is a high-performing organization over the long term, the Board of Directors also sets targets in areas such as quality, talent, integrity and reputation, which are reinforced by the Novartis Values and Behaviors.

EXECUTIVE COMMITTEE COMPENSATION BENCHMARKING

To attract and retain key talent, it is important for us to offer competitive compensation opportunities. Executives meeting their objectives are generally awarded target compensation at a level comparable to the median level of similar roles within the benchmark companies (see below). In the event of under- or over-performance, the actual compensation may be lower or higher than the benchmark median.

While benchmarking information regarding executive pay is considered by the Compensation Committee, any decisions on compensation are ultimately based on the specific business needs of Novartis and the performance of the individual.

The Compensation Committee reviews the compensation of the CEO and Executive Committee members annually in comparison to the relevant compensation levels of similar positions at peer companies. For this purpose, the Compensation Committee uses benchmark data from publicly available sources, as well as reputable market data providers. All data is reviewed and evaluated by the Compensation Committee's independent advisor, who also provides independent research and advice regarding the compensation of the CEO and other Executive Committee members.

For the CEO and Executive Committee members, the company benchmarks against global competitors in the healthcare industry with similar business models, size and needs for talent and skills. The Compensation Committee reviews the companies in our compensation peer group annually and considers adjustments over time in line with the evolution of the competitive environment in the healthcare industry.

BENCHMARK COMPANIES

Abbott	AbbVie	Amgen
AstraZeneca	Bristol-Myers Squibb	Eli Lilly & Co.
GlaxoSmithKline	Johnson & Johnson	Merck & Co.
Pfizer	Roche	Sanofi

Within this peer group, Novartis is among the largest in key dimensions including market capitalization, sales and operating income.

2015 EXECUTIVE COMMITTEE COMPENSATION SYSTEM

The 2015 Executive Committee compensation system consists of the following components:

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)

FIXED COMPENSATION AND BENEFITS

ANNUAL BASE COMPENSATION

The level of base compensation reflects each associate’s key responsibilities, job characteristics, experience and skill sets. It is paid in cash, typically monthly.

Base compensation is reviewed annually, and any increase reflects merit based on performance, as well as market movements.

PENSION AND OTHER BENEFITS

The primary purpose of pension and insurance plans is to establish a level of security for associates and their dependents with respect to age, health, disability and death. The level and scope of pension and insurance benefits provided are country-specific, influenced by local market practices and regulations.

Company policy is to change from defined-benefit pension plans to defined-contribution pension plans. All major plans have now been aligned with this policy as far as reasonably practicable. See also Note 25 to the Group’s audited consolidated financial statements (page 218).

Novartis may provide other benefits in a specific country according to local market practices and regulations, such as a company car, and tax and financial planning services. Executive Committee members who have been transferred on an international assignment also receive benefits (such as tax equalization) in line with the company’s international assignment policies.

VARIABLE COMPENSATION

ANNUAL INCENTIVE

For the Annual Incentive of the CEO and Executive Committee members, a target incentive is defined as a percentage of base compensation at the beginning of each performance year. The target incentive is 150% of base compensation for the CEO, and ranges from 90% to 120% for other Executive Committee members. It is paid half in cash and half in shares deferred for three years. The formula for the target Annual Incentive is outlined below:

ANNUAL INCENTIVE FORMULA			
Annual base compensation	x	Target incentive %	= Target Annual Incentive value

Performance measures

The Annual Incentive is based on a payout matrix made up of two elements: a balanced scorecard and the Novartis Values and Behaviors, which are described in more detail below.

Balanced scorecard

The first element used to determine the payout of the Annual Incentive is a balanced scorecard within which Group or divisional financial targets are weighted 60% and individual objectives are weighted 40%. As reported last year, as of 2015, innovation was removed from the Group financial targets of the Annual Incentive and instead included in the Long-Term Performance Plan, as the Compensation Committee’s view is that innovation achievements are more effectively measured on a multiyear basis. For more details on the target-setting and performance management process, please refer to page 118.

Group or divisional financial targets

Within the Group or divisional financial targets, each measure such as sales or net income is weighted individually. The CEO and function heads share the same Group financial targets (described further below). In place of the Group targets, division heads have divisional targets that include divisional sales, operating income, free cash flow as a percentage of sales, and market share of peers. The Board of Directors sets the Group and divisional financial targets at the start of each performance year in constant currencies, and evaluates achievement against these targets at the end of that year.

Individual objectives

Individual objectives differ for each Executive Committee member depending on his responsibilities, and may include additional financial and non-financial targets. Examples of additional financial targets are implementation of growth, productivity and development initiatives. Non-financial targets may include leadership and people management, workforce diversity, quality, social initiatives such as access to medicines, and ethical business practices.

By way of illustration, the balanced scorecard measures used for the CEO in 2015 are set out in the table on the following page:

2015 BALANCED SCORECARD MEASURES USED FOR THE CEO		
Performance measures	Weight	Breakdown of performance measures
Group financial targets	60%	Group net sales Corporate net result Group net income Group free cash flow as % of sales
CEO individual objectives	40%	Additional financial targets (e.g., EPS) Innovation and growth Portfolio review Cross-divisional synergies High-performing organization
Overall total	100%	

Novartis Values and Behaviors

The second element used to determine the payout of the Annual Incentive ensures that the associate’s performance is achieved in line with the highest standards of business conduct, as outlined in the Novartis Values and Behaviors. Novartis requires Executive Committee members to be action-oriented and full of energy to face challenging situations, to assign the highest priority to customer satisfaction, and to commit to honesty in every facet of behavior, demonstrating strong ethical and legal conduct. Novartis leaders are expected to live up to these behaviors on a daily basis, and to align and energize other associates to do the same. Novartis Values and Behaviors are an essential element in the annual assessment of Executive Committee members. For more details on the performance assessment process of the Novartis Values and Behaviors, please refer to page 119.

Performance evaluation and payout determination

Following a thorough review of the two elements that compose the Annual Incentive – performance against the balanced scorecard objectives and an assessment against the Novartis Values and Behaviors – a rating from 1 to 3 is assigned to each.

The following payout matrix shows how the Annual Incentive performance factor is derived using a combination of performance against the balanced scorecard and demonstration of the Novartis Values and Behaviors. The Compensation Committee determines the final payout factor for Executive Committee members taking into account the ranges shown. Payouts are capped at 200% of target.

2015 ANNUAL INCENTIVE PAYOUT MATRIX							
Performance vs. balanced scorecard			% Payout				
			Exceeded expectations	3	60–90%	130–160%	170–200%
			Fully met expectations	2	0–70%	90–120%	130–160%
			Partially met expectations	1	0%	0–70%	60–90%
			1	2	3		
			Partially met ex- pectations	Fully met ex- pectations	Exceeded ex- pectations		
Values and Behaviors assessment							

The payout matrix for the Annual Incentive equally recognizes performance against the objectives in the balanced scorecard, and the assessment against the Novartis Values and Behaviors.

Form and delivery of the award

The Annual Incentive is paid 50% in cash in March of the year following the performance period, and 50% in Novartis shares (or restricted share units, known as RSUs) that are deferred and restricted for three years. Each restricted share is entitled to voting rights and payment of dividends during the vesting period. Each RSU is equivalent in value to one Novartis share and is converted into one share at the vesting date. RSUs under this plan do not carry any dividend, dividend equivalent or voting rights. Following the vesting period, settlement is made in unrestricted Novartis shares or American Depositary Receipts (ADRs).

If a participant leaves Novartis due to voluntary resignation or misconduct, unvested shares (and RSUs) are forfeited. The Board of Directors and the Compensation Committee retain accountability for ensuring that rules are applied correctly, and for determining whether a different treatment should apply in exceptional circumstances. This is necessary to ensure that the treatment of any award in the event of cessation of employment is appropriate.

Executives may choose to receive some or all of the cash portion of their Annual Incentive in Novartis shares or ADRs (US only) that will not be subject to conditions. In the US, awards may also be delivered in cash under the US-deferred compensation plan.

LONG-TERM INCENTIVES

Novartis operates two Long-Term Incentives (the Long-Term Performance Plan and the Long-Term Relative Performance Plan) for the Executive Committee members, which function in an identical way except for the performance conditions applied.

Grant of Long-Term Incentives

At the beginning of every performance period, Executive Committee members are granted a target number of performance share units (PSUs) under each of the Long-Term Incentives according to the following formula:

STEP 1	Annual base compensation	x	Target incentive %	=	Grant value
STEP 2	Grant value	/	Share price	=	Target number of PSUs

Vesting of Long-Term Incentives

At the end of the three-year performance period, the Compensation Committee adjusts the number of PSUs realized based on actual performance against target.

LONG-TERM INCENTIVE PAYOUT FORMULA				
Target number of PSUs	x	Performance factor	=	Realized PSUs + dividend equivalents

The performance factor can range from 0% to 200% of target. Each realized PSU is converted into one Novartis share at the vesting date. PSUs do not carry voting rights, but do carry dividend equivalents that are reinvested in additional PSUs and paid at vesting to the extent that performance conditions have been met. In the US, awards may also be delivered in cash under the US-deferred compensation plan.

If a participant leaves Novartis due to voluntary resignation or termination by the company for misconduct, none of the awards vest. When a member is terminated by the company for reasons other than for performance or conduct, the award vests on a pro-rata basis for time spent with the company during the performance period. In such a case, the award will vest on the regular vesting date (no acceleration), will be subject to performance should an evaluation be possible, and will also be subject to other conditions such as observing the conditions of a non-compete agreement. Executives leaving Novartis

due to approved retirement, including approved early retirement, death or disability, will receive full vesting of their award on the normal vesting date (acceleration will only apply in the case of death). The award will be subject to performance, should an evaluation be possible, and will also be subject to other conditions such as observing the conditions of a non-compete agreement. Further details can be found in Note 26 to the Group’s audited consolidated financial statements (page 222).

The Board of Directors and the Compensation Committee retain accountability for ensuring that rules are applied correctly, and for determining whether different treatment should apply in exceptional circumstances. This is necessary to ensure that the treatment of any award in the event of cessation of employment is appropriate.

Long-Term Performance Plan (LTPP)

This is the first of the two Long-Term Incentive plans.

Overview

The LTPP, as described below, was granted for the first time to the CEO and Executive Committee members in 2014. The target incentive is 200% of base compensation for the CEO, and ranges from 140% to 190% for other Executive Committee members. Additional executives in key positions who have a significant impact on the long-term success of Novartis were invited to participate in the LTPP, as of 2015.

In the 2013 and earlier Compensation Reports, there was a different plan that was also called LTPP. In this Compensation Report (as in the 2014 Compensation Report), that plan has been renamed Old Long-Term Performance Plan (OLTTP), and is described on page 127.

Performance measures

Awards under the LTPP are based on three-year performance objectives and split as follows:

	75% Financial	25% Innovation
Measure	Novartis Cash Value Added	Up to 10 key innovation milestones
CEO and function heads	100% Group	Weighted average of division performance
Division heads		100% Division

**Financial measure (Novartis Cash Value Added):
75% of LTPP**

The Novartis Cash Value Added (NCVA) is a metric that incentivizes both sales growth and margin improvement as well as asset efficiency. A summary of the calculation is below:

CALCULATION FORMULA FOR NCVA

in constant currencies

Operating income

- + Amortization, impairments and adjusting for gains/losses from non-operating financial assets
- Taxes
- Capital charge (based on WACC¹) on gross operational assets
- = NCVA²**

¹ WACC = weighted average cost of capital

² NCVA = (cash flow return on investment % - WACC¹) x gross operational assets

The NCVA targets are determined considering expected growth rates in sales, operating income and return from invested capital, under foreseen economic circumstances.

At the end of the performance cycle, the NCVA performance factor is calculated in constant currencies. The NCVA performance factor is based on a 1:3 payout curve, where a 1% deviation in realization versus target leads to a 3% change in payout (for example, a realization of 105% leads to a payout factor of 115%). If performance over the three-year vesting period falls below 67% of target, no payout is made for this portion of LTPP. If performance over the three-year vesting period is above 133% of target, payout for this portion of LTPP is capped at 200% of target.

The calculated performance realization is adjusted for unplanned major events during the cycle (e.g., significant merger and acquisition transactions).

Innovation measure: 25% of LTPP

Innovation is a key element of the Novartis strategy. Divisional innovation targets are set at the beginning of the performance cycle, comprised of up to 10 target milestones that represent the most important research and development project milestones for each division. These milestones are chosen because of the expected future impact to Novartis in terms of potential revenue, or due to their qualitative potential impact to science, medicine, and the treatment or care of patients.

A payout matrix has been established for this metric that allows a 0–150% payout for the achievement of target milestones. If all target milestones are achieved, a 150–200% payout may be awarded for extraordinary additional achievement. The CEO and function heads receive the weighted average of divisional innovation payouts.

The Research & Development Committee assists the Board of Directors and the Compensation Committee in setting the innovation targets and reviewing achievements at the end of the cycle.

Long-Term Relative Performance Plan (LTRPP)

This is the second of the two Long-Term Incentive plans.

Overview

The LTRPP was granted for the first time to the CEO and Executive Committee members in 2014. The target incentive is 100% of base compensation for the CEO, and ranges from 30% to 90% for other Executive Committee members.

Performance measure

The LTRPP is based on the achievement of long-term relative Group total shareholder return (TSR) versus the peer group of 12 companies in the healthcare industry over rolling three-year performance periods. TSR is calculated in USD as share price growth plus dividends over the three-year performance period. The calculation will be based on Bloomberg standard published TSR data, which is publicly available.

The peer group for the 2015–2017 performance cycle is the same as for benchmarking the compensation of Executive Committee members and is comprised of: Abbott, AbbVie, Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly & Co., GlaxoSmithKline, Johnson & Johnson, Merck & Co., Pfizer, Roche and Sanofi.

At the end of the performance period, all companies are ranked in order of highest to lowest TSR, and the position in the peer group determines the payout range as follows:

PAYOUT MATRIX

Position in peer group	Payout range
Positions 1–3	160–200%
Positions 4–6	100–140%
Positions 7–10	20–80%
Positions 11–13	0%

The Compensation Committee determines the payout within the ranges shown, and takes into consideration factors such as absolute TSR, overall economic conditions, currency fluctuations and other unforeseeable situations.

TARGET DISCLOSURE

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.

2016 EXECUTIVE COMMITTEE COMPENSATION SYSTEM

The Compensation Committee has evaluated the Executive Committee compensation system and has decided that it will remain unchanged in 2016. The Compensation Committee believes that it is operating as intended, supports the company's strategy, and is aligned with market and best practice.

EXECUTIVE COMMITTEE PERFORMANCE MANAGEMENT PROCESS

To foster a high-performance culture, the company applies a uniform performance management process worldwide based on quantitative and qualitative criteria, including Novartis Values and Behaviors. Novartis associates, including the CEO and Executive Committee members, are subject to a three-step formal process:



CEO OBJECTIVE SETTING

At the beginning of the year, the CEO presents the Group and divisional financial and innovation targets of our variable compensation plans to both the Compensation Committee and the Board of Directors for approval. At the same time, the CEO discusses his individual objectives for the coming year with the Chairman of the Board of Directors.

The Board of Directors reviews and approves these objectives, which are incorporated into the Annual Incentive and Long-Term Incentive plans.

Annual Incentive

The Group financial and individual targets proposed by the CEO are challenged and approved by both the Compensation Committee and the Board of Directors. The targets set for the Annual Incentive support our ambition to be a leader in the healthcare industry.

Financial and innovation measure of LTPP

The NCVA target is based on the company's long-range strategic plan approved by the Board of Directors to deliver long-term sustainable growth and productivity as well as efficient use of its assets. The Compensation Committee believes that the NCVA target is ambitiously set to create long-term value for shareholders.

The innovation targets of the LTPP are largely aligned with the major development projects outlined in the pipeline schedule of the Annual Report (see page 52). The targets are recommended by the divisions and reviewed by the Research & Development Committee. The innovation targets are focused on challenging milestones of critical importance to the long-term success of the business, and should be best- or first-in-class development projects that can significantly advance treatment outcomes for patients worldwide.

Relative TSR: 100% of LTRPP

The payout matrix for the LTRPP can be found on page 117. The Compensation Committee believes that the LTRPP payout matrix is aligned with the company's pay-for-performance principle, including a very significant reduction in the actual payout relative to target payout if the company's TSR is below the median of the peer group.

CEO PERFORMANCE EVALUATION

The Board of Directors periodically assesses Group business performance as well as progress of the CEO against his objectives and incentive plan targets. At the mid-year performance review, the performance of the CEO is reviewed by the Chairman of the Board of Directors.

For the year-end review, the CEO prepares and presents to the Chairman of the Board of Directors, and later to the full Board of Directors, the actual results against the previously agreed-upon objectives, taking into account the audited financial results as well as an assessment against the Novartis Values and Behaviors. At the year-end review, the Board of Directors discusses the performance of the CEO without him being present. It evaluates the extent to which targeted objectives have been achieved and, to the extent possible, compares these results with peer industry companies, taking into account general economic and financial criteria and industry developments. The Board of Directors later shares its assessment with the CEO.

CEO COMPENSATION DETERMINATION

At its January meeting, following a recommendation from the Compensation Committee, the Board of Directors decides on the CEO's variable compensation for the prior performance cycles and on the target compensation for the coming year. This meeting takes place without the CEO being present. The Board of Directors later shares its decisions with the CEO.

PERFORMANCE MANAGEMENT PROCESS FOR OTHER EXECUTIVE COMMITTEE MEMBERS (EXCLUDING THE CEO)

Executive Committee members propose the divisional financial and innovation targets for approval by the CEO and, subsequently, by the Board of Directors and Compensation Committee. In addition, each Executive Committee member agrees on individual objectives with the CEO, who also reviews members' performance at mid-year and year-end.

At year-end, following his evaluation, the CEO meets with the Chairman of the Board of Directors, who reviews the performance of Executive Committee members. Subsequently, the CEO presents and discusses at the Board of Directors meeting his recommended performance rating for each member.

Later, in the presence of the CEO and taking into consideration the recommendations of the Board of Directors, the Compensation Committee decides at its January meeting on the variable compensation of Executive Committee members for the prior year and on their target compensation for the coming year. The Compensation Committee informs the Board of Directors of its final decisions, and the CEO later shares these decisions with Executive Committee members.

ASSESSMENT OF VALUES AND BEHAVIORS AT NOVARTIS

Values and Behaviors have been an integral part of the company’s compensation system since its foundation. In 2015, to reinforce the culture of the company, Novartis rolled out new Values and Behaviors – which are innovation, quality, collaboration, performance, courage and integrity.

What we value	Observed behaviors
Innovation by experimenting and delivering solutions	<ul style="list-style-type: none"> — Experiments and encourages others to do so — Takes smart risks that benefit patients and customers — Delivers new solutions with speed and simplicity
Quality by taking pride in doing ordinary things extraordinarily well	<ul style="list-style-type: none"> — Is always looking for better ways to do things — Does not compromise on quality and safety, and strives for excellence — Continuously works to improve own strengths and weaknesses
Collaboration by championing high-performing teams with diversity and inclusion	<ul style="list-style-type: none"> — Champions working together in high-performing teams — Knows self and impact on others — Welcomes diversity and inclusion of styles, ideas and perspectives
Performance by prioritizing and making things happen with urgency	<ul style="list-style-type: none"> — Is passionate to achieve goals and goes the extra mile — Puts team results before own success and acknowledges contributions of others — Prioritizes, decides and makes things happen with urgency
Courage by speaking up, giving and receiving feedback	<ul style="list-style-type: none"> — Speaks up and challenges the norm — Acknowledges when things don't work and learns — Gives and accepts constructive feedback
Integrity by advocating and applying high ethical standards every day	<ul style="list-style-type: none"> — Operates with high ethical standards — Is humble and caring, and shows trust, respect and empathy — Lives by the Code of Conduct even when facing resistance or difficulties

These values are embedded in all aspects of employees’ lives at Novartis, from recruitment and development to promotions, performance assessments through 360-degree evaluations and organizational employee surveys, as well as Annual Incentive awards to measure individual and organizational performance against our values. As part of the Annual Incentive award process, training programs and toolkits were established to evaluate behavior related to the six new values. They are one of the elements used to assess associates’ performance.

During 2015, we further improved the framework for measuring individual performance against our values, ensuring that fair, objective assessments can be made in a uniform way across all levels of the organization. The assessment is part of a rigorous management process review in which observed Values and Behaviors are evaluated based on globally-defined principles. The assessment initially takes place during a discussion between associates and line managers, followed by a calibration and validation at multiple levels of the organization to allow for a fair, consistent, objective and transparent evaluation. During the calibration sessions, line managers share the proposed ratings of their direct reports with peers to ensure all apply a common framework, and they seek input and feedback on observed behaviors.

The Values and Behaviors assessment for the CEO and other Executive Committee members is calibrated by the Board of Directors.

2015 EXECUTIVE COMMITTEE COMPENSATION

2015 CEO COMPENSATION

The 2015 compensation of the CEO is outlined in detail within this section:

Base salary: The CEO's base salary remained CHF 2 060 500 for 2015.

Benefits: The CEO received pension benefits of CHF 175 289 and other benefits of CHF 88 432 during 2015.

Annual Incentive: The Annual Incentive performance is measured in constant currencies to reflect the operational performance that can be influenced. Overall, the company met most of its financial targets for the year set by the Board of Directors in constant currencies. Group results were negatively impacted by Alcon's performance and by the slow-down of emerging markets, offset by strong results from Pharmaceuticals and Sandoz. The Group was marginally behind its sales target, while Group net income was slightly ahead of target mainly due to strong cost management. Corporate net result was significantly ahead of target mainly due to lower corporate costs and taxes. Performance in Group free cash flow as a percentage of sales was slightly above target mainly due to higher cash flows from operating activities.

Currency movements had a significant negative impact on the reported results vs. target (in USD, sales: -5.2 billion, net income and free cash flow (FCF): -1.6 billion each) that were adjusted in the Annual Incentive calculation.

2015 CEO BALANCED SCORECARD

	Performance metrics for continuing operations (weight)	Target ¹	Achievement vs. target ² (in constant currencies)
Group financial targets (60%)	Group net sales (30%)	USD 55 289 m	Slightly below
	Corporate net result ³ (20%)	USD -2 284 m	Significantly exceeded
	Group net income (30%)	USD 8 996 m	Slightly exceeded
	Group FCF as % of sales (20%)	20.5%	Slightly exceeded
	Overall achievement for Group financial targets		Slightly above target
Individual objectives (40%)	Additional key financial targets for continuing operations Additional financial targets were not all met. Including adjustments, in constant currencies, core operating income, EPS and core EPS targets were met, while reported operating income was slightly missed. Emerging Market growth and Divisional share of peers (Pharmaceuticals, Alcon and Sandoz) were below target (for the latter mainly due to currency impact).		Slightly below
	Innovation and growth 2015 was another excellent year for innovation and growth. The company successfully achieved 20 major approvals and 14 major submissions. Novartis had the highest number of FDA approvals ⁴ in the industry (4 out of 45 novel drugs). Major innovation milestones were achieved in 2015 with <i>Entresto</i> (approved in the EU), <i>Cosentyx</i> (approved for AS and PsA in EU) and submission of biosimilars etanercept and pegfilgrastim. <i>Zarxio</i> was the first biosimilar approved under the BPCIA pathway. Sandoz also received US approval of <i>Glatopa</i> . The NIBR unit launched a new immuno-oncology research team that delivered significant progress in building a portfolio with several candidates already in clinical trials and more expected to enter the clinic by the end of 2016.		Exceeded
	Portfolio review With the announcement on March 2, 2015 of the completion of the transactions with GSK, and the announcement on July 31, 2015 of the divestment of the Vaccines influenza business to CSL, Novartis successfully completed its portfolio review ahead of schedule (target for completion: H2 2015). A total of 17 000 associates transferred from Novartis to GSK and CSL. The completion of the portfolio review has improved Novartis' competitive position resulting in a more focused company with leading positions in innovative pharmaceuticals, generics and eye care.		Slightly exceeded
	Cross-divisional synergies Novartis Business Services, our shared services organization, continued to execute on its priorities and the transformation of the organization is developing as scheduled. The company generated approximately USD 3 216 million in total productivity gains (target: USD 2 746 million) by leveraging our scale. In 2015 we announced plans to close or divest 6 sites. All of these actions increased the productivity of the company.		Exceeded
	High-performing organization (e.g., quality, talent) Across the Novartis network, for the full year, there were 192 inspections, including 31 conducted by the FDA. 189 of the 192 inspections in the full year were good or satisfactory. The outcomes of three inspections are still pending. In addition, the company continued to roll out the process of upgrading its compliance and integrity processes as well as Novartis Values and Behaviors. A new talent management strategy was established and some progress was made on the talent pipeline and talent management initiatives. The company was disappointed with certain compliance and reputational challenges.		At target
	Overall achievement for individual objectives		At target

¹ The target was set using July 2014 forward currency exchange rates

² Adjusted for significant currency movements (in USD, sales: -5.2 billion, net income and FCF: -1.6 billion each) and other adjustments including the changes in income from associated companies

³ Includes corporate cost, income from associated companies, net financial income and income taxes

⁴ Source: FDA's Center for Drug Evaluation and Research's (CDER's) 2015 annual report

Following a thorough performance evaluation, including assessed Values and Behaviors (see page 119 for further details of the performance management process and assessment of Values and Behaviors), the Compensation Committee determined that the CEO's Annual Incentive performance factor would be 100%. The value of his Annual Incentive award was determined as follows:

2015 CEO ANNUAL INCENTIVE

	Annual base salary CHF thousands	x	Target incentive %	x	Performance factor %	=	Final award CHF thousands
Annual Incentive	2 061	x	150%	x	100%	=	3 091¹

¹ 50% of the Annual Incentive was paid in cash and 50% was paid as 19 390 RSUs, which have a three-year vesting period.

The table below shows how the 2015 Long-Term Incentive grants of the CEO were determined. These grants were awarded under the LTPP and LTRPP, and will vest to the extent that performance conditions have been met for the 2015–2017 cycle. An overview of these plans is outlined on pages 116-117.

CEO LONG-TERM INCENTIVE GRANTS CYCLE 2015–2017

	Annual base salary CHF thousands	x	Target incentive %	=	Grant value CHF thousands	Target number of PSUs ¹
LTPP	2 061	x	200%	=	4 122	48 626
LTRPP	2 061	x	100%	=	2 061	24 313

¹ Achievement will be reported in the 2017 Compensation Report. The grant value has been converted into a target number of PSUs based on a price of CHF 84.75 per Novartis share.

2015 CEO TARGET COMPENSATION

In January 2015, at target, the CEO's compensation was made up of 18% annual base compensation, 2% pension and other benefits, 27% Annual Incentive and 53% Long-Term Incentive. The Long-Term Incentive was split according to a ratio of 2:1 LTPP to LTRPP.

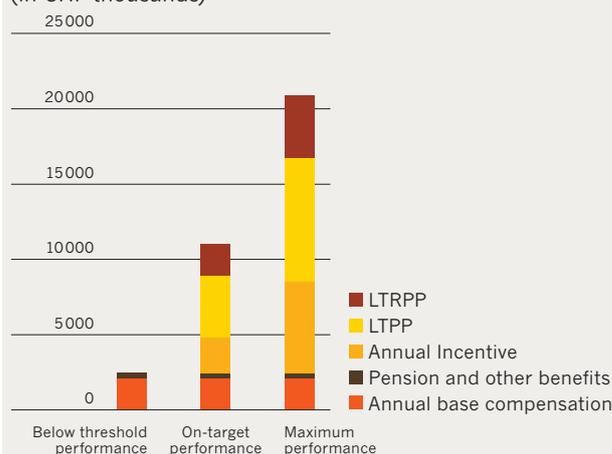
EXECUTIVE COMMITTEE COMPENSATION TABLES (AUDITED)

COMPENSATION OF EXECUTIVE COMMITTEE MEMBERS FOR 2015

The following table discloses the compensation paid or granted to the CEO and other Executive Committee members for performance in 2015.

2015 CEO COMPENSATION OPPORTUNITY¹

(in CHF thousands)



¹ Values of LTPP and LTRPP exclude share price development over performance period, as well as dividend equivalent rights.

ALIGNMENT OF REPORTING AND PERFORMANCE

The compensation table synchronizes the reporting of Annual Incentive compensation with the performance in the given year (i.e., all amounts awarded for performance in 2015 are disclosed in full). This includes the restricted shares and RSUs granted under the Annual Incentive, which will vest three years following the grant based on plan rules. For awards granted under the LTPP and LTRPP, the target values (based on 100% achievement) at the time of grant are shown.

The performance and vesting value of the LTPP and LTRPP for the performance cycle 2015–2017 will be reported in the 2017 Compensation Report. The achievement against target and the vesting value of the OLTPP for the performance cycle 2013–2015 are shown in a separate table on page 127.

VALUATION PRINCIPLES

For the purpose of the tables contained within this Compensation Report, and to allow a comparison with other companies, Novartis shares and ADRs are disclosed at their market value on the date of grant. Market value is the quoted closing share price at that date. Restricted shares and RSUs are disclosed at the underlying value of Novartis shares and ADRs.

PSUs are also valued for the purpose of this Compensation Report at the underlying value of the Novartis shares and ADRs at the grant date, and are disclosed at target value, assuming that they will vest at 100% achievement.

EXECUTIVE COMMITTEE MEMBER COMPENSATION FOR FINANCIAL YEAR 2015¹

	Fixed compensation and pension benefits			Variable compensation					Total compensation
	Base compensation	Pension benefits	2015 Annual Incentive	LTPP 2015–2017 cycle		LTRPP 2015–2017 cycle		Other	
				Cash (amount)	Equity (value at grant date) ³	PSUs (target value at grant date) ⁴	PSUs (target value at grant date) ⁴		
Currency	Cash (amount)	Amount ²	Cash (amount)	Equity (value at grant date) ³	PSUs (target value at grant date) ⁴	PSUs (target value at grant date) ⁴	Amount ⁵	Amount ⁶	
Joseph Jimenez (CEO)	CHF	2 060 500	175 289	1 545 375	1 545 383	4 121 054	2 060 527	88 432	11 596 560
Steven Baert	CHF	653 333	158 099	543 900	543 953	960 048	256 030	94 716	3 210 079
Felix R. Ehrat	CHF	892 500	153 054	648 875	648 917	1 521 517	447 565	12 669	4 325 097
David Epstein	USD	1 400 000	362 819	1 428 000	1 428 054	2 520 001	1 260 050	569 737	8 968 661
Mark C. Fishman ⁷	USD	990 000	248 910	861 300	861 323	1 881 089	891 021	129 825	5 863 468
Richard Francis	CHF	716 667	193 635	599 400	599 424	1 080 054	360 018	954 170	4 503 368
Jeff George	USD	956 539	200 946	158 400	158 404	1 536 056	576 009	1 260 286	4 846 640
Harry Kirsch	CHF	950 000	160 431	757 625	757 628	1 480 074	647 575	51 476	4 804 809
Brian McNamara (until March 1, 2015) ⁸	USD	131 154	69 008	115 100	0	58 361	11 751	40 670	426 044
Andrin Oswald (until March 1, 2015) ⁸	CHF	138 333	27 634	136 500	0	64 580	13 899	283 236	664 182
André Wyss	CHF	735 000	127 237	0	1 176 053	1 102 513	294 083	83 688	3 518 574
Total⁹	CHF	9 490 269	1 843 151	6 695 906	7 624 994	16 094 751	6 713 188	3 491 962	51 954 221

See next page for 2014 compensation figures

¹ Does not include reimbursement for travel and other necessary business expenses incurred by Executive Committee members in the performance of their services, as these amounts are not considered compensation

² Includes service costs of pension and post-retirement healthcare benefits accumulated in 2015, in accordance with IAS19. It also includes an amount of CHF 58 757 for mandatory employer contributions paid by Novartis to governmental social security systems. This amount is out of total employer contributions of CHF 3 457 097, and provides a right to the maximum future insured government pension benefit for the Executive Committee member.

³ The portion(s) of the Annual Incentive delivered in shares is rounded up to the nearest share based on the closing share price on the grant date (January 20, 2016). The closing share price on this date was CHF 79.70 per Novartis share and USD 80.49 per ADR.

⁴ The amounts shown in these columns represent the underlying share value of the target number of PSUs granted to each Executive Committee member for the performance cycle 2015–2017 based on the closing share price on the grant date (January 21, 2015). The closing share price on this date was CHF 84.75 per Novartis share and USD 98.75 per ADR.

⁵ Includes any other perquisites, benefits in kind and international assignment benefits as per global mobility policy (e.g., housing, international health insurance, children's school fees, tax equalization). Tax equalization benefits included for David Epstein, Richard Francis, Jeff George and Andrin Oswald are USD 305 867, CHF 739 086, USD 1 153 361 and CHF 249 728, respectively.

⁶ All amounts are before deduction of employee's social security contribution and income tax due by the Executive Committee member

⁷ Mark C. Fishman, President NIBR and Executive Committee member, will step down from the Executive Committee on February 29, 2016 and retire from Novartis. He will receive further contractual compensation that includes the base salary, pension and other benefits (pro-rata until February 29, 2016) and the vesting of his incentive awards in accordance with the terms of the Novartis plan rules. As of March 1, 2016, Mark C. Fishman will provide certain consulting services to Novartis for which he will be compensated for a period of up to two years until February 28, 2018. The fees for these services are capped at USD 250 000 p.a. and are in line with those paid to other scientists who provide consultancy services to the NIBR organization.

⁸ Brian McNamara (Division Head, Novartis OTC) and Andrin Oswald (Division Head, Novartis Vaccines) transitioned to the GlaxoSmithKline (GSK) group on March 2, 2015 following the completion of the Novartis OTC and Vaccines transactions with GSK. The information disclosed under columns "LTPP" and "LTRPP" in the table above reflects their pro-rata compensation at target. Following their transition to GSK, and in accordance with the applicable plan rules, the LTPP and LTRPP awards for cycle 2015–2017 (as well as for those granted for cycle 2014–2016) will be eligible to vest on the normal vesting date and on a pro-rata basis based on the number of months worked with Novartis during the performance period. The vesting of these awards is subject to performance conditions assessed at the end of the cycle.

⁹ Amounts in USD for David Epstein, Mark C. Fishman, Jeff George and Brian McNamara were converted at a rate of CHF 1.00 = USD 1.040, which is the same average exchange rate used in the Group's consolidated financial statements.

EXECUTIVE COMMITTEE MEMBERS COMPENSATION FOR FINANCIAL YEAR 2014¹

	Fixed compensation and pension benefits			Variable compensation					Total compensation
	Currency	Base compensation	Pension benefits	2014 Annual Incentive		LTPP 2014–2016 cycle	LTRPP 2014–2016 cycle	Other	
		Cash (amount)	Amount ²	Cash (amount)	Equity (value at grant date) ³	PSUs (target value at grant date) ⁴	PSUs (target value at grant date) ⁴	Amount ⁵	
Joseph Jimenez (CEO)	CHF	2 060 500	165 584	2 009 000	2 009 084	4 121 003	2 060 501	222 818	12 648 490
Steven Baert (from February 26, 2014)	CHF	482 426	68 963	309 212	309 253	709 328	136 438	103 147	2 118 767
Juergen Brokatzky-Geiger (until February 25, 2014) ⁷	CHF	110 650	22 454	0	0	0	0	3 245 256	3 378 360
Kevin Buehler (until April 30, 2014) ⁸	USD	382 691	82 991	230 400	230 384	729 614	345 620	4 139 920	6 141 620
Felix R. Ehrat	CHF	875 000	154 299	0	1 408 037	1 496 019	440 066	8 928	4 382 349
David Epstein	USD	1 400 000	343 460	1 260 000	1 260 050	2 520 002	1 260 001	277 804	8 321 317
Mark C. Fishman	USD	990 000	294 572	1 009 800	1 009 818	1 881 034	891 033	78 369	6 154 626
Richard Francis (from May 1, 2014) ⁹	CHF	466 667	114 435	211 450	211 451	871 135	186 735	3 364 623	5 426 496
Jeff George	USD	924 520	127 826	654 341	654 416	1 470 358	275 692	1 084 850	5 192 003
George Gunn ¹⁰	CHF	865 000	116 542	622 800	622 828	1 384 066	346 035	0	3 957 271
Harry Kirsch	CHF	829 167	148 526	888 250	888 265	1 360 024	425 021	31 980	4 571 233
Brian McNamara	USD	673 077	76 484	578 000	578 083	1 020 055	204 076	77 717	3 207 492
Andrin Oswald	CHF	827 500	125 406	539 500	539 519	1 162 005	249 054	233 675	3 676 659
André Wyss (from May 1, 2014)	CHF	466 667	59 703	0	736 223	935 003	249 349	58 045	2 504 990
Total¹¹	CHF	10 978 356	1 821 737	7 992 041	10 136 681	19 004 820	6 813 877	12 440 922	69 188 434

As published in the 2014 Compensation Report

¹ Does not include reimbursement for travel and other necessary business expenses incurred in the performance of their services, as these amounts are not considered compensation. In general, for those who have left the Executive Committee in the course of 2014, the information under the columns "Base compensation", "Pension benefits", "Annual Incentive", "LTPP" and "LTRPP" in the table above reflects their pro-rata compensation over 2014 for the period they were a member of the Executive Committee. The information under the column "Other" includes inter alia their pro-rata compensation from the date they stepped down from the Executive Committee to December 31, 2014. For those who have joined the Executive Committee in the course of 2014, the information under the columns "Base compensation", "Pension benefits" and "Annual Incentive" includes their pro-rata compensation from the date they joined the Executive Committee to December 31, 2014. The information under the "LTPP" and "LTRPP" in the table above reflects their pro-rata compensation at target from the date they joined the Executive Committee to December 31, 2016.

² Includes service costs of pension and post-retirement healthcare benefits accumulated in 2014, in accordance with IAS19. In addition, in compliance with the Minder Ordinance, it includes an amount of mandatory employer social security contributions of CHF 76 534. This amount provides a right to the maximum future insured government benefit for the members. This is out of a mandatory total of CHF 2 980 528 paid by Novartis to both Swiss and US governmental social security systems.

³ The portion(s) of the Annual Incentive delivered in shares is rounded up to the nearest share based on the closing share price on the grant date (January 21, 2015).

⁴ The amounts shown in these columns represent the underlying share value of the target number of PSUs granted to each Executive Committee member for the performance cycle 2014–2016 based on the closing share price on the grant date (January 22, 2014). The closing share price on this date was CHF 73.75 per Novartis share and USD 80.79 per ADR.

⁵ Includes any other perquisites, benefits in kind, international assignment benefits as per global mobility policy (e.g. housing, international health insurance, children's school fees, tax equalization) and other compensation. Does not include relocation costs paid in 2014.

⁶ All amounts are before deduction of employee's social security contribution and income tax due by the Executive Committee member.

⁷ Juergen Brokatzky-Geiger stepped down from the Executive Committee on February 25, 2014, and as of February 26, 2014, he has been appointed as Global Head Corporate Responsibility. He remained under the old Executive Committee incentive compensation system. As a result, his variable compensation has been reported in full under the column "Other".

⁸ Kevin Buehler stepped down from the Executive Committee on April 30, 2014. In accordance with the contractual 12 month notice period of his employment agreement, he will retire from the company on April 30, 2015. He will receive further contractual compensation that includes the base salary, pension and other benefits (pro-rata until April 30, 2015) and the vesting of his incentive awards in accordance with the terms of the Novartis plan rules. His compensation does not include an annual pension in payment (USD 507 017) following the acquisition of Alcon in 2011.

⁹ Richard Francis will receive compensation in the form of 41 500 RSUs for lost entitlements at his former employer with a total value at grant of CHF 3.2 million. The vesting of the RSUs will be staggered based on the vesting period at his former employer, and extend over the period from 2015–2017, provided that he remains employed with Novartis at the respective due dates. 21 500, 13 500 and 6 500 RSUs will respectively vest on February 1, 2015, 2016 and 2017.

¹⁰ Following the completion on January 1, 2015 of the transaction with Eli Lilly, George Gunn (Division Head, Novartis Animal Health), stepped down from the Executive Committee. He will provide assistance with regard to the post-closing divestment of Animal Health until he will reach his contractual retirement age in July 2015. George Gunn will receive further contractual compensation that includes the base salary, pension and other benefits (pro-rata until July 31, 2015) and the vesting of his incentive awards in accordance with the terms of the Novartis plan rules.

¹¹ Amounts in USD for Kevin Buehler, David Epstein, Mark C. Fishman, Jeff George and Brian McNamara were converted at a rate of CHF 1.00 = USD 1.094, which is the same average exchange rate used in the Group's consolidated financial statements. At the time of his appointment as Head of Alcon, Jeff George's Swiss employment agreement was replaced with a US employment agreement in US dollars.

**EXECUTIVE COMMITTEE MEMBERS – EQUITY AWARDS FOR FINANCIAL YEAR 2015
(NUMBER OF EQUITY INSTRUMENTS)¹**

	Variable compensation		
	2015 Annual Incentive	LTPP 2015–2017 cycle	LTRPP 2015–2017 cycle
	Equity (number) ²	PSUs (target number) ³	PSUs (target number) ³
Joseph Jimenez	19 390	48 626	24 313
Steven Baert	6 825	11 328	3 021
Felix R. Ehrat	8 142	17 953	5 281
David Epstein	17 742	25 519	12 760
Mark C. Fishman	10 701	19 049	9 023
Richard Francis	7 521	12 744	4 248
Jeff George	1 968	15 555	5 833
Harry Kirsch	9 506	17 464	7 641
Brian McNamara (until March 1, 2015) ⁴	0	591	119
Andrin Oswald (until March 1, 2015) ⁴	0	762	164
André Wyss	14 756	13 009	3 470
Total	96 551	182 600	75 873

See table below for 2014 compensation figures

¹The value of the awards included in this table are reported in the table “EXECUTIVE COMMITTEE MEMBER COMPENSATION FOR FINANCIAL YEAR 2015” on page 122.

²Vested shares, restricted shares and/or RSUs granted under the Annual Incentive for performance year 2015

³Target number of PSUs granted under the LTPP and LTRPP as applicable for the 2015–2017 performance cycle

⁴Target number of PSUs granted under the LTPP and LTRPP are reported on a pro-rata basis. See footnote 8 of the table “EXECUTIVE COMMITTEE MEMBER COMPENSATION FOR FINANCIAL YEAR 2015” on page 122.

**EXECUTIVE COMMITTEE MEMBERS – EQUITY AWARDS FOR PERFORMANCE YEAR 2014
(NUMBER OF EQUITY INSTRUMENTS)¹**

	Variable compensation			
	2014 Annual Incentive	LTPP 2014–2016 cycle	LTRPP 2014–2016 cycle	Other
	Equity (number) ²	Target PSUs (number) ³	Target PSUs (number) ³	Equity/Target PSUs (number)
Joseph Jimenez	23 706	55 878	27 939	0
Steven Baert (from February 26, 2014)	3 649	9 618	1 850	0
Juergen Brokatzky-Geiger (until February 25, 2014)	0	0	0	30 953 ⁴
Kevin Buehler (until April 30, 2014)	2 333	9 031	4 278	31 936
Felix R. Ehrat	16 614	20 285	5 967	0
David Epstein	12 760	31 192	15 596	0
Mark C. Fishman	10 226	23 283	11 029	0
Richard Francis (from May 1, 2014)	2 495	11 812	2 532	41 500 ⁵
Jeff George	6 627	18 224	3 417	0
George Gunn	7 349	18 767	4 692	0
Harry Kirsch	10 481	18 441	5 763	0
Brian McNamara	5 854	12 626	2 526	0
Andrin Oswald	6 366	15 756	3 377	0
André Wyss (from May 1, 2014)	8 687	12 678	3 381	0
Total	117 147	257 591	92 347	104 389

As published in the 2014 Compensation Report

¹See also corresponding footnote 1 of the table “EXECUTIVE COMMITTEE MEMBER COMPENSATION FOR FINANCIAL YEAR 2014” with regard to the Executive Committee members who left or joined the Committee in the course of 2014.

²Vested shares, restricted shares and/or RSUs granted under the Annual Incentive for performance year 2014

³Target number of PSUs granted under the LTPP and LTRPP as applicable for the 2014–2016 performance cycle

⁴Juergen Brokatzky-Geiger remained under the old Executive Committee compensation system. The information under the column “Other” includes the following equity awards: 12 638 restricted shares granted under the Novartis Equity Plan Select, 6 342 investment shares and 3 171 matching shares under the Employee Share Ownership Plan, and 8 802 target PSUs under the OLTPP for the 2014–2016 performance cycle.

⁵This amount reflects the total number of RSUs granted to Richard Francis in 2014 as compensation for lost entitlements at his former employer on joining Novartis.

**EXECUTIVE COMMITTEE MEMBER COMPENSATION
BASE AND VARIABLE COMPENSATION MIX FOR
FINANCIAL YEAR 2015¹**

	Base salary	Variable compensation ²
Joseph Jimenez	18.2%	81.8%
Steven Baert	22.1%	77.9%
Felix R. Ehrat	21.5%	78.5%
David Epstein	17.4%	82.6%
Mark C. Fishman	18.1%	81.9%
Richard Francis	21.4%	78.6%
Jeff George	28.3%	71.7%
Harry Kirsch	20.7%	79.3%
André Wyss	22.2%	77.8%
Total	20.1%	79.9%

¹ Excludes pension and other benefits, as well as Brian McNamara and Andrin Oswald, who stepped down from the Executive Committee on March 1, 2015 as a result of the GlaxoSmithKline transaction.

² See the table "EXECUTIVE COMMITTEE MEMBER COMPENSATION FOR FINANCIAL YEAR 2015" on page 122 with regard to the disclosure principles of variable compensation.

LOANS TO EXECUTIVE COMMITTEE MEMBERS

No loans were granted to current or former Executive Committee members or to "persons closely linked" to them in 2015. No such loans were outstanding as of December 31, 2015.

OTHER PAYMENTS TO EXECUTIVE COMMITTEE MEMBERS

During 2015, no other payments (or waivers of claims) were made to Executive Committee members or to "persons closely linked" to them.

PAYMENTS TO FORMER EXECUTIVE COMMITTEE MEMBERS

During 2015, under the former Executive Committee members' contracts and in line with the company's plan rules and policies, payments were made to Kevin Buehler, the former Division Head of Alcon, and George Gunn, the former Division Head of Animal Health, who retired from the company on May 1, 2015 and on August 1, 2015, respectively. In 2015, an amount of USD 1 127 324 and CHF 1 214 583 was paid to Mr. Buehler and Mr. Gunn, respectively. These amounts exclude the value of the vested OLTPP awards for cycle 2013–2015 of Mr. Buehler and Mr. Gunn, who received, in accordance with the plan rules, USD 1 763 889 and CHF 1 527 285 (value of the shares delivered at vesting), respectively. In addition, in line with their contracts and the company's policies, a total amount of CHF 24 116 was paid by the company for tax and financial services provided to two other former Executive Committee members. With the exception of the above amounts, during 2015, no other payments (or waivers of claims) were made to former Executive Committee members or to "persons closely linked."

JAMES E. BRADNER, FUTURE PRESIDENT OF NIBR AND EXECUTIVE COMMITTEE MEMBER

As announced on September 24, 2015, James E. Bradner will succeed Mark Fishman as President of the Novartis Institutes for BioMedical Research (NIBR) and become an Executive Committee member with effect from March 1, 2016. Prior to joining Novartis, Dr. Bradner served as a board member and

advisor to many scientific companies he founded, and as a supervisory board member of another company. In reaching the terms of the offer for Dr. Bradner, the Board of Directors recognized the need to make up for compensation that Dr. Bradner would be forfeiting on joining Novartis. In extending our offer to Dr. Bradner, the following compensation for lost entitlements was agreed to attract him to Novartis:

- In January 2016, as compensation for lost entitlements at one of his scientific companies on joining Novartis, Dr. Bradner has been paid an amount of USD 844 250 for the 275 000 shares that he forfeited. The fair market value of the forfeited shares was determined by an independent valuation expert.
- In January 2016, Dr. Bradner received compensation in the form of 3 607 RSUs for lost entitlements in connection with his supervisory board mandate with a total value at grant of USD 309 300. The vesting of the RSUs will be staggered based on the original vesting period of the forfeited entitlements, provided that he remains employed with Novartis at the respective due dates.

Please also see the additional related disclosure made in Note 27 to the Group's audited consolidated financial statements (page 226). These disclosures are made on a voluntary basis and will be further communicated in next year's Annual Report.

AWARD AND DELIVERY OF EQUITY TO NOVARTIS ASSOCIATES

During 2015, 12.4 million unvested restricted shares (or ADRs), RSUs and target PSUs were granted and 14.4 million Novartis shares (or ADRs) were delivered to Novartis associates under various equity-based participation plans. Current unvested equity instruments (restricted shares, RSUs and target PSUs) as well as outstanding equity options held by associates represent 2.4% of shares issued of Novartis. Novartis delivers treasury shares to associates to fulfill these obligations and aims to offset the dilutive impact from its equity-based participation plans.

SHARE OWNERSHIP REQUIREMENTS FOR EXECUTIVE COMMITTEE MEMBERS

Executive Committee members are required to own at least a minimum multiple of their annual base compensation in Novartis shares or share options within three years of hire or promotion, as set out in the table below.

CEO	5 x base compensation
Executive Committee members	3 x base compensation

In the event of a substantial rise or drop in the share price, the Board of Directors may, at its discretion, amend that time period accordingly.

The determination of equity amounts against the share ownership requirements is defined to include vested and unvested Novartis shares or ADRs, as well as RSUs acquired under the compensation plans, but excluding unvested matching shares granted under the Leveraged Share Savings Plan (LSSP) and the Employee Share Ownership Plan (ESOP), and

unvested PSUs from LTPP and LTRPP. The determination includes other shares as well as vested options of Novartis shares or ADRs that are owned directly or indirectly by “persons closely linked” to them. The Compensation Committee reviews compliance with the share ownership guideline on an annual basis.

As of December 31, 2015, all members who have served at least three years on the Executive Committee have met or exceeded their personal Novartis share ownership requirements.

As of January 1, 2016, to better align with prevalent market practice and the change to our compensation system, Executive Committee members will be required to meet their share ownership requirement within five years of hire/promotion.

SHARES, ADRs, EQUITY RIGHTS AND SHARE OPTIONS OWNED BY EXECUTIVE COMMITTEE MEMBERS

The following tables show the total number of shares, ADRs, other equity rights and share options owned by Executive Committee members and “persons closely linked” to them as of December 31, 2015.

As of December 31, 2015, no Executive Committee members together with “persons closely linked” to them owned 1% or more of the outstanding shares (or ADRs) of Novartis, either directly or through share options.

The market value of share options (previously granted) is calculated using an option pricing valuation model as at the grant date.

SHARES, ADRS AND OTHER EQUITY RIGHTS OWNED BY EXECUTIVE COMMITTEE MEMBERS¹

	Vested shares and ADRs	Unvested shares and other equity rights ²	Total at December 31, 2015
Joseph Jimenez	284 405	322 200	606 605
Steven Baert	1 700	44 977	46 677
Felix R. Ehrat	92 435	107 870	200 305
David Epstein	70 371	230 535 ³	300 906
Mark C. Fishman	52 242	276 622 ³	328 864
Richard Francis	14 357	37 722	52 079
Jeff George	119 247	99 373	218 620
Harry Kirsch	46 579	100 359	146 938
André Wyss	44 660	79 917	124 577
Total⁴	725 996	1 299 575	2 025 571

¹ Includes holdings of “persons closely linked” to Executive Committee members (see definition further below on this page)

² Includes restricted shares, RSUs and target number of PSUs. Matching shares under the ESOP, LSSP, and target number of PSUs are disclosed pro-rata to December 31, unless the award qualified for full vesting under the relevant plan rules. Awards under all other incentive plans are disclosed in full.

³ Includes both deferred and unvested cash-settled equity awards and holdings of Novartis shares in US-defined contribution plans.

⁴ As a result of the GlaxoSmithKline transaction, Brian McNamara and Andrin Oswald stepped down from the Executive Committee on March 1, 2015. Brian McNamara owned 52 251 vested shares and 15 200 unvested shares and other equity rights at March 1, 2015. Andrin Oswald owned 122 892 vested shares and 41 547 unvested shares and other equity rights at March 1, 2015.

SHARE OPTIONS OWNED BY EXECUTIVE COMMITTEE MEMBERS¹

	Number of share options ²		Total at December 31, 2015
	2011	Other	
Jeff George	141 396	0	141 396
André Wyss	0	378 390	378 390
Total³	141 396	378 390	519 786

¹ The last share option grants under the Novartis Equity Plan Select were made in January 2013.

² Share options disclosed for a specific year were granted in that year under the Novartis Equity Plan Select. The column “Other” refers to share options granted in 2008 or earlier, to share options granted to these executives while they were not Executive Committee members, and to share options bought on the market by the Executive Committee members or “persons closely linked” to them (see definition further below on this page).

³ No other current Executive Committee members owned share options at December 31, 2015. As a result of the GlaxoSmithKline transaction, Brian McNamara and Andrin Oswald stepped down from the Executive Committee on March 1, 2015. At March 1, 2015, Brian McNamara and Andrin Oswald did not own any share options.

PERSONS CLOSELY LINKED

“Persons closely linked” are (I) their spouse, (II) their children below age 18, (III) any legal entities that they own or otherwise control, and (IV) any legal or natural person who is acting as their fiduciary.

PERFORMANCE VESTING OF OLD LONG-TERM PERFORMANCE PLAN (2013–2015)

Overview

As of 2014, grants are no longer made under this plan to Executive Committee members, but performance for the last cycle of the OLTPP is reported in this Compensation Report. The performance for the first cycle of the LTPP and LTRPP (cycle 2014–2016) will be reported in the 2016 Compensation Report.

The OLTPP provided grants based on a target percentage of base compensation at the beginning of each plan cycle. It represented 175% of base salary for the CEO.

Form of award at grant

At the beginning of the performance period, participants were granted a target number of PSUs according to the following formula:

STEP 1	Annual base compensation	x	Target incentive %	=	Grant value
STEP 2	Grant value	/	Share price	=	Target number of PSUs

Performance measure

The rewards were based on rolling three-year Group performance objectives focused on the Novartis Economic Value Added (NVA) measured annually. NVA takes into account Group operating income adjusted for interest, taxes and cost of capital charge. The formula is included on page 166 of the Financial Report.

The NVA performance factor was based on a 1:5 payout curve, where a 1% deviation in realization versus target led to a 5% change in payout (for example, a performance ratio of 105% would have led to a performance factor of 125%). If performance over the three-year vesting period would have fallen below 80% of target, no shares would have vested. The

performance factor was capped at 200% of target, corresponding to an achievement of 20% above target.

Delivery at vesting

At the end of the three-year performance period, the target number of PSUs was multiplied by the performance factor approved by the Compensation Committee. PSUs were converted into Novartis shares and immediately vested. In the US, awards may also have been delivered in cash under the US-deferred compensation plan.

OUTCOME OF THE PERFORMANCE CYCLE 2013–2015

Over the three-year performance period, 2013 to 2015, Novartis performed 3.5% ahead of the USD 7.4 billion NVA target, corresponding to a payout of 118% following the application of the 1:5 payout curve. This achievement was mainly driven by operating income performance and productivity initiatives. In arriving at the NVA performance score, the Compensation Committee excluded, as major items, the favorable impact from the delayed entry of generic competition for *Diovan* monotherapy in the US, income generated from the sale of the Idenix Pharmaceuticals Inc. and LTS Lohmann Therapie-Systeme AG stakes, and the negative impact from executing the Group portfolio transformation (including an exceptional pre-tax impairment charge of USD 1.1 billion related to the divestment of the Vaccines influenza business). Over the entire three-year cycle, currency movements had a significant negative impact (more than USD 2.1 billion) in NVA well above the impact on the previous cycle of the OLTPP. Considering the total shareholder return of the three years (in USD, +53.4%), the Compensation Committee decided to exclude, on a discretionary basis, a portion of this currency impact.

The table below shows the vesting of the OLTPP 2013–2015 cycle for the CEO and other Executive Committee members.

PAYOUT SCHEDULE FOR OLTPP 2013–2015 PERFORMANCE CYCLE¹

	Currency	PSUs (target value at grant date)	PSUs (target number)	Performance factor payout for OLTPP 2013–2015 cycle	Shares delivered at vesting (number)	Shares delivered at vesting (value at vesting price)
Joseph Jimenez	CHF	3 605 933	58 443	118%	68 963	5 496 351
Other 8 members of the Executive Committee ²	CHF	5 363 227	86 864	118%	102 500	8 214 409
Total	CHF	8 969 160	145 307	118%	171 463	13 710 760

See next page for 2014 compensation figures

¹ For those who have left or joined the Executive Committee in the course of the 2013–2015 performance period, the information disclosed under this table reflects the pro-rata OLTPP 2013–2015 payout attributable to the period they were a member of the Executive Committee.

² This table excludes the awards which were originally granted to Brian McNamara (10 780 target PSUs) and Andrin Oswald (13 688 target PSUs) for OLTPP 2013–2015 performance cycle. As a result of the GlaxoSmithKline transaction, and in accordance with the OLTPP plan rules, these awards were forfeited.

For the Executive Committee members, including the CEO, the impact of the share price appreciation over the vesting period on the total value realized at vesting was CHF 3.1 million. For the CEO, the impact of the share price appreciation was CHF 1.4 million. This represents 25% of the overall vesting value.

For comparative purposes, the table below shows the vesting of the OLTPP 2012–2014 cycle for the CEO and other Executive Committee members, as published in the 2014 Compensation Report.

PAYOUT SCHEDULE FOR OLTPP 2012–2014 PERFORMANCE CYCLE¹

	Currency	PSUs (target value at grant date)	PSUs (target number)	Performance factor payout for OLTPP 2012–2014 cycle	Shares delivered at vesting (number)	Shares delivered at vesting (value at vesting price)
Joseph Jimenez	CHF	3 605 926	66 530	168%	111 771	9 472 592
Other 13 members of the Executive Committee	CHF	7 783 335	142 747	168%	239 822	20 539 978
Total	CHF	11 389 261	209 277	168%	351 593	30 012 570

As published in the 2014 Compensation Report

¹ For those who left or joined the Executive Committee in the course of the 2012–2014 performance period, the information disclosed under this table reflects the pro-rata OLTPP 2012–2014 payout attributable to the period they were a member of the Executive Committee.

For the Executive Committee members, including the CEO, the impact of the share price appreciation over the vesting period of the OLTPP 2012–2014 cycle on the total value realized at vesting was CHF 10.9 million. For the CEO, the impact of the share price appreciation was CHF 3.4 million. This represents 36% of the overall vesting value.

2015 BOARD COMPENSATION SYSTEM

BOARD COMPENSATION PHILOSOPHY AND BENCHMARKING

The Board of Directors sets compensation for its members at a level that allows for the attraction and retention of high-caliber individuals with global experience, including a mix of Swiss and international members. Board members do not receive variable compensation, underscoring their focus on corporate strategy, supervision and governance.

The Board of Directors sets the level of compensation for its Chairman and the other members to be in line with relevant benchmark companies, which include other large Swiss-headquartered multinational companies, ABB, Credit Suisse, Holcim, Nestlé, Roche, Syngenta and UBS. This peer group has been chosen for Board compensation due to the comparability of Swiss legal requirements, including broad personal and individual liabilities under Swiss law (and new criminal liability under the Swiss rules regarding compensation of Board and Executive Committee members related to the Ordinance Against Excessive Compensation in Stock Exchange Listed Companies) and under US law (due to the company's secondary listing on the New York Stock Exchange).

The Board of Directors reviews the compensation of its members, including the Chairman, each year based on a proposal by the Compensation Committee and advice from its independent advisor, including relevant benchmarking information.

COMPENSATION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

As Chairman, Dr. Joerg Reinhardt receives total annual compensation valued at CHF 3.8 million. The total compensation is comprised equally of cash and shares, as follows:

- Cash compensation: CHF 1.9 million per year
- Share compensation: annual value equal to CHF 1.9 million of unrestricted Novartis shares

From the 2015 Annual General Meeting (AGM), Dr. Reinhardt voluntarily waived the company contribution for pension and insurance benefits. Until this date, the company made employer contributions regarding the Chairman's participation in the Novartis Swiss standard pension and life insurance benefit plans. These contributions amounted to CHF 24 840.

Dr. Reinhardt also receives compensation for lost entitlements at his former employer, with a total value of EUR 2.6 million, as reported in the 2014 and 2013 Compensation Reports. Payments are staggered based on the vesting period at his former employer, and extend over the period from 2014–2016, provided that he remains in office as Chairman at the respective due dates. On January 31, 2015, he received EUR 871 251 in cash.¹

¹On January 31, 2016, he will receive the third and final installment of EUR 1 045 800.

For 2015, the Chairman voluntarily waived the increase in compensation to which he is entitled, which is an amount not lower than the average annual compensation increase awarded to associates based in Switzerland (1.5% for 2015). For the year 2016, the Chairman will also voluntarily waive this increase.

COMPENSATION OF THE OTHER BOARD MEMBERS

The annual fee rates for Board membership and additional functions are included in the table below. These were approved by the Board of Directors with effect from the 2014 AGM and align our aggregate Board compensation to the current levels of other large Swiss companies.

2015 BOARD MEMBER ANNUAL FEE RATES

	Annual fee (CHF)
Chairman of the Board	3 800 000 ¹
Board membership	300 000
Vice Chairman	50 000
Chair of Audit and Compliance Committee	120 000
Chair of the following committees: — Compensation Committee — Governance, Nomination and Corporate Responsibilities Committee — Research & Development Committee ² — Risk Committee	60 000
Membership of Audit and Compliance Committee	60 000
Membership of the following committees: — Compensation Committee — Governance, Nomination and Corporate Responsibilities Committee — Research & Development Committee — Risk Committee	30 000

¹The Chairman also received company pension contributions until the 2015 AGM (when they ceased), and payment for loss of other entitlements at his previous employer for total EUR 2 665 051 staggered over 2014 to 2016.

²The Chairman receives no additional committee fees for chairing the Research & Development Committee.

In addition, the following policies apply regarding their compensation:

- 50% of compensation is delivered in cash, paid on a quarterly basis in arrears.
- 50% of compensation is delivered in shares in two installments: one six months after the AGM and one 12 months after the AGM.
- Board members bear the full cost of their employee social security contributions, if any, and do not receive share options or pension benefits.

The Board compensation system will remain unchanged in 2016.

2015 BOARD COMPENSATION

BOARD MEMBER COMPENSATION TABLE (AUDITED)

The following table discloses the 2015 Board member compensation. Board compensation is reported as the amount earned in the financial year.

BOARD MEMBER COMPENSATION EARNED FOR FINANCIAL YEAR 2015 ¹												
	Board membership	Vice Chairman	Audit and Compliance Committee	Compensation Committee	Governance, Nomination and Corporate Responsibilities Committee	Research & Development Committee	Risk Committee	Cash (CHF) (A)	Shares (CHF) (B)	Shares (number) ²	Other (CHF) (C) ³	Total (CHF) (A)+(B)+(C) ⁴
Joerg Reinhardt ⁵	Chair					Chair		1 900 000	1 900 000	19 397	29 197	3 829 197
Ulrich Lehner (until February 26, 2015)	•	•	•	•	•			39 167	39 167	1 242	582	78 916
Enrico Vanni	•	•	•	Chair		•		250 000	250 000	2 552	4 357	504 357
Nancy Andrews (from February 27, 2015)	•					•		137 500	137 500	812	–	275 000
Dimitri Azar	•		•			•		172 250	217 750	2 712	–	390 000
Verena A. Briner	•						•	165 000	165 000	1 684	4 357	334 357
Srikant Datar	•		Chair	•			•	240 000	240 000	2 450	–	480 000
Ann Fudge	•			•	•		•	195 000	195 000	1 990	–	390 000
Pierre Landolt ⁶	•				Chair			–	360 000	3 674	3 492	363 492
Charles L. Sawyers	•					• ⁷	•	177 500	177 500	1 757	–	355 000
Andreas von Planta	•		•		•		Chair	225 000	225 000	2 296	4 357	454 357
William T. Winters	•			• ⁷				–	325 000	3 210	–	325 000
Total								3 501 417	4 231 917	43 776	46 342	7 779 676

See next page for 2014 compensation figures

¹ Does not include reimbursement for travel and other necessary business expenses incurred by Board members in the performance of their services, as these are not considered compensation

² Represents the gross number of shares delivered to each Board member in 2015. The number of shares reported in this column represents: (i) the second and final equity installment delivered in February 2015 for the services from the 2014 AGM to the 2015 AGM, and (ii) the first of two equity installment delivered in August 2015 for the services from the 2015 AGM to the 2016 AGM. The second and final equity installment for the services from the 2015 AGM to the 2016 AGM will take place in February 2016.

³ It includes an amount of CHF 21 502 for mandatory employer contributions paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of CHF 429 806, and provides a right to the maximum future insured government pension benefit for the Board member.

⁴ All amounts are before deduction of employee's social security contribution and income tax due by the Board member

⁵ Does not include EUR 871 251 paid to Joerg Reinhardt on January 31, 2015 for lost entitlements at his former employer. This amount is the second of three installments comprising to a total amount of EUR 2 665 051, which compensates him for lost entitlements with his previous employer due to him on joining Novartis. The third and last installment of EUR 1 045 800 will be delivered on January 31, 2016, provided that he remains in office as our Chairman at the due dates. The lost entitlements of EUR 2 665 051 of Joerg Reinhardt were included in full in the 2013 Board compensation table on page 124 of the 2014 Compensation Report based on our disclosure policy to report compensation for lost entitlements in full in the year the member of the Board or Executive Committee joined Novartis.

⁶ According to Pierre Landolt, the Sandoz Family Foundation is the economic beneficiary of the compensation.

⁷ From February 27, 2015

BOARD MEMBER COMPENSATION EARNED FOR FINANCIAL YEAR 2014¹

	Board membership	Vice Chairman	Audit and Compliance Committee	Compensation Committee	Governance, Nomination and Corporate Responsibilities Committee	Research & Development Committee ²	Risk Committee	Chairman's Committee ²	Delegated Board membership	Cash (CHF) (A)	Shares (CHF) (B)	Shares (number) ³	Other (CHF) (C) ⁴	Total (CHF) (A)+(B)+(C) ⁵
Joerg Reinhardt ⁶	Chair					Chair		Chair		2 058 334	1 741 666	12 180	157 844 ⁷	3 957 844
Ulrich Lehner	•	•	•	•	•		• ⁸	•		262 500	262 500	1 527	37 851 ⁹	562 851
Enrico Vanni	•	•	•	Chair		•		•		267 500	267 500	1 625	11 173 ⁹	546 173
Dimitri Azar	•		•			•				86 250	313 750	2 154	–	400 000
Verena A. Briner	•						• ¹⁰			166 667	166 667	1 073	7 468 ⁹	340 802
William Brody (until February 25, 2014)	•			•					• ¹¹	43 750	43 750	–	83 333 ¹²	170 833
Srikant Datar	•		Chair	•			•	•		260 000	260 000	1 560	–	520 000
Ann Fudge	•			•	•		•			204 167	204 167	1 268	–	408 334
Pierre Landolt ¹³	•				Chair					–	368 333	2 340	7 031 ⁹	375 364
Charles L. Sawyers	•					•				166 667	166 667	1 073	–	333 334
Andreas von Planta	•		•		•		Chair			234 167	234 167	1 462	9 175 ⁹	477 509
Wendelin Wiedeking (until February 25, 2014)	•				•		•			–	75 000	–	4 482 ⁹	79 482
William T. Winters	•									29 167	279 167	1 950	–	308 334
Rolf M. Zinkernagel (until February 25, 2014)	•				•				• ¹⁴	54 167	54 167	–	175 870 ^{9,15}	284 204
Total										3 833 336	4 437 501	28 212	494 227	8 765 064

As published in the 2014 Compensation Report

¹ Does not include reimbursement for travel and other necessary business expenses incurred in the performance of their services, as these are not considered compensation.

² As of February 26, 2014, the Research & Development Committee has been introduced and the Chairman's Committee disbanded.

³ Represents the gross number of shares delivered to each Board member in 2014 in respect of the first of two equity installments for the services from the 2014 AGM to the 2015 AGM. The second equity installment will take place in February 2015. This number does not include the number of shares for the compensation for services for the period from January 1, 2014 to the 2014 AGM.

⁴ In compliance with the Minder Ordinance, it includes an amount of mandatory employer social security contributions of CHF 27 771. This amount provides a right to the maximum future insured government benefit for the members. This is out of a mandatory total of CHF 359 890 paid by Novartis to both Swiss governmental social security systems.

⁵ All amounts are before deduction of employee's social security contribution and income tax due by the Board member.

⁶ Does not include EUR 748 000 paid to Joerg Reinhardt on January 31, 2014 for lost entitlements at his former employer. This amount is the first of three installments comprising to a total amount of EUR 2 665 051, which compensates him for lost entitlements with his previous employer due to him on joining Novartis. The second and third installment are staggered based on the vesting period at his former employer, and extend over the period from 2015–2016, provided that he remains in office as our Chairman at the respective due dates. On January 31, 2015 and 2016, he will respectively receive EUR 871 251 and EUR 1 045 800. The lost entitlements of EUR 2 665 051 of Joerg Reinhardt are included in full in the 2013 Board compensation table on page 124 of the 2014 Compensation Report based on our disclosure policy to report compensation for lost entitlements in full in the year the member of the Board or ECN joined Novartis.

⁷ Includes social security costs due by the individual and paid by the company until January 31, 2014, and service costs of pension and post-retirement healthcare benefits accumulated in 2014 in accordance with IAS19

⁸ Until February 25, 2014

⁹ Includes social security costs due by the individual and paid by the company until February 25, 2014. As of February 26, 2014, all Board members bear the full cost of their employee social security.

¹⁰ As of February 26, 2014

¹¹ The Board of Directors has delegated William Brody to the Board of Directors of the Genomics Institute of the Novartis Research Foundation (GNF) for the period from the 2014 AGM to the 2016 AGM.

¹² Includes his pro-rata compensation for the delegated Board membership of GNF from February 26, 2014 to December 31, 2014

¹³ According to Pierre Landolt, the Sandoz Family Foundation is the economic beneficiary of the compensation.

¹⁴ The Board of Directors has delegated Rolf M. Zinkernagel to the Scientific Advisory Board of the Novartis Institute for Tropical Diseases (NITD) and to the Board of Directors of the Genomics Institute of the Novartis Research Foundation (GNF) for the period from the 2014 AGM to the 2016 AGM.

¹⁵ Includes his pro-rata compensation for the delegated Board memberships of NITD and GNF from February 26, 2014 to December 31, 2014

RECONCILIATION BETWEEN THE REPORTED BOARD COMPENSATION AND THE AMOUNT APPROVED BY SHAREHOLDERS AT THE AGM

(CHF)	Compensation earned during the financial year (A) ¹	Compensation earned for the period from January 1 to the AGM (2 months) of the financial year (B)	Compensation to be earned for the period from January 1 to the AGM (2 months) in the year following the financial year (C)	Total compensation earned from AGM to AGM (A)-(B)+(C)	Amount approved/endorsed by shareholders at the respective AGM	Amount within the amount approved/endorsed by shareholders at the AGM
	2015	January 1, 2015 to 2015 AGM	January 1, 2016 to 2016 AGM ²	2015 AGM to 2016 AGM	2015 AGM	2015 AGM
Joerg Reinhardt	3 829 197	(658 174)	633 334	3 804 357	3 805 000	Yes
Other Board members	3 950 479	(667 250)	653 334	3 936 563	3 940 000	Yes
Total	7 779 676	(1 325 424)	1 286 668	7 740 920	7 745 000	Yes
	2014	January 1, 2014 to 2014 AGM ³	January 1, 2015 to 2015 AGM	2014 AGM to 2015 AGM	2014 AGM	2014 AGM
Joerg Reinhardt	3 957 844	(670 497)	658 174	3 945 521	3 962 000	Yes
Other Board members	4 807 220	(1 446 909) ⁴	667 250	4 027 561	4 060 000	Yes
Total	8 765 064	(2 117 406)	1 325 424	7 973 082	8 022 000	Yes

¹ See previous pages for 2015 and 2014 Board member compensation.

² To be confirmed and reported in the 2016 Compensation Report.

³ Includes an amount of CHF 27 771 for mandatory employer social security contributions paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of CHF 359 890, and provides a right to the maximum future insured government pension benefit for the Board member.

⁴ Delegated Board membership fees earned after the 2014 AGM by William Brody and Rolf M. Zinkernagel are included in this amount.

LOANS TO BOARD MEMBERS

No loans were granted to current or former members of the Board of Directors or to “persons closely linked” to them during 2015. No such loans were outstanding as of December 31, 2015.

OTHER PAYMENTS TO BOARD MEMBERS

During 2015, no payments (or waivers of claims) other than those set out in the Board member compensation table (including its footnotes) on page 130 were made to current members of the Board of Directors or to “persons closely linked” to them.

SHARE OWNERSHIP REQUIREMENTS FOR BOARD MEMBERS

The Chairman is required to own a minimum of 30 000 shares, and other members of the Board of Directors are required to own at least 4 000 Novartis shares within three years after joining the Board of Directors, to ensure alignment of their interests with shareholders. Board members are prohibited from hedging or pledging their ownership positions in Novartis shares that are part of their guideline share ownership requirement, and are required to hold these shares for 12 months after retiring from the Board of Directors. As of December 31, 2015, all members of the Board of Directors who have served at least three years on the Board of Directors have complied with the share ownership guidelines.

SHARES, ADRS AND SHARE OPTIONS OWNED BY BOARD MEMBERS

The total number of vested Novartis shares and ADRs owned by members of the Board of Directors and “persons closely linked” to them as of December 31, 2015 is shown in the table below.

As of December 31, 2015, no members of the Board of Directors together with “persons closely linked” to them owned 1% or more of the outstanding shares (or ADRs) of Novartis.

As of the same date, no members of the Board of Directors held any share options.

SHARES AND ADRS OWNED BY BOARD MEMBERS¹

	Number of shares ²
	At December 31, 2015
Joerg Reinhardt	480 404
Enrico Vanni	15 566
Nancy Andrews	609
Dimitri Azar	9 292
Verena A. Briner	6 429
Srikant Datar	32 629
Ann Fudge	15 605
Pierre Landolt ³	54 866
Charles L. Sawyers	4 252
Andreas von Planta	124 868
William T. Winters	5 998
Total⁴	750 518

¹ Includes holdings of “persons closely linked” to Board members (see definition on page 126)

² Each share provides entitlement to one vote.

³ According to Pierre Landolt, the Sandoz Family Foundation is the economic beneficiary of the shares.

⁴ Ulrich Lehner stepped down from the Board of Directors on February 26, 2015. At February 26, 2015, Ulrich Lehner owned 37 263 shares.

PAYMENTS TO FORMER BOARD MEMBERS

During 2015, no payments (or waivers of claims) were made to former Board members or to “persons closely linked” to them, except for the following amounts:

- Prof. Dr. William R. Brody and Prof. Dr. Rolf M. Zinkernagel, who stepped down from the Board of Directors at the 2014 AGM, received delegated Board membership fees for their work on the Boards of the Novartis Institute for Tropical Diseases (Prof. Dr. Zinkernagel) and the

Genomics Institute of the Novartis Research Foundation (Prof. Dr. Brody and Prof. Dr. Zinkernagel). During 2015, an amount of CHF 100 000 and CHF 200 000 was paid to Prof. Dr. Brody and Prof. Dr. Zinkernagel, respectively, for their work on these Boards. Their mandate on the Board of the Genomics Institute of the Novartis Research Foundation ended as of November 19, 2015. The company is appreciative of their many years of service on this Board.

— The payments reported in Note 27 to the Group's audited consolidated financial statements (page 226)

NOTE 27 TO THE GROUP'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The total expense for the year for the compensation awarded to Board and Executive Committee members using IFRS measurement rules is presented in the Financial Report in Note 27 to the Group's audited consolidated financial statements.

COMPENSATION GOVERNANCE

LEGAL FRAMEWORK

The Swiss Code of Obligations and the Corporate Governance Guidelines of the SIX Swiss Exchange require listed companies to disclose certain information about the compensation of Board and Executive Committee members, their equity participation in the Group, and loans made to them. This Annual Report fulfills that requirement. In addition, the Annual Report is in line with the principles of the Swiss Code of Best Practice for Corporate Governance of the Swiss Business Federation (economiesuisse).

COMPENSATION DECISION-MAKING AUTHORITIES

Authority for decisions related to compensation is governed by the Articles of Incorporation, the Board Regulations and the Compensation Committee Charter, which are all published on the company website: www.novartis.com/corporate-governance.

The Compensation Committee serves as the supervisory and governing body for compensation policies and plans within Novartis, and has overall responsibility for determining, reviewing and proposing compensation policies and plans for approval by the Board of Directors in line with the Compensation Committee Charter. A summary of discussions and conclusions of each committee meeting is delivered to the full Board of Directors. A summary of the compensation decision-making authorities is set out below:

COMPENSATION AUTHORIZATION LEVELS WITHIN THE PARAMETERS SET BY THE SHAREHOLDERS' MEETING

Decision on	Authority
Compensation of Chairman and other Board members	Board of Directors
Compensation of CEO	Board of Directors
Compensation of Executive Committee members	Compensation Committee

COMMITTEE MEMBER INDEPENDENCE

The Compensation Committee is composed exclusively of members of the Board of Directors who meet the independence criteria set forth in the Board Regulations. From the 2015 AGM, the Compensation Committee had the following four members: Ann Fudge, Enrico Vanni, Srikant Datar and William Winters. Enrico Vanni has served as Chair since 2012. Ulrich Lehner did not stand for re-election to the Board of Directors at the 2015 AGM.

ROLE OF THE COMPENSATION COMMITTEE'S INDEPENDENT ADVISOR

The Compensation Committee retained Frederic W. Cook & Co. Inc. as its independent external compensation advisor for 2015. The advisor was hired directly by the Compensation Committee in 2011, and the Compensation Committee has been fully satisfied with the performance and independence of the advisor since its engagement. Frederic W. Cook & Co. Inc. is independent of management and does not perform any other consulting work for Novartis. In determining whether or not to renew the engagement with the advisor, the Compensation Committee evaluates, at least annually, the quality of the consulting service, the independence of the advisor, and the benefits of rotating advisors.

COMPENSATION COMMITTEE MEETINGS HELD IN 2015

In 2015, the Compensation Committee held five formal meetings. The Compensation Committee conducted a performance self-evaluation in 2015 and a review of its charter, as it does every year.

COMPENSATION GOVERNANCE AND RISK MANAGEMENT

The Compensation Committee, with support from its independent advisor, reviews market trends in compensation and changes in corporate governance rules. It also reviews, together with the Risk Committee, the Novartis compensation systems to ensure that it does not encourage inappropriate or excessive risk taking and instead encourages behaviors that support sustainable value creation.

A summary of the risk management principles is outlined below:

RISK MANAGEMENT PRINCIPLES

- Rigorous performance management process, with approval of targets and evaluation of performance for the CEO by the Board of Directors
- Balanced mix of short-term and long-term variable compensation elements
- Balanced scorecard approach to performance evaluation under the Annual Incentive, including Values and Behaviors
- Clawback principles
- Performance-vesting Long-Term Incentives only, with three-year overlapping cycles
- Variable compensation is capped at 200% of target
- Contractual notice period of 12 months
- Post-contractual non-compete limited to a maximum of 12 months (annual base compensation and Annual Incentive of the prior year only)
- No severance payments or change-of-control clauses
- Share ownership requirements; no hedging or pledging of Novartis share ownership position by Board and Executive Committee members

Executive Committee employment contracts provide for a notice period of up to 12 months and contain no change-of-control clauses or severance provisions (e.g., agreements concerning special notice periods, longer-term contracts, “golden parachutes,” waiver of lock-up periods for equities and bonds, shorter vesting periods, and additional contributions to occupational pension schemes).

MALUS AND CLAWBACK

Any incentive compensation paid to Executive Committee members is subject to “malus” and “clawback” rules. This means that the Board of Directors for the CEO, or the Compensation Committee for other Executive Committee members, may decide, subject to applicable law, not to pay any unpaid or unvested incentive compensation (malus), or seek to recover incentive compensation that has been paid in the past (clawback), where the payout has been proven to conflict with internal management standards including company policies and accounting policies or a violation of law. This principle applies to both the Annual Incentive and to the Long-Term Incentives.

Report of the Statutory Auditor on the Compensation Report of Novartis AG

TO THE GENERAL MEETING OF NOVARTIS AG, BASEL

We have audited the Executive Committee Compensation Tables pages 121–126 and the 2015 Board Compensation pages 130–133 of the accompanying Compensation Report of Novartis AG for the year ended December 31, 2015.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the accompanying Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. These standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment

of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Compensation Report of Novartis AG for the year ended December 31, 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



A handwritten signature in black ink, appearing to read 'Bruno Rossi'.

Bruno Rossi
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'Stephen Johnson'.

Stephen Johnson
Global relationship partner

Basel, January 26, 2016

- 1 A rice farmer tills a paddy field with his water buffalo. Rice is the staple crop here.
- 2 Dr. Cu Ahong, director of the Mù Cang Chải Preventative Health Centre, examines 8-year-old Mu Thi Cha, who complains of abdominal pain.
- 3 Gian Cho De has hypertension. The rise of chronic disease in Vietnam is an additional burden for the healthcare system.
- 4 Despite the availability of modern medicine, many people in Vietnam still use herbal remedies, such as these seen on sale in Hanoi.





The Healthy Family initiative, launched in 2012, is run by Novartis and involves doctors working at community health centers to improve education, and expand access to treatment and health screenings

➡ CONTINUED FROM PAGE 109

Dr. Xinh grew up in Mù Cang Chải, so he understands local traditions and speaks the local dialect, enabling him to communicate easily with patients, understand their ailments, and treat them. The H'mong people have numerous health problems, some linked to traditional beliefs and lifestyles. For instance, it is still common among the H'mong to use open fires to cook and heat their houses, and the indoor air pollution has led to widespread respiratory ailments.

Giang Giua Cua, 77, is a typical patient seen by Dr. Xinh. He has chronic obstructive pulmonary disease after many years of inhaling smoke at home. Because he is short of breath, Mr. Cua is no longer capable of trekking to the community hospital, so the doctor must come to him.

Respiratory illness is just one of the chronic diseases that are on the rise in Vietnam, just as they are elsewhere in the world. For instance, cases of diabetes have tripled in Vietnam over the past decade, according to the World Health Organization. Hypertension is also on the rise. These and other chronic ailments, which can require ongoing treatment for years or even decades, are adding significantly to the existing burden felt by healthcare providers.

Efforts to improve public health in the region have been complicated by locals' reliance on traditional medicines, as well as their reluctance to seek medical attention. And the need for more healthcare professionals remains acute, says Dr. Cu Ahong, director of the Mù Cang Chải community hospital.

But the situation is changing. Mù Cang Chải will eventually benefit from a program begun in 2013 by the Ministry of Health to increase the number of rural doctors. And efforts are underway to reinforce health education and healthcare delivery in rural Vietnam. One initiative is Healthy Family, or *Cung Song Khoe* in Vietnamese, run by Novartis in collaboration with the Vietnamese government. This social venture was launched in 2012 and involves doctors working at community health centers to improve education, and expand access to treatment and health screenings.

In Mù Cang Chải, for instance, doctors are making strides in the area of disease prevention. Community clinics run patient-education classes to inform people about the risk of developing chronic illnesses such as diabetes and hypertension. And they offer diagnostic tests, uncovering problems before they become acute.

Such progress gives Dr. Ahong hope. He believes that education will help people adopt healthier lifestyles. And he looks forward to the arrival of more medical personnel to reinforce the efforts that he and Dr. Xinh are making.