

Compensation Report

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Dear Shareholder,

As Chairman of the Compensation Committee, I am pleased to present the 2017 Compensation Report of Novartis AG.

This report includes an "at a glance" management summary of key information, followed by full details of our Executive Committee and Board compensation for 2017, including changes that will apply from 2018.

During the year, we engaged in dialogue with many of our major shareholders and proxy advisors to gather feedback on our compensation systems and disclosures, and we considered this feedback when making decisions on both topics. Through these discussions, we also addressed concerns of some shareholders who opposed the 2016 Compensation Report at the 2017 Annual General Meeting (AGM).

2017 company performance

Novartis delivered strong performance in 2017, with Group sales, net income and free cash flow ahead of target in constant currencies. Growth drivers in the Innovative Medicines division, including *Cosentyx*, *Entresto*, *Promacta/Revolade*, and *Tafinlar + Mekinist*, more than offset the loss of exclusivity of *Gleevec/Glivec*. Sandoz experienced a small decline in sales but gained market share and outperformed peers in a challenging market. Alcon returned to growth and made good progress toward becoming a leaner and more agile medical devices company.

Novartis achieved or surpassed pipeline milestone targets, including a number of positive readouts of major studies. Access to healthcare programs were expanded. Talent has been strengthened in key leadership positions in many parts of the organization. Culture, particularly collaboration, has been further improved.

Shareholders benefited from an annual total shareholder return (TSR) in USD of 20.4%, including an increased dividend.

2017 CEO realized pay

The Board determined that the CEO met or exceeded his financial targets and strategic objectives set at the beginning of the year, and that he role modeled the Novartis Values and Behaviors. When determining his compensation, the Board also considered other factors such as the external business environment and competition. The CEO was awarded a 2017 Annual Incentive of 125% of target, i.e. CHF 3 937 542.

The first of the two Long-Term Incentives, the Long-Term Performance Plan (LTPP) for the 2015-2017 performance cycle, based on a cumulative three-year Novartis Cash Value Added target and long-term innovation milestones, vested at 114% of target, i.e. CHF 5 068 337.

The second Long-Term Incentive, the Long-Term Relative Performance Plan (LTRPP) for the 2015-2017 performance cycle, based on three-year relative TSR compared to the global healthcare peer group, did not vest due to our rank at No. 12 out of 13 companies, i.e. no payout.

In light of the company's performance, the 2017 total realized compensation for the CEO was **CHF 11 344 462**, (compared with CHF 10 556 685 in 2016), and includes his base salary and benefits, his Annual Incentive for the

2017 performance year, and the vesting of his LTPP award for the 2015-2017 performance cycle, including dividend equivalents.

Compensation Report transparency

To provide greater transparency, we have enhanced the disclosures in this Compensation Report, including:

- Prospective disclosure of the retirement conditions of the outgoing CEO, Joseph Jimenez, as well as the target compensation of the newly appointed CEO, Vasant Narasimhan.
- Prospective disclosure of any 2018 increases in Executive Committee members' target compensation, as well as the policy for setting compensation of newly appointed Executive Committee members.
- Realized compensation of the CEO – and for the first time, on an aggregated basis – the other members of the Executive Committee.
- An interim update on the one-off three-year performance award granted in 2016 to the Alcon CEO for the 2016-2018 performance cycle.

Changes to our executive compensation system

During the year, the Compensation Committee conducted a review of the Executive Committee compensation system, considering business needs, feedback from dialogue with shareholders and developments in compensation best practices. After the review, the Board and Compensation Committee approved the following changes:

- A simplified Annual Incentive balanced scorecard will be introduced that places additional weighting on financial performance (60% weighting) and that also focuses on key strategic objectives in the areas of innovation, access to healthcare, people and culture, data and digital (40% weighting). Values and Behaviors remain a key component of the Annual Incentive and are embedded in our culture. As such, members of the Executive Committee are expected to demonstrate these to the highest standard.
- The performance condition for the LTRPP has been made more stringent from the 2018-2020 performance cycle onward. Going forward, Executive Committee members will receive no payout if relative TSR is below the median of the companies in our global healthcare peer group.
- Finally, in line with evolving governance practices, we have revised our Long-Term Incentive plan rules for retiring Executive Committee members. From grants made in 2019 onwards, members who fulfill the retirement conditions under the plan rules will receive pro-rata vesting, rather than full vesting, of outstanding Long-Term Incentives. The timing of this change respects the one-year notice period required per Executive Committee employment contracts. Two members who have already met the conditions to retire with full vesting will be grandfathered under the current rules. These incentives will continue to have performance conditions applied and will vest at the end of the cycle on the normal vesting date.

Changes to our Board compensation system from the 2018 AGM

Board and committee membership fees have remained unchanged since the reduction that took place at the 2014 AGM. The Board has decided to rebalance its fee structure from the 2018 AGM to better recognize the responsibilities and time commitment of the committees, both of which have increased as a result of the evolving governance and regulatory environment. In particular, developments in compensation governance requirements have,

over the last few years, resulted in a greater number of interactions between the Compensation Committee and shareholders and other external stakeholders.

The Board membership fee will decrease, and the committee membership fees will increase. The Board took into consideration external benchmarking information in the Swiss market as well as independent advice. The change is cost-neutral for the company, as the new fee structure results in the same average fee per Board member, excluding the Chairman.

In addition, following a review of practices among our peer group companies, the share ownership requirement for Board members will be increased from 4 000 to 5 000 shares, effective from the 2018 AGM. This minimum share ownership increase will strengthen the alignment of interests with those of shareholders. To allow sufficient time for Board members to achieve the increased requirement, they will have four years from appointment to acquire the minimum 5 000 shares under the new policy.

This change excludes the Chairman of the Board, whose share ownership requirement of 30 000 shares remains the same. In addition, all Board members will continue to be required to hold these shares for 12 months after retiring from the Board.

2018 CEO succession

Mr. Jimenez steps down as CEO on January 31, 2018, and will continue to support the Board and new CEO until his retirement date and the end of his notice period on August 31, 2018. He will retire in full compliance with the terms of his employment contract and the Novartis incentive plan rules. He will receive his annual base salary and pro-rated Annual Incentive until August 31, 2018. No new Long-Term Incentive awards will be made in January 2018. There will be no accelerated vesting of outstanding Long-Term Incentives, which will remain subject to performance over their full term. There will be no severance or non-compete payments.

Dr. Narasimhan will become CEO effective February 1, 2018. The Board determined Dr. Narasimhan's compensation by taking into account the fact that this is his first Group CEO role. He will receive an annual base salary of CHF 1.55 million, with a view to increasing this over a period of three to four years, dependent on strong performance and proven ability in the role. Total performance-based variable compensation at target will be 475% of base salary split into his Annual Incentive (150%) and his two Long-Term Incentives (325%). This will result in an initial total annual compensation at target of CHF 8.91 million, 26% lower than that of Mr. Jimenez.

On behalf of Novartis and the Compensation Committee, thank you for your continued support and feedback, which we 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

Executive Committee compensation at a glance (pages 127 to 142)

2017 Executive Committee compensation system

Reflecting a strong focus on pay for performance and alignment with shareholder interest, variable pay represents a significant proportion of the package. Outcomes from variable pay elements can vary significantly (from 0% to 200% of the target level), depending on the level of performance achieved.

	Fixed pay and benefits		Variable pay – performance-related		
	Annual base salary	Pension and other benefits	Annual Incentive	Long-term share awards	
				LTPP ¹	LTRPP ²
Purpose	Reflects responsibilities, experience and skill sets	Tailored to local market practices / regulations	Rewards for performance against key short-term targets and Values and Behaviors	Rewards long-term shareholder value creation and innovation in line with our strategy	
Form of payment	Cash	Country / individual specific	50% cash 50% equity ³ deferred for three years	Equity	
Performance measures	–	–	Performance matrix based on: <ul style="list-style-type: none"> Individual balanced scorecard, including financial targets and individual objectives Values and Behaviors 	<ul style="list-style-type: none"> Novartis Cash Value Added Innovation milestones 	<ul style="list-style-type: none"> Relative TSR vs. global sector peers

¹ LTPP = Long-Term Performance Plan

² LTRPP = Long-Term Relative Performance Plan

³ Executive Committee members may elect to receive more of their Annual Incentive in equity instead of cash.

The CEO's Annual Incentive at target is 150% of base salary, his target LTPP is 200% of base salary and his target LTRPP is 125% of base salary. Based on Novartis' compensation guidelines, the other members of the Executive Committee have Annual Incentive targets that range from 90% to 120% of base salary, and have Long-Term Incentives (LTPP and LTRPP) in total that range from 170% to 270% of base salary.

2017 CEO pay for performance – outcomes

2017 ANNUAL INCENTIVE – NOVARTIS PERFORMANCE

Deliver financial results	<ul style="list-style-type: none"> Group net sales, net income and free cash flow as a % of sales above target
Ensure world-class commercial execution	<ul style="list-style-type: none"> Innovative Medicines delivered strong performance; <i>Cosentyx</i> well ahead of target, <i>Entresto</i> in line with expectations. Oncology sales slightly below target Sandoz sales below target due to pricing pressure in the US
Transform Alcon into an agile medical device company	<ul style="list-style-type: none"> Alcon returned to growth with sales and core operating income results ahead of target, and all seven key approvals in innovation projects achieved
Strengthen R&D	<ul style="list-style-type: none"> Pipeline milestone targets either achieved or surpassed, including 16 major approvals, 16 major submissions and six FDA breakthrough therapy designations
Improve access to healthcare	<ul style="list-style-type: none"> Novartis access to healthcare programs expanded, with agreements now signed in six countries, delivering a portfolio of 15 products for USD 1 per treatment, per month
Create a stronger company for the future	<ul style="list-style-type: none"> NTO, NBS and GDD delivered or over-delivered on productivity targets Compliance, reputation and culture further improved
Overall performance outcome	<ul style="list-style-type: none"> Overall performance of the CEO was determined to be above expectations, based on achievements versus the targets set by the Board, and demonstration of the Novartis Values and Behaviors Overall outcome of 125% of target

2015–2017 LONG-TERM INCENTIVES

Long-Term Performance Plan (LTPP)	<ul style="list-style-type: none"> Novartis Cash Value Added outcome of 113% of target (75% weighting) Key innovation milestones outcome of 115% of target (25% weighting) Overall outcome of 114% of target
Long-Term Relative Performance Plan (LTRPP)	<ul style="list-style-type: none"> Annual Total Shareholder Return (TSR) in USD was 20.4%. Absolute TSR growth in USD was 0.1% over the last three years. Relative performance in USD over the three-year performance cycle compared to peers was rank No. 12 out of 13 companies Overall outcome of 0% of target

2017 total realized pay for the CEO

The 2017 total realized pay for the CEO was **CHF 11 344 462** (compared with CHF 10 556 685 in 2016), and includes the payouts of the Annual Incentive, LTPP and LTRPP based on actual performance assessed for cycles concluding in 2017.

CHF 000s	Fixed pay and benefits		Variable pay – performance related			Total realized compensation
	Annual base salary	Pension and other benefits	2017 Annual Incentive	LTPP 2015–2017 ¹	LTRPP 2015–2017 ¹	
Joseph Jimenez (CEO)	2 100	239	3 937	5 068	0	11 344

¹ The shown amounts represent the underlying share value of the total number of shares vested (including dividend equivalents) to the CEO for the LTPP and LTRPP performance cycle 2015-2017.

CEO succession – compensation elements

In September 2017, Novartis announced that Mr. Jimenez will retire following eight years as CEO and will be succeeded by Dr. Narasimhan effective February 1, 2018. An overview of the key compensation elements of the CEO succession is provided below. All terms are fully in line with the Swiss Ordinance against Excessive Compensation in Listed Companies.

KEY COMPENSATION TERMS

Joseph Jimenez (retiring CEO)

- All retirement terms are consistent with employment contract and incentive plan rules
- 12-month notice period ending August 31, 2018
 - No compensation increase in 2018
 - Annual base salary, pension and other benefits, and Annual Incentive will be paid pro-rata in 2018
 - No new Long-Term Incentive grants in January 2018
 - Outstanding equity awards:
 - No accelerated vesting
 - Payout subject to achievement of performance conditions, share price movement and dividend equivalents
 - Incentives fully at risk, and subject to malus and clawback

Vasant Narasimhan (appointed CEO)

Target annual compensation	CHF 000s
■ Salary	1 550
■ Annual Incentive (150% of salary)	2 325
■ LTPP (200% of salary; three-year cycle)	3 100
■ LTRPP (125% of salary; three-year cycle)	1 938
Total at target	8 913

- 83% of total target compensation is variable performance-related pay
- 26% reduction versus his predecessor
- Base salary will be kept under review, with any increases based on development and performance as CEO, consistent with the Executive Committee appointments compensation policy (details on page 124)

Board compensation at a glance (pages 146 to 150)

2017 Board compensation system

The compensation system applicable to the Board is shown below. All fees to Board members are delivered at least 50% in equity and the remainder in cash.

CHF 000s	AGM 2017-2018 annual fee
Chairman of the Board	3 800
Board membership	300
Vice Chairman	50
Chair of the Audit and Compliance Committee	120
Chair of the following committees: • Compensation Committee • Governance, Nomination and Corporate Responsibilities Committee • Research & Development Committee • Risk Committee	60
Membership of the Audit and Compliance Committee	60
Membership of the following committees: • Compensation Committee • Governance, Nomination and Corporate Responsibilities Committee • Research & Development Committee • Risk Committee	30

2017 Board compensation

Total actual compensation paid to Board members in the 2017 financial year is shown in the table below.

CHF 000s	2017 total compensation ¹
Chairman of the Board	3 805
Other 12 members of the Board	4 591
Total	8 396

¹ Includes an amount of CHF 15 622 for mandatory employer contributions for all Board members paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of CHF 298 206, and provides a right to the maximum future insured government pension benefit for the Board member.

Compensation governance at a glance (page 152)

A summary of the compensation decision authorization levels within the parameters set by the AGM is shown below, along with an overview of the risk management principles.

DECISION ON	DECISION-MAKING AUTHORITY
Compensation of Chairman and other Board members	Board of Directors
Compensation of CEO	Board of Directors
Compensation of other 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
- Performance evaluation under the Annual Incentive includes an individual balanced scorecard and assessed Values and Behaviors
- Performance-based 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 from the end of employment (annual base salary and Annual Incentive of the prior year only) as per contract, if applicable
- Good and bad leaver provisions apply to variable compensation of leavers
- No severance payments or change-of-control clauses
- Clawback and malus principles apply to all elements of variable compensation
- Share ownership requirements; no hedging or pledging of Novartis share ownership position

Executive Committee compensation philosophy and principles

Novartis compensation philosophy

Our compensation philosophy aims to ensure that Executive Committee members are rewarded according to their success in implementing the company strategy as well as their contribution to company performance and long-term value creation.

Pay for performance	<ul style="list-style-type: none"> Variable compensation is tied directly to the achievement of strategic company targets
Shareholder alignment	<ul style="list-style-type: none"> Our incentives are significantly weighted toward long-term, equity-based plans Measures under the Long-Term Incentives are calibrated to promote the creation of shareholder value Executive Committee members are expected to build and maintain substantial shareholdings
Balanced rewards	<ul style="list-style-type: none"> Balanced set of measures to create sustainable value Mix of targets based on financial metrics, innovation, individual objectives, Values and Behaviors, and performance vs. competitors
Business ethics	<ul style="list-style-type: none"> The Values and Behaviors are an integral part of our compensation system Forms part of the assessment of the individual objectives for the Annual Incentive
Competitive compensation	<ul style="list-style-type: none"> Total compensation must be sufficient to attract and retain key global talent Overarching emphasis on pay for performance

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 pharmaceuticals and oncology medicines, generics and biosimilars, and eye care.

To align the compensation system with this strategy and to ensure that Novartis is a high-performing organization, the company operates both a short-term Annual Incentive and two Long-Term Incentive plans with a balanced set of measures and targets.

The Board determines specific, measurable and time-bound performance metrics for the Annual Incentive and the two Long-Term Incentive plans.

Executive Committee compensation

There is fierce competition within the pharmaceutical and biotechnology industries for top executive talent with deep expertise, competencies and proven performance. The Board and the Compensation Committee determine compensation for appointed Executive Committee members in line with the appointments compensation policy outlined on page 124.

Approach to benchmarking

Novartis takes a rigorous approach to peer group construction and maintenance. In recent years, the Com-

ensation Committee has solicited feedback from shareholders and the Compensation Committee's independent advisor in selecting peer companies for executive compensation comparison purposes. External peer data is one of the elements considered by the Board and the Compensation Committee when making decisions on executive pay and helps ensure the system and levels at Novartis remain competitive.

The Compensation Committee considers executive compensation among the peer group of 15 global healthcare companies set out in the table below, as communicated in last year's Compensation Report. The companies in this peer group were selected based on a number of criteria that reflect our industry, as well as the size and scope of operations. Target compensation is generally positioned around the market median benchmark for comparable roles within this group.

GLOBAL HEALTHCARE PEER GROUP

AbbVie	Amgen	AstraZeneca
Biogen	Bristol-Myers Squibb	Celgene
Eli Lilly & Co.	Gilead Sciences	GlaxoSmithKline
Johnson & Johnson	Merck & Co.	Novo Nordisk
Pfizer	Roche	Sanofi

The Compensation Committee believes that using a consistent set of peers that have a similar scope and size enables shareholders to evaluate the compensation year on year and make pay-for-performance comparisons. Novartis therefore makes the commitment to shareholders to confirm benchmarking practices, including the peer group, each year.

Although Novartis is headquartered in Switzerland, more than a third of sales come from the US market, and the US remains a significant talent pool for the recruitment of executives by the company. All current Executive Committee members have either worked in or have extensive experience with the US. It is therefore critical that Novartis is able to attract and retain key talent globally, especially from the US.

For consideration of European and local practices, the Compensation Committee also references a cross-industry peer group of Europe-headquartered multinational companies selected on the basis of comparability in size, scale, global scope of operations, and economic influence to Novartis. Five of these companies focus exclusively on healthcare: AstraZeneca, GlaxoSmithKline, Novo Nordisk, Roche and Sanofi. Ten companies are selected from the STOXX® All Europe 100 Index representing multiple sectors: Anheuser-Busch InBev, Bayer, BMW, Daimler, Danone, Heineken, L'Oréal, Merck KgaA, Nestlé and Unilever.

While the global healthcare peer group remains the primary comparator group for pay decisions, this second cross-industry group, which remains unchanged since last year, is used as an additional reference point to assess wider market pay practices and to minimize any distortions in Novartis compensation practices and systems.

Executive Committee compensation policies

Executive Committee appointments compensation policy

The Compensation Committee takes a prudent approach to setting compensation. Consistent with that philosophy, when determining the compensation arrangements for a newly appointed Executive Committee member, the following principles are applied:

ELEMENT OF COMPENSATION	POLICY
Level	<p>The overall package should be market-competitive to facilitate the recruitment of global executive talent with deep expertise and competencies.</p> <p>The Compensation Committee will always intend to pay no more than it believes is necessary to secure the required individual.</p>
Annual base salary	<p>The Compensation Committee may appoint individuals who are new to a role on an annual base salary that is below the market level, with a view to increasing this toward a market level over a period of three to four years as an individual develops in the role.</p> <p>This prudent approach ensures pay levels are merit-based, with increases dependent on strong performance and proven ability in the role over a sustained period.</p>
Incentives	<p>The ongoing compensation package will normally include the key compensation elements and incentive opportunities in line with those offered to current Executive Committee members.</p> <p>In exceptional circumstances, higher Long-Term Incentive opportunities than those offered to current Executive Committee members may be provided, at the Compensation Committee's discretion. Performance measures may include business-specific measures tailored to the specific role.</p>
Pension and other benefits	<p>Newly appointed Executive Committee members are eligible for local market pension and other benefits in line with the wider senior employee group.</p>
Buy-outs	<p>The Compensation Committee seeks to balance the need to offer competitive compensation opportunities to acquire the talent required by the business with the principle of maintaining a strong focus on pay for performance.</p> <p>As such, when an individual forfeits variable compensation as a result of appointment at Novartis, the Compensation Committee may offer replacement awards in such form as the Compensation Committee considers appropriate, taking into account relevant factors.</p> <p>Relevant factors include the replacement vehicle (i.e. cash, restricted share units, restricted shares or performance share units), whether the award is contingent on meeting performance conditions or not, the expected value of the forfeited award, the timing of forfeiture (i.e. Novartis mirrors the blocking or vesting period of the forfeited award) and the leaver conditions, in case the recruited individual leaves Novartis prior to the end of the blocking or vesting period.</p> <p>The Compensation Committee will seek to pay no more than is required to match the commercial value or fair value of payments and awards forfeited by the individual.</p>
International mobility	<p>If individuals are required to relocate or be assigned from their home location to take up their position, relocation support may be provided in line with our global mobility policies (e.g., relocation support, tax equalization).</p>

Treatment of variable compensation for Executive Committee member leavers

The following table sets out the treatment of variable compensation for associates (including Executive Committee members) who leave Novartis during the performance or vesting period. All variable compensation is subject to malus and clawback provisions, including after termination of employment.

ELEMENT OF COMPENSATION	POLICY
Annual Incentive – cash element	<p>Retirement, termination by the company (for reasons other than performance or conduct), change of control, disability, death Pro-rata Annual Incentive is paid to reflect the portion of the year the individual was employed.</p> <p>Any other reason No Annual Incentive</p>
Annual Incentive – mandatory deferral into restricted shares / RSUs	If a participant leaves employment due to voluntary resignation or misconduct, unvested restricted shares and restricted share units (RSUs) are forfeited. All awards are subject to non-compete terms until the end of the three-year blocking date, starting from the date of grant.
Annual Incentive – voluntary restricted shares / RSUs / ADRs (US associates only)	Awards are not subject to forfeiture during the deferral period.
Long-Term Incentives (LTPP / LTRPP)	<p>Voluntary resignation or termination by the company for misconduct All of the award will be forfeited.</p> <p>Terminated by the company for reasons other than performance or conduct, and change in control due to divestment Awards vest on the regular vesting date, subject to performance, on a pro-rata basis for time spent with the company during the performance cycle. There is no accelerated vesting.</p> <p>Retirement For grants made until the end of 2018, awards vest on the normal vesting date, subject to performance, without the application of time pro-rating. For grants made to members of the Executive Committee from 2019 onward, awards will vest on the normal vesting date, subject to performance, with the application of time pro-rating. The timing of this change respects the one-year notice period required in the Executive Committee employment contracts.</p> <p>Death or long-term disability Accelerated vesting at target will be applied in the case of death and long-term disability.</p> <p>Non-compete agreement All awards are subject to non-compete terms against the healthcare peer group until the vesting date.</p>

Malus and clawback

Any incentive compensation paid to Executive Committee members is subject to malus and clawback rules. This means that the Board for the CEO, and the Compensation Committee for the other Executive Committee members, may decide – subject to applicable law – to retain any unpaid or unvested incentive compensation (malus), or to recover incentive compensation that has been paid or has vested in the past (clawback). This

applies in cases where the payout conflicts with internal management standards, including company and accounting policies, or violates laws.

This principle applies to both the short-term Annual Incentive and the Long-Term Incentive plans.

In 2017, malus or clawback for current or former Executive Committee members was not required.

Executive Committee performance management process

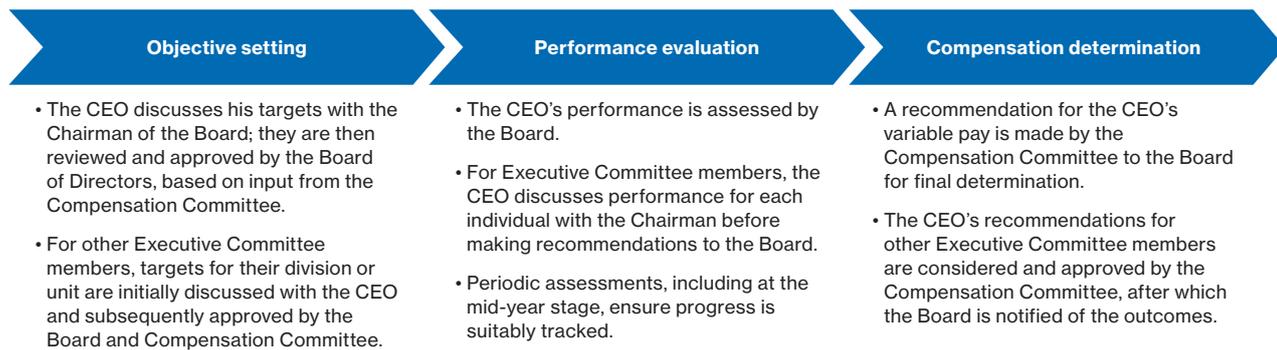
To foster a high-performance culture, the company applies a uniform performance management process worldwide based on quantitative and qualitative criteria, including our Values and Behaviors. All Novartis associates, including the CEO and other Executive Committee members, are subject to a formal three-step process: objective setting, performance evaluation and compensation determination. This process is explained below.

Performance targets are generally set before the start of the relevant performance cycle. There is a rigorous framework in place for establishing targets to ensure they are suitably robust and challenging, and align with the strategic priorities of the Group. The key factors taken into account when setting targets include:

- Novartis strategic priorities.
- Internal and external market expectations.
- Regulatory factors (e.g., new launches, patent expiries).
- Investment in capital expenditure.
- Values and Behaviors.

The targets are challenged at multiple stages before they are ultimately approved by the Board. In line with good governance practices, the Compensation Committee works to set targets that are ambitious and challenging but that do not encourage undue risk taking.

Following the end of the performance cycle, the Board and the Compensation Committee consider performance against the targets originally set. The CEO and Executive Committee members are not present while the Board and Compensation Committee discuss their individual performance evaluations. Prior to determining the final outcome, related factors – such as performance relative to peers, wider market conditions and general industry trends – are used to inform the overall performance assessment.



2017 Executive Committee compensation

System and performance outcomes

Annual base salary

Overview	<ul style="list-style-type: none">• The annual base salary is reviewed each year, taking into account the individual's role, performance and experience; business performance and the external environment; increases across the Group; and market movements.
2017 annual base salaries	Annual base salary (effective March 1, 2017): <ul style="list-style-type: none">• CEO: CHF 2 100 000 (no increase awarded during the year)• Other Executive Committee members: see details on page 138

Pension and other benefits

Overview	<ul style="list-style-type: none">• Pension and other benefits do not constitute a significant proportion of total compensation and are provided to Executive Committee members on the same terms as all other associates, based on country practices and regulations.• The company operates both defined benefit and defined contribution pension plans (see also Note 24 to the Group's consolidated financial statements).• Novartis may provide other benefits according to local market practice. These include company car provision, tax and financial planning, and insurance benefits.• Executive Committee members who are required to relocate internationally may also receive additional benefits (including tax equalization), in line with the company's global mobility policies.
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Annual Incentive – 2017

PLAN OVERVIEW

Grant formula	$\boxed{\text{Annual base salary}} \times \boxed{\text{Target incentive \%}} = \boxed{\text{Target Annual Incentive}}$																												
On-target opportunities	<ul style="list-style-type: none"> • CEO: 150% of annual base salary • Other Executive Committee members: 90% to 120% of annual base salary 																												
Performance measures	<ul style="list-style-type: none"> • Performance is measured against a balanced scorecard of quantitative targets and individual objectives; behavior is assessed against the Novartis Values and Behaviors. 																												
Balanced scorecard	<ul style="list-style-type: none"> • The 2017 balanced scorecard targets and achievements of the CEO are detailed on the next page. • Balanced scorecards for the other Executive Committee members have quantitative objectives (weighted 60%) specific to their division or business unit. For Group function heads, these are the same as the Group financial targets of the CEO. The individual objectives (weighted 40%) differ by role. They may include additional financial and strategic targets, such as EPS; growth, productivity and development initiatives; leadership; diversity; quality; and corporate responsibility initiatives, including access to medicine. They also include managing company reputational risk. 																												
Values and Behaviors	<ul style="list-style-type: none"> • The Annual Incentive also takes into account an assessment of the following six Values and Behaviors: innovation, quality, collaboration, performance, courage and integrity. • The Executive Committee members are expected to demonstrate these at the highest level. Further details on the Values and Behaviors can be found on page 18. 																												
Payout matrix	<ul style="list-style-type: none"> • The payout matrix equally recognizes performance against the balanced scorecard of financial and non-financial targets, and demonstration of our Values and Behaviors. The payout range is 0–200% of on-target opportunity based on performance, as shown below: <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2"></th> <th colspan="3">% Payout</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Performance vs. balanced scorecard</td> <td>Exceeding expectations</td> <td>60–90%</td> <td>130–160%</td> <td>170–200%</td> </tr> <tr> <td>Meeting expectations</td> <td>0–70%</td> <td>90–120%</td> <td>130–160%</td> </tr> <tr> <td>Partially meeting expectations</td> <td>0%</td> <td>0–70%</td> <td>60–90%</td> </tr> <tr> <td colspan="2"></td> <td>Partially meeting expectations</td> <td>Meeting expectations</td> <td>Exceeding expectations</td> </tr> <tr> <td colspan="2"></td> <td colspan="3">Values and Behaviors assessment</td> </tr> </tbody> </table>			% Payout			Performance vs. balanced scorecard	Exceeding expectations	60–90%	130–160%	170–200%	Meeting expectations	0–70%	90–120%	130–160%	Partially meeting expectations	0%	0–70%	60–90%			Partially meeting expectations	Meeting expectations	Exceeding expectations			Values and Behaviors assessment		
		% Payout																											
Performance vs. balanced scorecard	Exceeding expectations	60–90%	130–160%	170–200%																									
	Meeting expectations	0–70%	90–120%	130–160%																									
	Partially meeting expectations	0%	0–70%	60–90%																									
		Partially meeting expectations	Meeting expectations	Exceeding expectations																									
		Values and Behaviors assessment																											
Form of award	<ul style="list-style-type: none"> • At the end of the performance period, 50% is paid in cash and the remaining 50% is paid in Novartis restricted shares or RSUs, deferred for three years (see table on page 125 for details on leaver treatment). • Executives may choose to receive all or part of the cash portion of their Annual Incentive in Novartis shares or American Depositary Receipts (ADRs; US only) that will not be subject to forfeiture conditions. In the US, awards may also be delivered in cash under the US-deferred compensation plan. • Clawback and malus provisions apply to all Annual Incentive awards. 																												
Dividend rights, voting rights and settlement	<ul style="list-style-type: none"> • Restricted shares carry voting rights and dividends during vesting period. RSUs are of equivalent value but do not carry voting rights and dividends during vesting period. • Following the vesting period, settlement of RSUs is made in unrestricted Novartis shares or ADRs. 																												

DISCLOSURE OF CEO ANNUAL INCENTIVE

Principles	<p>Targets and achievements of the Annual Incentive are disclosed in arrears due to commercial sensitivity of the targets. However, to ensure that shareholders can understand the basis for CEO Annual Incentive awards, a detailed balanced scorecard is disclosed annually after the end of the performance cycle.</p>
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2017 CEO BALANCED SCORECARD

Balanced scorecard performance is measured in constant currencies to reflect operational performance that can be influenced. The Board uses a stringent process to set ambitious financial targets and incentivize superior performance.

	CEO achievements – 2017	Target	Achievement vs. target
Group financial targets (60%)	Group net sales	USD 48.4 billion	Above
	Corporate net result	USD -1.5 billion	Above
	Group net income	USD 7.0 billion	Above
	Group free cash flow as a % of sales	19%	Strongly above
	Overall assessment of Group financial targets in constant currencies		
Individual objectives (40%)	Additional financial targets In constant currencies, operating income and earnings per share, as well as core operating income and core earnings per share, were above target. Annual total shareholder return in USD was 20.4%. Pharmaceuticals, Alcon and Sandoz exceeded their market share growth targets, while Oncology was slightly below target.		Above
	Ensure world-class commercial execution The Innovative Medicines Division delivered strong performance. <i>Cosentyx</i> was well ahead of target, while <i>Entresto</i> was in line with expectations. Oncology sales were slightly below target, mainly due to a slower launch uptake of <i>Kisqali</i> . Sandoz sales were below target, impacted by industry pricing pressure in the US, partly offset by continued strong growth outside the US. Strong sales in biosimilars reinforced global leadership in the field.		Largely met
	Transform Alcon into an agile medical device company Alcon made good progress and returned to growth in 2017, with four quarters of successive growth. Sales and core operating income results were ahead of target. Seven key approvals were achieved (e.g., <i>AcrySof IQ ReSTOR +2.5 D Multifocal Toric IOL</i> launched in the US, <i>CyPass Micro-Stent</i> launched in the EU), and fundamentals in both the commercial organization and the supply chain were significantly improved.		Met
	Strengthen R&D Pipeline milestone targets were achieved or surpassed, including 16 major approvals and 16 major submissions. Novartis received six breakthrough therapy designations from the FDA. 15 positive readouts from major studies were delivered (e.g., CAR-T 19, RTH258, CANTOS and BAF312). Sandoz had five key filings of biosimilars. The Novartis Institutes for BioMedical Research launched an initiative to better explore new targets, showing positive results, and Global Drug Development efficacy improved significantly.		Strongly above
	Expand access to healthcare, and corporate responsibility Access to healthcare programs were expanded, with agreements now signed in six countries to bring a portfolio of 15 products to participating governments and organizations for the price of USD 1 per treatment, per month. Over USD 530 000 of such treatments were delivered in 2017. Global endorsement of a new action plan to accelerate leprosy elimination was reached. Novartis reached new milestones in efforts to eliminate malaria. USD 850 million in treatments have now been delivered since 2001, and Novartis initiated clinical trials for KAF156, a novel compound against multidrug-resistant malaria. Novartis signed its first US windfarm power purchase agreement to offset carbon emissions.		Met
	Create a stronger company for the future NTO, NBS and GDD delivered or over-delivered on productivity targets. Compliance and integrity were strengthened. The global compliance program Step Change was fully transitioned and embedded into the organization. Novartis announced the acquisition of Advanced Accelerator Applications SA in Oncology and invested in a number of digital technologies in R&D, commercial and operations. 99% of health authority quality inspections were deemed good or acceptable. Reputation improved further, with good progress in a number of important industry rankings. Culture, particularly collaboration across the organization, further improved. Talent was upgraded in all divisions, and diversity targets for leadership were met.		Met
	Overall assessment of individual objectives		
Overall assessment of CEO balanced scorecard			Above target

ANNUAL INCENTIVE PAYOUT FOR THE 2017 PERFORMANCE YEAR

CEO payout	In reaching its recommendation to the Board on the CEO's 2017 Annual Incentive payout factor, the Compensation Committee recognized that overall, he exceeded expectations. Overall, the Board approved an Annual Incentive payout of 125% of target, i.e. CHF 3 937 542 for the CEO.
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Long-Term Performance Plan – 2015-2017 cycle

The Long-Term Performance Plan (LTPP) is the first of two Long-Term Incentive plans, which rewards creation of long-term value and innovation, in line with our business strategy.

PLAN OVERVIEW

Grant formula	<p>At the start of the performance cycle, performance share units (PSUs) are granted under each of the Long-Term Incentive plans, as follows:</p> <div style="display: flex; align-items: center; margin: 10px 0;"> <div style="margin-right: 10px;">Step 1</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Annual base salary</div> <div style="margin: 0 10px;">x</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Target incentive %</div> <div style="margin: 0 10px;">=</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Grant value</div> </div> <div style="display: flex; align-items: center; margin: 10px 0;"> <div style="margin-right: 10px;">Step 2</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Grant value</div> <div style="margin: 0 10px;">/</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Share price</div> <div style="margin: 0 10px;">=</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Target number of PSUs</div> </div>
On-target opportunity and payout range	<p>On-target opportunities:</p> <ul style="list-style-type: none"> • CEO: 200% of annual base salary • Other Executive Committee members: between 140% and 190% of annual base salary <p>Payout range: from 0% to 200% of the on-target amount based on performance</p>
Form of award	<p>PSUs granted at the beginning of the cycle will vest at the end of the three-year performance cycle and are converted into Novartis shares.</p> <p>PSUs carry dividend equivalents that are paid in shares at the end of the cycle to the extent that performance conditions have been met.</p> <p>Payout formula:</p> <div style="display: flex; align-items: center; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Target number of PSUs</div> <div style="margin: 0 10px;">x</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Performance factor</div> <div style="margin: 0 10px;">+</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Dividend equivalents</div> <div style="margin: 0 10px;">=</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;">Realized PSUs</div> </div> <p>Policy information on page 125 provides details on the treatment of Long-Term Incentive awards for leavers.</p>

For the 2015-2017 cycle, the tables below provide details on the achievements and payouts for each of the two performance measures of the LTPP. The Novartis Cash Value Added performance measure (75% weighting) applies equally for the CEO and the other Executive Committee members. The innovation performance measure (25% weighting) is specific to the respective head of the division or unit, and is a weighted average of the divisions or units for the CEO and Group function heads.

PERFORMANCE MEASURE 1: NOVARTIS CASH VALUE ADDED (NCVA) FOR 2015-2017 CYCLE (75% OF LTPP)

Description	<p>NCVA incentivizes sales growth and margin improvement as well as asset efficiency. It is calculated as follows:</p> <div style="display: flex; align-items: center; margin: 10px 0;"> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;"> Operating income + Amortization, impairments, and adjusting for gains / losses from non-operating assets </div> <div style="margin: 0 10px;">-</div> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;"> Taxes - Capital charge (based on WACC¹) on gross operational assets </div> <div style="margin: 0 10px;">=</div> <div style="margin-right: 10px;">NCVA²</div> </div> <p>¹ WACC = weighted average cost of capital ² NCVA = (cash flow return on investment % - WACC) x gross operational assets in constant currencies</p> <p>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%). Accordingly, if performance over the three-year vesting period falls below 67% of target, no payout is made for this portion of the LTPP. If performance over the three-year vesting period is above 133% of target, payout for this portion of the LTPP is capped at 200% of target.</p>
Group performance outcome for the 2015-2017 cycle	<p>During the 2015-2017 cycle, Novartis delivered an NCVA of USD 8.3 billion, 4.4% ahead of a target of USD 7.9 billion in constant currencies. This was mainly due to a much stronger operational performance in 2017, driven especially by <i>Cosentyx</i> and <i>Entresto</i>, and Alcon returning to growth. Following the application of the 1:3 payout curve, the 104.4% achievement versus target generates a performance factor of 113% of target for this part of the LTPP.</p> <p>When determining the NCVA target for 2015-2017 in comparison to the 2014-2016 cycle, the Board took into account predominantly the loss of exclusivity of <i>Glivec/Gleevec</i>, a total of USD 2.8 billion of sales in 2017 compared to 2014. They also considered the impact of the negative currency effects (strengthening of the US dollar), which were partly offset by lower costs of capital resulting from lower interest rates.</p>

PERFORMANCE MEASURE 2: INNOVATION MEASURE FOR CYCLE 2015-2017 (25% OF LTPP)

<p>Description</p>	<p>Innovation is a key value driver for shareholders and is critical to our future. At the beginning of the cycle, the Research & Development Committee determines the most important target milestones, considering the following:</p> <ul style="list-style-type: none"> • The expected future potential revenue • The potential qualitative impact of research and development on science and medicine • The potential impact of research and development on the treatment or care of patients <p>At the end of the cycle, the Compensation Committee determines the payout factor based on the performance assessment made by the Research & Development Committee. Payout range 0–150% based on achievement of target milestones; payout range 150–200% for truly exceptional performance.</p>
<p>Group performance outcome for the 2015-2017 cycle</p>	<p>During the 2015-2017 performance cycle, Novartis delivered solid performance versus target on innovation, which accelerated over the three-year performance period. Some of the successes in the Innovative Medicines Division included approvals of <i>Cosentyx</i> (ankylosing spondylitis and psoriatic arthritis) and <i>Kisqali</i> (metastatic breast cancer), as well as the AMG 334 (migraine) submission. The serelaxin (acute heart failure) pivotal study readout was disappointing. Sandoz achievements included the rituximab US and EU filings, as well as epoetin alfa EU approval. Sandoz did not achieve approval in the US and EU for pegfilgrastim. Alcon achieved EU approval for the <i>Clareon</i> IOL with <i>AutonoMe</i> pre-loaded delivery system, and EU approval for <i>Dailies Total1</i> Multifocal. NIBR discovered several unanticipated targets using shRNA/CRISPR and phenotypic screens, translational clinical research and integrative genomics. The achievements made over the three-year performance cycle will have a positive impact on Novartis, the scientific and medical community, and patient outcomes.</p> <p>Following input from the Research and Development Committee, the Board approved an innovation performance factor for the Group of 115% of target.</p>

LTPP PAYOUT FOR THE 2015-2017 PERFORMANCE CYCLE

<p>CEO payout</p>	<p>Overall, the Board approved an LTPP payout of 114% of target for the CEO, i.e. CHF 5 068 337 (including CHF 446 250 of dividend equivalents accrued and CHF -66 618 in share price evolution over the performance cycle).</p>
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DISCLOSURE OF LTPP TARGETS

<p>Principles</p>	<p>LTPP targets (NCVA and long-term innovation) are considered commercially sensitive at the time of setting and therefore are not disclosed on a prospective basis. However, to ensure that shareholders are able to understand the link between pay and performance, we will disclose the targets, achievements and payout after the end of the performance cycle.</p>
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Long-Term Relative Performance Plan – 2015-2017 cycle

The Long-Term Relative Performance Plan (LTRPP) is the second of two Long-Term Incentive plans, which rewards competitive shareholder return relative to the global healthcare peer group.

PLAN OVERVIEW

Grant formula	<p>At the start of the performance cycle, PSUs are granted under each of the Long-Term Incentive plans, as follows:</p> <p>Step 1 Annual base salary x Target incentive % = Grant value</p> <p>Step 2 Grant value / Share price = Target number of PSUs</p>
On-target opportunity and payout range	<p>On-target opportunities:</p> <ul style="list-style-type: none"> • CEO: 125% of annual base salary • Other Executive Committee members: between 30% and 80% of annual base salary <p>Payout range: from 0% to 200% of the on-target amount based on performance</p>
Form of award	<p>PSUs granted at the beginning of the cycle will vest at the end of the three-year performance cycle and are converted into Novartis shares.</p> <p>PSUs carry dividend equivalents that paid in shares at the end of the cycle to the extent that performance conditions have been met.</p> <p>Payout formula:</p> <p>Target number of PSUs x Performance factor + Dividend equivalents = Realized PSUs</p> <p>Policy information on page 125 provides details on the treatment of Long-Term Incentive awards for leavers.</p>

RELATIVE TSR PERFORMANCE FOR CYCLE 2015-2017 (100% OF LTRPP)

Description	<p>Performance is based on our TSR relative to a global healthcare peer group. Outperformance of this peer group is a key indicator of the extent to which Novartis is delivering long-term value for shareholders.</p> <p>The peer group and payout matrix for the 2015-2017 performance cycle are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3">2015-2017 peer group (12 companies, excluding Novartis)¹</th> <th>Novartis position in the peer group</th> <th>Payout range² (% of target)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Abbot</td> <td style="text-align: center;">AbbVie</td> <td style="text-align: center;">Amgen</td> <td>Position 1 – 3</td> <td style="text-align: center;">160 – 200%</td> </tr> <tr> <td style="text-align: center;">AstraZeneca</td> <td style="text-align: center;">Bristol-Myers Squibb</td> <td style="text-align: center;">Eli Lilly & Co.</td> <td>Position 4 – 6</td> <td style="text-align: center;">100 – 140%</td> </tr> <tr> <td style="text-align: center;">GlaxoSmithKline</td> <td style="text-align: center;">Johnson & Johnson</td> <td style="text-align: center;">Merck & Co.</td> <td>Position 7 – 10</td> <td style="text-align: center;">20 – 80%</td> </tr> <tr> <td style="text-align: center;">Pfizer</td> <td style="text-align: center;">Roche</td> <td style="text-align: center;">Sanofi</td> <td>Position 11 – 13</td> <td style="text-align: center;">0%</td> </tr> </tbody> </table> <p>¹ From the LTRPP 2017-2019 performance cycle onward, a revised peer group of 15 global healthcare companies applies, as listed on page 123. ² From the LTRPP 2018-2020 performance cycle onward, there will be no vesting for below median performance.</p> <p>The payout matrix includes a significant reduction (including scope to reduce to nil) when Novartis does not outperform the majority of the companies in the group.</p> <p>At the end of the performance cycle, all companies are ranked in order of highest to lowest TSR in USD. The Compensation Committee uses its discretion to determine the payout factor within the ranges shown above, and takes into consideration factors such as absolute TSR, overall economic conditions, currency fluctuations and other unforeseeable economic situations.</p>	2015-2017 peer group (12 companies, excluding Novartis) ¹			Novartis position in the peer group	Payout range ² (% of target)	Abbot	AbbVie	Amgen	Position 1 – 3	160 – 200%	AstraZeneca	Bristol-Myers Squibb	Eli Lilly & Co.	Position 4 – 6	100 – 140%	GlaxoSmithKline	Johnson & Johnson	Merck & Co.	Position 7 – 10	20 – 80%	Pfizer	Roche	Sanofi	Position 11 – 13	0%
2015-2017 peer group (12 companies, excluding Novartis) ¹			Novartis position in the peer group	Payout range ² (% of target)																						
Abbot	AbbVie	Amgen	Position 1 – 3	160 – 200%																						
AstraZeneca	Bristol-Myers Squibb	Eli Lilly & Co.	Position 4 – 6	100 – 140%																						
GlaxoSmithKline	Johnson & Johnson	Merck & Co.	Position 7 – 10	20 – 80%																						
Pfizer	Roche	Sanofi	Position 11 – 13	0%																						
Group performance outcome for the 2015-2017 cycle	<p>Absolute annual TSR in USD was 20.4%. Absolute TSR over the three-year cycle was 0.1% in USD (-1.4% in CHF). Relative TSR performance in USD was rank number 12 out of 13 companies (rank number four among five European comparators).</p> <p>The Board awarded a performance factor of 0%.</p>																									

LTRPP PAYOUT FOR THE 2015-2017 PERFORMANCE CYCLE

CEO payout	Overall, the Board approved an LTRPP payout of 0% of target for the CEO, i.e. no payout.
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Realized compensation

To aid shareholders' understanding of the link between pay and short-term and long-term performance, the Compensation Committee has decided to disclose the realized compensation for the CEO individually and, for the first time, the other members of the Executive Committee on an aggregated basis. Disclosing realized compensation means that the Annual Incentive and the Long-Term Incentives are disclosed at the end of their respective performance cycles, reflecting **actual** payouts based on performance.

The total actual payout may vary year-on-year depending on multiple factors, including the composition of the Executive Committee and the tenure of its members (as new members may not have vested Long-Term Incentives), compensation increases, payout of variable compensation based on actual performance, share price fluctuations of Long-Term Incentives, and dividend equivalents.

2017 realized compensation for the CEO and other Executive Committee members

The table below reports the fixed and other compensation for the year, including the Annual Incentive for the 2017 performance year, as well as the realized Long-Term Incentives for the 2015-2017 performance cycle. The portion of the Annual Incentive paid in shares for the year 2017 is disclosed using the underlying value of Novartis shares at the date of grant, while the realized value of the LTTP and LTRPP payouts (including dividend equivalents) is calculated using the share price on the date of vesting.

	Currency	2017 annual base salary	2017 pension benefits	2017 Annual Incentive ¹		Long-Term Incentives		Other 2017 Compensation ²	Total realized compensation (incl. Share price movement) ⁴
		Cash (amount)	Amount	Cash	Equity ¹	LTTP 2015-2017 cycle	LTRPP 2015-2017 cycle	Amount ³	
						Equity (value at vesting date) ²	Equity (value at vesting date) ²		
Executive Committee members active on December 31, 2017									
Joseph Jimenez (CEO)	CHF	2 100 000	166 397	1 968 750	1 968 792	5 068 337	0	72 186	11 344 462
Aggregate realized compensation of the other 10 ECN members	CHF	9 310 740	1 675 398	5 841 107	7 743 069	8 355 739	0	3 248 419	36 174 472
Total⁵	CHF	11 410 740	1 841 795	7 809 857	9 711 861	13 424 076	0	3 320 605	47 518 934

See page 134 for 2016 comparative figures.

¹ The portion of the Annual Incentive delivered in equity is rounded up to the nearest share, based on the closing share price on the grant date (January 18, 2018) of CHF 82.90 per Novartis share and USD 86.41 per ADR.

² The amounts represent the underlying share value of the 160 733 PSUs vesting on January 21, 2018 to the CEO and other Executive Committee members for the performance cycle 2015-2017, inclusive of earned dividend equivalents for the three-year cycle. The value is determined using the closing share price on the last trading day (January 19, 2018) before the vesting date of CHF 83.38 per Novartis share and USD 86.94 per ADR. For two members of the Executive Committee, the vesting value is reported pro-rata based on the period they were an Executive Committee member during the performance cycle.

³ Includes any other perquisites, benefits in kind, international assignment benefits as per the global mobility policy (e.g., housing, international health insurance, children's school fees, tax equalization).

⁴ All amounts are before deduction of the social security contribution and income tax due by the Executive Committee member.

⁵ Amounts for Executive Committee members paid in USD were converted at a rate of CHF 1.00 = USD 1.015, which is the same average exchange rate used in the Group's 2017 consolidated financial statements.

The aggregate amount of realized compensation for the members of the Executive Committee shown in the table above is CHF 47 518 934 million. This figure is below past and expected future levels, despite the fact that the Annual Incentive and the LTTP paid out above target on average for the members, mainly due to the following factors:

- There was no payout for the LTRPP for any of the Executive Committee members in 2017, due to relative TSR over the 2015-2017 performance cycle.
- Five members of the Executive Committee either did not receive LTTP vesting or received limited LTTP vesting in 2017. This is because they were either recent external hires who did not receive a grant three years earlier, or internal promotions who received lower Long-Term Incentive grants based on their compensation prior to Executive Committee appointment.

At the start of the 2015-2017 performance cycle, the CEO was granted 48 626 target performance share units under the LTTP at a share price of CHF 84.75, for a total target grant value of CHF 4 121 054. As shown in the table above, the realized value of the LTTP for the CEO was CHF 5 068 337. Compared to the target value at the grant date, this includes CHF 567 651 relating to the performance over the cycle, CHF -66 618 due to share price movement and CHF 446 250 of dividend equivalents.

At the start of the 2015-2017 performance cycle, the other members of the Executive Committee were granted 80 325 target performance share units under the LTTP at a share price of CHF 84.75 (ADR price of USD 98.75 for Executive Committee members on a US employment contract at an exchange rate of CHF 1 = USD 1.040 at grant), for a total target grant value of CHF 6 887 395 (which is pro-rated for two Executive Committee members based on the period they were an Executive Committee member during the performance cycle). As shown in the table

above, the realized value of the LTPP for the other members of the Executive Committee was CHF 8 355 739. Compared to the target value at the grant date, this includes CHF 931 727 relating to the performance over the cycle, CHF -195 650 due to share price and foreign exchange movements and CHF 732 267 of dividend equivalents.

The column titled “Other 2017 Compensation” in the 2017 total realized compensation of the Executive Committee includes the following amounts:

- CHF 470 925 relating to the vesting of a buy-out award made to Richard Francis when he joined Novartis in 2014 to replace a time-vesting long-term incentive that he lost by leaving his previous employer upon joining Novartis.
- CHF 40 174 relating to the vesting of a buy-out award made to Paul Hudson to replace a time-vesting long-term incentive he lost upon joining Novartis in 2016, and CHF 729 047 relating to the vesting of a buy-out award made to him to replace a performance-vesting long-term incentive that he lost with his previous employer upon joining Novartis. This latter award was granted with performance conditions attached, to mirror the forfeited award. The performance conditions applied were the same as those for the LTPP for the 2014-2016 performance cycle (NCVA and long-term innovation).

All abovementioned buy-out awards were disclosed at the time of grant in previous Compensation Reports.

2016 realized compensation for the CEO and other Executive Committee members (comparative information)

For comparative purposes, 2016 realized compensation is provided below. The main reason for the higher aggregate realized pay in 2016 was the overlap in compensation for outgoing and newly appointed Executive Committee members in 2016. Three members who stepped down in 2016 received ongoing contractual payments during their notice periods while their successors were already in place.

	Currency	2016 annual base salary	2016 pension benefits	2016 Annual Incentive ¹	Long-Term Incentives		Other 2016 Compensation ²	Total realized compensation (incl. Share price movement) ⁴	
		Cash (amount)	Amount	Cash	Equity ¹	LTPP 2014-2016 cycle Equity (value at vesting date) ²	LTRPP 2014-2016 cycle Equity (value at vesting date) ²		Amount ³
Executive Committee members active on December 31, 2016 and members who stepped down during financial year 2016									
Joseph Jimenez (CEO)	CHF	2 093 417	160 283	1 417 500	1 417 510	4 950 334	442 013	75 628	10 556 685
Aggregate realized compensation of the other 13 ECN members⁵	CHF	8 778 483	1 675 484	4 825 680	6 516 148	12 190 674	733 656	9 684 126	44 404 251
Total⁶	CHF	10 871 900	1 835 767	6 243 180	7 933 658	17 141 008	1 175 669	9 759 754	54 960 936

¹ The portion of the Annual Incentive delivered in equity is rounded up to the nearest share, based on the closing share price on the grant date (January 17, 2017) of CHF 71.35 per Novartis share and USD 71.99 per ADR.

² The amounts represent the underlying share value of the PSUs vesting to Executive Committee members for the performance cycle 2014-2016, based on the closing share price on the vesting date (January 17, 2017) of CHF 71.35 per Novartis share and USD 71.99 per ADR, plus earned dividend equivalents during the three-year cycle.

³ Includes any other perquisites, benefits in kind, international assignment benefits as per the global mobility policy (e.g., housing, international health insurance, children's school fees, tax equalization). In addition, for the three Executive Committee members who stepped down during 2016, it includes, inter alia, their pro-rata compensation from the date they stepped down from the Executive Committee to December 31, 2016.

⁴ All amounts are before deduction of the social security contribution and income tax due by the Executive Committee member.

⁵ This represents realized compensation of ten Executive Committee members who were active on December 31, 2016 as well as three members who stepped down during 2016.

⁶ Amounts for Executive Committee members paid in USD were converted at a rate of CHF 1.00 = USD 1.015, which is the same average exchange rate used in the Group's 2016 consolidated financial statements.

The column titled “Other 2016 Compensation” 2016 total realized compensation of the Executive Committee includes the following amounts:

- CHF 1 059 750 relating to the vesting of a buy-out award made to Richard Francis when he joined Novartis in 2014 to replace a time-vesting long-term incentive that he lost by leaving his previous employer.
- CHF 191 300 relating to a cash buy-out award made to Paul Hudson when he joined Novartis in 2016 to replace a short-term incentive that he lost by leaving his previous employer.
- USD 844 250 relating to a cash buy-out award made to James Bradner when he joined Novartis in 2016 to replace lost entitlements at one of his former scientific companies.

All abovementioned buy-out awards were disclosed at the time of grant in previous Compensation Reports.

Compensation at grant value

In accordance with the Swiss Ordinance against Excessive Compensation in Listed Companies, Novartis continues to disclose total compensation at grant value for the CEO and other Executive Committee members. The tables below disclose for the CEO and other Executive Committee members:

- Fixed 2017 compensation (base salary and benefits).
- The actual cash portion and the deferred portion granted in equity of the 2017 Annual Incentive.
- LTPP and LTRPP 2017-2019 performance cycle awards, which are reported at target value at grant date under the **assumption** that the awards will vest at 100% achievement and excluding any share price movement and dividend equivalents that may be accrued over the performance cycle. The future payout will only be determined after the performance cycle concludes in three years (i.e., end of 2019), with a payout range of 0–200% of the target value.
- Other compensation for 2017, which includes other benefits and the full amount of compensation for lost entitlements from former employers, either paid in cash or granted in equity in the year.

To assess CEO pay for performance in 2017, including the Annual Incentive payout for the 2017 performance year and the Long-Term Incentive payouts for the 2015-2017 performance cycle, shareholders should refer to the 2017 realized compensation table on page 133.

2017 compensation at grant value for the CEO and other Executive Committee members

	Fixed compensation and pension benefits			Variable compensation					Total compensation paid, promised or granted 2017
	Actual compensation paid or granted for 2017			Long-Term Incentive 2017-2019 cycle grants at target					
	2017 annual base salary	2017 pension benefits	2017 Annual Incentive (performance achieved)	LTPP 2017-2019 cycle	LTRPP 2017-2019 cycle	Other 2017 compensation			
	Cash (amount)	Amount ¹	Cash	Equity (value at grant date) ²	PSUs (target value at grant date) ³	PSUs (target value at grant date) ³	Amount ⁴	Amount ⁵	
Currency									
Executive Committee members active on December 31, 2017									
Joseph Jimenez (CEO)	CHF	2 100 000	166 397	1 968 750	1 968 792	4 200 018	2 625 038	72 186	13 101 181
Steven Baert	CHF	775 000	154 652	663 000	663 034	1 170 069	468 056	119 218	4 013 029
F. Michael Ball	USD	1 120 000	203 546	873 600	873 605	1 792 047	784 043	293 289	5 940 130
James Bradner	USD	1 066 385	117 394	898 800	898 837	1 819 043	856 033	45 855	5 702 347
Felix R. Ehrat	CHF	928 333	137 334	223 200	892 833	1 581 045	558 028	15 034	4 335 807
Richard Francis	CHF	841 667	176 362	425 000	425 028	1 360 002	510 010	1 112 948	4 851 017
Paul Hudson	CHF	958 333	203 485	950 400	950 449	1 536 023	672 046	197 101	5 467 837
Harry Kirsch	CHF	1 038 333	153 854	800 800	800 814	1 768 053	832 012	58 710	5 452 576
Vasant Narasimhan	CHF	841 667	168 562	807 500	807 529	1 360 002	510 010	50 603	4 545 873
Bruno Strigini (until December 31, 2017) ⁶	CHF	898 333	210 613	225 000	225 074	1 440 057	540 048	50 000	3 589 125
André Wyss	CHF	875 000	154 339	0	1 232 060	1 408 021	528 061	70 526	4 268 007
Total⁷	CHF	11 410 740	1 841 795	7 809 857	9 711 861	19 381 014	8 859 147	2 080 458	61 094 873

Based on assumption of 100% payout at target. Actual payout (0–200% of target) will be known at the end of the three-year cycle in January 2020.

See page 136 for 2016 comparative figures.

¹ Includes mandatory employer contributions of CHF 4 336 for the CEO and CHF 50 227 for the other Executive Committee members paid by Novartis to governmental social security systems. This amount is out of total employer contributions of CHF 2 710 445 paid in 2017 for all Executive Committee members, and provides a right to the maximum future insured government pension benefit for the Executive Committee member.

² The portion of the Annual Incentive delivered in equity is rounded up to the nearest share, based on the closing share price on the grant date (January 18, 2018) of CHF 82.90 per Novartis share and USD 86.41 per ADR.

³ The amounts represent the underlying share value of the target number of PSUs granted to Executive Committee members for the performance cycle 2017-2019, based on the closing share price on the grant date (January 17, 2017) of CHF 71.35 per Novartis share and USD 71.99 per ADR.

⁴ Includes any other perquisites, benefits in kind, and international assignment benefits as per the global mobility policy (e.g., housing, international health insurance, children's school fees, tax equalization).

⁵ All amounts are before deduction of the social security contribution and income tax due by the Executive Committee member.

⁶ Bruno Strigini stepped down from the Executive Committee at the end of the 2017 business year. The LTPP and LTRPP grants for the 2017-19 performance cycle, included in the table above, will vest at the end of the performance cycle on a pro-rata basis per his contractual agreement and subject to the plan rules.

⁷ Amounts in USD for F. Michael Ball and James Bradner were converted at a rate of CHF 1.00 = USD 1.015, which is the same average exchange rate used in the Group's 2017 consolidated financial statements.

When comparing the Executive Committee compensation at grant in 2017 to the compensation at grant in 2016, it may be noted that the two members of the Executive Committee who joined in July 2016, Mr. Hudson and Mr. Strigini, were compensated in 2017 for the first time on a full year basis, including their Annual Incentive based on 2017 performance and full Long-Term Incentive grants.

2016 compensation at grant value for the CEO and other Executive Committee members

For comparative purposes, the table below provides the compensation at grant value for 2016.

	Fixed compensation and pension benefits			Variable compensation					Total compensation paid, promised or granted 2016
	Actual compensation paid or granted for 2016			Long-Term Incentive 2016-2018 cycle grants at target					
	2016 annual base salary	2016 pension benefits	2016 Annual Incentive (performance achieved)	2016-2018 cycle	LTPP 2016-2018 cycle	LTRPP 2016-2018 cycle	Other 2016 compensation		
Currency	Cash (amount)	Amount ¹	Cash	Equity (value at grant date) ²	PSUs (target value at grant date) ³	PSUs (target value at grant date) ³	Amount ⁴	Amount ⁵	
Executive Committee members active on December 31, 2016⁵									
Joseph Jimenez (CEO)	CHF	2 093 417	160 283	1 417 500	1 417 510	4 200 031	2 625 079	75 628	11 989 448
Steven Baert	CHF	721 667	147 442	554 730	554 746	1 050 048	350 042	139 159	3 517 834
F. Michael Ball (from February 1, 2016)	USD	1 012 308	60 574	553 574	553 603	1 742 284	762 269	4 040 748	8 725 360
James Bradner (from March 1, 2016)	USD	888 462	58 859	579 393	579 448	1 687 473	794 195	1 155 169	5 742 999
Felix R. Ehrat	CHF	915 833	148 122	202 400	809 680	1 564 033	552 002	14 852	4 206 922
Richard Francis	CHF	786 667	188 738	520 000	520 070	1 280 062	480 033	1 116 054	4 891 624
Paul Hudson (from July 1, 2016)	CHF	475 000	108 818	288 945	288 968	0	0	3 090 313	4 252 044
Harry Kirsch	CHF	1 025 000	141 510	736 450	736 475	1 751 009	824 018	51 361	5 265 823
Vasant Narasimhan (from February 1, 2016)	CHF	764 993	157 348	537 531	537 551	1 093 245	364 468	102 868	3 558 004
Bruno Strigini (from July 1, 2016)	CHF	445 000	109 057	211 863	211 910	1 074 442	268 670	45 696	2 366 638
André Wyss	CHF	830 834	146 289	0	1 275 025	1 360 001	425 040	95 595	4 132 784
Subtotal⁷	CHF	9 931 091	1 425 275	5 585 643	7 468 241	16 751 942	7 422 814	9 850 656	58 435 662
Executive Committee members who stepped down during 2016⁸									
David Epstein (until June 30, 2016)	USD	699 767	290 385	428 400	428 412	1 285 264	642 632	4 529 809	8 304 669
Mark C. Fishman (until February 29, 2016)	USD	175 154	107 706	195 000	0	0	0	126 454	604 314
Jeff George (until January 31, 2016)	USD	80 000	18 558	44 000	43 986	0	0	2 996 905	3 183 449
Subtotal⁷	CHF	940 809	410 492	657 537	465 417	1 266 270	633 135	7 540 067	11 913 726
Total⁷	CHF	10 871 900	1 835 767	6 243 180	7 933 658	18 018 212	8 055 949	17 390 723	70 349 389

Based on assumption of 100% payout at target. Actual payout (0-200% of target) will be known at the end of the three-year cycle in January 2019.

¹ Includes mandatory employer contributions of CHF 4 336 for the CEO and CHF 70 880 for the other Executive Committee members paid by Novartis to governmental social security systems. This amount is out of total employer contributions of CHF 3 263 989 paid in 2016 for all Executive Committee members, and provides a right to the maximum future insured government pension benefit for the Executive Committee member.

² The portion of the Annual Incentive delivered in equity is rounded up to the nearest share, based on the closing share price on the grant date (January 17, 2017) of CHF 71.35 per Novartis share and USD 71.99 per ADR.

³ The amounts represent the underlying share value of the target number of PSUs granted to Executive Committee members for the performance cycle 2016-2018, based on the closing share price on the grant date (January 20, 2016) of CHF 79.70 per Novartis share and USD 80.49 per ADR. For F. Michael Ball, the target PSUs were granted on February 1, 2016, at the closing share price of the same date (USD 77.27 per ADR).

⁴ Includes any other perquisites, benefits in kind, international assignment benefits as per the global mobility policy (e.g., housing, international health insurance, children's school fees, tax equalization), compensation granted for forfeited entitlements at previous employers and, for F. Michael Ball, a one-off performance award with target value at grant date of USD 3.9 million. In addition, for Executive Committee members who stepped down during 2016, it includes, inter alia, their pro-rata compensation from the date they stepped down from the Executive Committee to December 31, 2016 (see also note 8 below).

⁵ All amounts are before deduction of the social security contribution and income tax due by the Executive Committee member.

⁶ For those members who joined the Executive Committee in 2016, the information under the columns "annual base salary", "pension benefits" and "Annual Incentive" includes their pro-rata compensation from the date they joined the Executive Committee to December 31, 2016. The information under "LTPP" and "LTRPP" columns reflects their pro-rata compensation at target for the period to December 31, 2018.

⁷ Amounts in USD for Mr. Ball, James Bradner, David Epstein, Mark C. Fishman and Jeff George were converted at a rate of CHF 1.00 = USD 1.015, which is the same average exchange rate used in the Group's 2016 consolidated financial statements.

⁸ For those members who stepped down from the Executive Committee in 2016, the information under the columns "annual base salary", "pension benefits", "Annual Incentive", "LTPP" and "LTRPP" reflects the pro-rata value during 2016 for the period they were an Executive Committee member. The information under the column "Other 2016 compensation" includes, inter alia, the aggregated pro-rata value from the date they stepped down from the Executive Committee to December 31, 2016.

Interim update on the Alcon CEO's 2016 one-off performance award (performance cycle 2016-2018)

As disclosed in last year's Compensation Report, the Alcon CEO received a one-off award of 50 000 performance share units in February 2016, subject to the achievement of targets linked to the turnaround of Alcon during the 2016-2018 performance cycle. The targets of this one-off performance award are separate from the Annual Incentive or the LTPP and LTRPP targets.

The performance metrics are based on financial and non-financial targets of Alcon, including sales growth ahead of peers, core operating income growth ahead of sales growth, core operating income margin at the average of peers, and successful launches of new products. Should the Alcon CEO achieve these ambitious targets, Alcon will be performing at a very competitive level in the market.

After 2016, performance was tracking significantly below target. Toward the end of 2017 (the second year of the three-year performance cycle), Alcon began to close that gap versus target. Sales growth is accelerating and core operating income is growing ahead of sales. Innovation targets are being met and products in development are beginning to emerge.

We will disclose the targets and final payout of this Long-Term Incentive award after the full three-year performance cycle concludes and once we are able to assess Alcon's performance relative to peers.

2017 CEO and Executive Committee member total target compensation increases

During 2017, the CEO did not receive an increase in his total target compensation. Most other members of the Executive Committee were awarded increases of between 0% and 3%. Exceptions are outlined below. For context, the average of all Novartis employee annual base salary increases was 1% in Switzerland and 3% in the US.

Consistent with our Executive Committee appointments compensation policy (see page 124), four members were appointed to the Executive Committee in recent years with total target compensation below the market median level of compensation against comparable roles at external peer companies. In making its decisions, the Compensation Committee took into account the annual benchmarking analysis, for each of these roles, provided by Willis Towers Watson. The total target compensation for these members has been assessed over the last two to three years, and increases in line with proven performance have been made, as described below.

Vasant Narasimhan

Vasant Narasimhan was promoted to Global Head of Drug Development and Chief Medical Officer, and joined the Executive Committee in early 2016. The Board assessed his performance since appointment as outstanding. He strengthened the pipeline by receiving 11 development approvals and completing 13 major submissions. He also strengthened the interface between the Novartis Institutes for BioMedical Research and Global Drug Development. Therefore, for 2017, his annual base salary was increased by 6.3%, and his target aggregate incentive opportunity was increased from 290% of annual base salary to 320%. Overall, his 2017 total target compensation* increased by 14% compared to 2016. The 2018 compensation details for Dr. Narasimhan following his appointment as CEO, effective February 2018, are disclosed on page 143.

Steven Baert

Steven Baert was promoted to Head of Human Resources (HR) in 2014. During 2016, he played a leading role in the design and transformation of the Novartis operating model, the execution of the portfolio transformation, and various other key HR functions. In this context, Mr. Baert received an annual base salary increase of 4% at the onset of 2017, and his target aggregate incentive opportunity was increased from 290% of annual base salary to 310% for 2017. Overall, his 2017 total target compensation* increased by 9% compared to 2016.

André Wyss

André Wyss was promoted to President of Novartis Operations in 2016. He led Novartis Business Services (NBS) to perform notably ahead of target for the second consecutive year on all customer and financial performance metrics during 2016. He has strengthened the Novartis Business Services organization by improving the governance and optimizing processes. He has ensured great quality of service, as reflected by customer satisfaction scores. At the onset of 2017, his annual base salary was increased by 4% and his target aggregate incentive opportunity was increased from 310% of annual base salary to 320% for 2017. Overall, his 2017 total target compensation* increased by 6% compared to 2016.

Richard Francis

Richard Francis was appointed Sandoz CEO in 2014. He led his team during difficult circumstances to deliver each quarter in 2016 at a high level against ambitious targets in sales and profitability, and without jeopardizing sustainability. Biosimilars sales were significantly ahead of target following the filings for rituximab and etanercept in Europe, and they will continue to be key to the success of Sandoz. Pricing pressures persist on retail generics, especially in the US. Mr. Francis' annual base salary was increased by 6% at the onset of 2017, reflecting his strong leadership since his appointment and his development in the role during 2016. His target aggregate incentive opportunity remained unchanged at 320% of base salary for 2017. Overall, his 2017 total target compensation* increased by 6% compared to 2016.

* Total target compensation comprises annual base salary plus the value at target of the Annual Incentive and Long-Term Incentive awards.

Additional disclosures

This section provides additional disclosures, including information about the shareholdings of the CEO and the other Executive Committee members.

Number of equity instruments granted to the CEO and other Executive Committee members for financial year 2017¹

	Variable compensation		
	2017 Annual Incentive (performance achieved)	LTPP 2017-2019 cycle	LTRPP 2017-2019 cycle
	Equity (number) ²	PSUs (target number) ³	PSUs (target number) ³
Executive Committee members active on December 31, 2017			
Joseph Jimenez (CEO)	23 749	58 865	36 791
Steven Baert	7 998	16 399	6 560
F. Michael Ball	10 110	24 893	10 891
James Bradner	10 402	25 268	11 891
Felix R. Ehrat	10 770	22 159	7 821
Richard Francis	5 127	19 061	7 148
Paul Hudson	11 465	21 528	9 419
Harry Kirsch	9 660	24 780	11 661
Vasant Narasimhan	9 741	19 061	7 148
Bruno Strigini (until December 31, 2017) ⁴	2 715	20 183	7 569
André Wyss	14 862	19 734	7 401
Total	116 599	271 931	124 300

See page 140 for 2016 comparative figures.

¹ The values of the awards are reported in the table "2017 compensation at grant value for the CEO and other Executive Committee members" on page 135.

² Vested shares, restricted shares and/or RSUs granted under the Annual Incentive for performance period 2017

³ Target number of PSUs granted under the LTPP and LTRPP as applicable for the performance cycle 2017-2019

⁴ Bruno Strigini stepped down from the Executive Committee at the end of the 2017 business year. The LTPP and LTRPP grants for the 2017-19 performance cycle, included in the table above, will vest at the end of the performance cycle on a pro-rata basis per his contractual agreement and subject to the plan rules

Number of equity instruments granted to the CEO and other Executive Committee members for financial year 2016¹ (comparative information)

	Variable compensation			
	2016 Annual Incentive (performance achieved)	LTPP 2016–2018 cycle	LTRPP 2016–2018 cycle	Other
	Equity (number) ²	PSUs (target number) ³	PSUs (target number) ³	Equity/PSUs (number)
Executive Committee members active on December 31, 2016				
Joseph Jimenez (CEO)	19 867	52 698	32 937	0
Steven Baert	7 775	13 175	4 392	0
F. Michael Ball (from February 1, 2016)	7 690	22 548	9 865	50 000
James Bradner (from March 1, 2016)	8 049	20 965	9 867	3 607
Felix R. Ehrat	11 348	19 624	6 926	0
Richard Francis	7 289	16 061	6 023	0
Paul Hudson (from July 1, 2016) ⁴	4 050	0	0	34 502
Harry Kirsch	10 322	21 970	10 339	0
Vasant Narasimhan (from February 1, 2016)	7 534	13 717	4 573	0
Bruno Strigini (from July 1, 2016)	2 970	13 549	3 388	0
André Wyss	17 870	17 064	5 333	0
Subtotal	104 764	211 371	93 643	88 109
Executive Committee members who stepped down during 2016				
David Epstein (until June 30, 2016)	5 951	15 968	7 984	29 902
Mark C. Fishman (until February 29, 2016) ⁴	0	0	0	0
Jeff George (until January 31, 2016) ⁴	611	0	0	6 724
Subtotal	6 562	15 968	7 984	36 626
Total	111 326	227 339	101 627	124 735

¹ The values of the awards are reported in the table "2016 compensation at grant value for the CEO and other Executive Committee members" on page 136.

² Vested shares, restricted shares and/or RSUs granted under the Annual Incentive for performance period 2016

³ Target number of PSUs granted under the LTPP and LTRPP as applicable for the performance cycle 2016-2018

⁴ Paul Hudson, Mark C. Fishman and Jeff George were not granted LTPP and LTRPP awards for the performance cycle 2016-2018.

Share ownership requirements for the CEO and other Executive Committee members

Executive Committee members are required to own at least a minimum multiple of their annual base salary in Novartis shares or restricted share units (RSUs) within five years of hire or promotion, as set out in the table below.

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

FUNCTION	OWNERSHIP LEVEL
CEO	5 x base compensation
Other Executive Committee members	3 x base compensation

The determination of equity amounts against the share ownership requirements is defined to include vested and unvested Novartis shares or American depository receipts (ADRs), as well as RSUs acquired under the company's compensation plans. However, unvested matching shares granted under former matching programs such as the Leveraged Share Savings Plan (LSSP) and the Employee Share Ownership Plan (ESOP), and any unvested PSUs are excluded. The determination also includes other shares as well as vested options of Novartis shares or ADRs that are owned directly or indirectly by "persons closely linked" to an Executive Committee member. The Compensation Committee reviews compliance with the share ownership guideline on an annual basis.

Shares, ADRs and other equity rights owned by Executive Committee members at December 31, 2017¹

The following table shows, in alphabetical order after the CEO, the total number of shares, ADRs and other equity rights owned by the CEO and the other Executive Committee members and "persons closely linked" to them as of December 31, 2017.

As of December 31, 2017, no members of the Executive Committee, either individually or 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 Executive Committee held any share options to purchase Novartis shares, with the exception of André Wyss, who held 373 000 options, purchased on a private basis.

As of December 31, 2017, all members who have served at least five years on the Executive Committee have met or exceeded their personal Novartis share ownership requirements.

	Vested shares and ADRs	Unvested shares and other equity rights ²	Equity ownership level as a multiple of annual base salary ³	Unvested target PSUs (e.g., LTRPP / LTRPP) ⁴	Matching shares under the LSSP ⁵	Total at December 31, 2017
Joseph Jimenez (CEO)	287 699	62 693	14x	225 685	0	576 077
Steven Baert	10 955	21 410	3x	33 715	0	66 080
F. Michael Ball	0	7 690	1x	101 532	0	109 222
James Bradner	0	13 234	1x	34 130	0	47 364
Felix R. Ehrat	189 940	23 541	19x	79 764	19 950	313 195
Richard Francis	35 117	17 305	5x	40 453	0	92 875
Paul Hudson	6 616	6 498	1x	29 695	0	42 809
Harry Kirsch	64 769	30 309	8x	58 792	6 277	160 147
Vasant Narasimhan	16 279	58 887	7x	23 413	3 426	102 005
Bruno Strigini	27 871	39 844	6x	38 930	0	106 645
André Wyss	51 183	22 784	7x	40 456	0	114 423
Total	690 429	304 195		706 565	29 653	1 730 842

¹ Includes holdings of "persons closely linked" to Executive Committee members (see definition on page 142)

² Includes unvested shares and ADRs as well as other equity rights applicable for the determination of equity amounts for the share ownership requirements, as per the definition above

³ The multiple is calculated based on the full year annual base salary and the closing share price as at the end of the 2017 Financial Year. The share price on the final trading day of 2017 was CHF 82.40 / USD 83.96 as at December 29, 2017.

⁴ Target number of PSUs are disclosed pro-rata to December 31, 2017, unless the award qualified for full vesting under the relevant plan rules.

⁵ Matching shares under the Leveraged Share Savings Plan (LSSP) are disclosed pro-rata to December 31, 2017, unless the award qualified for full vesting under the plan rules. LSSP participation for Executive Committee members ceased in 2014 and no new LSSP awards have been made since then. Outstanding awards will vest five years from the grant date, subject to the LSSP plan rules.

Fixed and variable compensation

CEO and other Executive Committee members' annual base salary and variable compensation mix at grant value for financial year 2017.

	Annual base salary ¹	Variable compensation ²
Joseph Jimenez (CEO)	16.3%	83.7%
Steven Baert	20.7%	79.3%
F. Michael Ball	20.6%	79.4%
James Bradner	19.3%	80.7%
Felix R. Ehrat	22.2%	77.8%
Richard Francis	23.6%	76.4%
Paul Hudson	18.9%	81.1%
Harry Kirsch	19.8%	80.2%
Vasant Narasimhan	19.5%	80.5%
Bruno Strigini	27.0%	73.0%
André Wyss	21.6%	78.4%
Total	20.0%	80.0%

¹ Excludes pension and other benefits

² See table "2017 compensation at grant value for the CEO and other Executive Committee members" on page 135 with regard to the disclosure principles of variable compensation.

Other payments to Executive Committee members

During 2017, no other payments or waivers of claims other than those set out in the tables (including their footnotes) contained in this Compensation Report were made to Executive Committee members or to "persons closely linked" to them.

Payments to former Executive Committee members

Two former Executive Committee members stepped down in 2016 and ceased employment in 2017 following a 12-month contractual notice period. During 2017, they received pro-rata payments of salary, pension and other benefits, and an Annual Incentive totaling CHF 2 305 599 per their employment contracts.

Five former Executive Committee members received payments totaling CHF 5 988 375 in line with the company's Long-Term Incentive plan rules. The payments related to the vesting of LTPP for the 2015-2017 performance cycle, based on actual performance outcomes plus dividend equivalents. No payments were or will be made for the 2015-2017 LTRPP performance cycle.

In addition, in line with the company's global mobility policy, during 2017 three former members received tax equalization payments totaling CHF 718 151 related to incentive compensation granted during an international assignment.

No other payments (or waivers of claims) were made to former Executive Committee members or to "persons closely linked" to them during 2017.

Loans to Executive Committee members

Our policy does not allow loans to be granted to current or former members of the Executive Committee or to "persons closely linked" to them. Therefore no loans were granted in 2017, and none were outstanding as of December 31, 2017.

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.

Note 26 to the Group's audited consolidated financial statements

The total expense for the year for compensation awarded to Executive Committee and Board members, using International Financial Reporting Standards (IFRS) measurement rules, is presented in the Financial Report in Note 26 to the Group's audited consolidated financial statements (see page 240).

Award and delivery of equity to Novartis associates

During 2017, 15.4 million unvested restricted shares (or ADRs), RSUs and target PSUs were granted, and 10.7 million Novartis vested 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 1.98% of issued shares. Novartis delivers treasury shares to associates to fulfill these obligations, and aims to offset the dilutive impact from its equity-based participation plans.

2018 Executive Committee compensation

2018 CEO succession – compensation elements

Retiring CEO, Joseph Jimenez

In September 2017, Mr. Jimenez notified the Board that he had decided to retire, following eight years as CEO. He steps down as CEO on January 31, 2018, and will continue to support the Board and new CEO until his retirement date and the end of his 12-month notice period on August 31, 2018.

He will retire in full compliance with the terms of his employment contract and the Novartis incentive plan rules. He will receive his annual base salary and pro-rated Annual Incentive until August 31, 2018. There will be no increase to his target compensation in 2018. No new Long-Term Incentive awards will be made in January 2018.

In line with the incentive plan rules, there will be no accelerated vesting of his unvested equity. The deferred equity under the Annual Incentive for the performance years 2015 and 2016 will respectively vest in January 2019 and 2020 per the rules of the Deferred Share Bonus Plan. His Long-Term Incentives for the 2016-2018 and 2017-2019 performance cycles will vest on the normal vesting dates (January 2019 and January 2020, respectively), to the extent that the company performance conditions are met. As Mr. Jimenez meets the retirement conditions under the Long-Term Incentive plan rules, these two outstanding Long-Term Incentives will not be pro-rated in line with the plan rules. Clawback and malus, and non-compete restrictions as defined by the plan rules will apply.

No severance or non-compete payments will be made to Mr. Jimenez.

Appointed CEO, Vasant Narasimhan

Dr. Narasimhan will become CEO effective February 1, 2018. The Board determined Dr. Narasimhan's compensation by taking into account his experience and skills, CEO compensation levels at our 15 global healthcare peer companies, advice from the Compensation Committee's independent advisor, and the fact that this is his first Group CEO role.

As of February 1, 2018, Dr. Narasimhan's annual base salary will be CHF 1.55 million. Short- and Long-Term Incentive opportunities at target are a percentage of annual base salary as follows: Annual Incentive at 150% (CHF 2.32 million); LTTP at 200% (CHF 3.10 million); and LTRPP at 125% (CHF 1.94 million). Dr. Narasimhan's total target compensation is CHF 8.91 million. He will also receive pension and other benefits in line with all other Swiss-based employees.

The Board decided to keep Dr. Narasimhan's compensation strongly performance-based (83% is subject to performance conditions), with an emphasis on equity, to align his interests strongly with those of shareholders. His equity ownership requirement will be five times his annual base salary.

Dr. Narasimhan's initial compensation is 26% lower than that of his predecessor. It is the Board's intention to keep Dr. Narasimhan's annual base salary under review in the coming three to four years, with a view to increasing it subject to strong performance and proven ability in the role.

Dr. Narasimhan's employment contract and compensation are in line with the requirements of the Ordinance against Excessive Compensation in Listed Companies.

Other Executive Committee member appointments and departures

Retiring CEO Oncology, Bruno Strigini

Mr. Strigini stepped down from the Executive Committee on December 31, 2017. During his contractual notice period, which ends on December 31, 2018, he will receive his annual base salary and Annual Incentive in accordance with plan rules. No new grants of Long-Term Incentives will be made in 2018.

Mr. Strigini's outstanding Long-Term Incentives will be pro-rated for time employed during the performance period. There will be no accelerated vesting, as awards will remain subject to performance over the full cycle. Clawback and malus, and non-compete restrictions as defined by the plan rules will apply. No severance or non-compete payments will be made.

Appointed CEO Oncology, Elizabeth Barrett

Novartis announced the appointment of Elizabeth Barrett as the new CEO of Oncology, starting on February 1, 2018. Her annual base salary will be CHF 850 000, her target Annual Incentive of 100%, and her target Long-Term Incentives totaling 260%.

Elizabeth will receive compensation for loss of entitlements with her previous employer on a like-for-like basis, subject to evidence and in line with our Executive Committee members appointment compensation policy regarding buy-outs. The value of the replacement cash and equity awards will be determined on the date of her entry into the company. Therefore, details of this buy-out will be communicated in the 2018 Compensation Report.

Changes to the 2018 Executive Committee compensation system

In 2017, the Compensation Committee conducted a review of the Executive Committee compensation system, taking into account developments in market practice, and alignment with the strategic objectives and talent agenda at Novartis.

The Compensation Committee believes the compensation system supports the company's strategy and ensures a strong link between pay and performance.

In view of market changes since the current system was implemented in 2014, the Board and Compensation Committee have decided to make evolutionary changes to provide greater simplicity and further enhance the link between pay and performance. Changes are also based on constructive feedback from shareholders as part of our ongoing dialogue and consideration of their views. They will take effect from January 2018.

2018 Annual Incentive

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

From 2018, the CEO balanced scorecard metrics will be as follows:

CEO BALANCED SCORECARD – KEY METRICS

Group financial targets (60% weighting)

- Group net sales
- Group operating income
- Group FCF as % of sales
- Share of peers

Strategic objectives (40% weighting)

- Innovation
- Access to healthcare
- People and culture
- Data and digital

The payout schedule for the Annual Incentive will be amended to reflect the simplified structure as follows:

PERFORMANCE	PAYOUT
Outstanding	170–200%
Exceeds expectations	130–160%
Meets expectations	80–120%
Partially meets expectations	40–70%
Below expectations	0–30%

LTRPP payout for cycles starting in 2018 onward

The performance condition for the LTRPP has been made more stringent from the 2018-2020 performance cycle onward. Going forward, Executive Committee members will receive no payout if relative TSR is below the median of the companies in our global healthcare peer group. The Board retains the right to apply its judgment in determining the final payout, considering factors such as absolute TSR, currency fluctuations and overall economic conditions.

The payout matrix for the 2018-2020 performance cycle onward will be as follows:

NOVARTIS POSITION IN THE PEER GROUP	PAYOUT RANGE (% OF TARGET)
Positions 1–2	170–200%
Positions 3–5	130–160%
Positions 6–8	80–120%
Positions 9–16	0%

Change in Executive Committee retirement rules for the LTPP and LTRPP from 2019

In line with evolving governance practices, we have revised our Long-Term Incentive plan rules for retiring Executive Committee members, applicable to grants made from 2019 onward. Going forward, members who fulfill the retirement conditions under the plan rules will receive pro-rata vesting, rather than full vesting, of outstanding Long-Term Incentives. These incentives will continue to have performance conditions applied, and will vest at the end of the cycle on the normal vesting date. The timing of this change respects the one-year notice period required in the Executive Committee member employment contracts.

Two members of the Executive Committee (the CEO of Alcon and the General Counsel), who have already met the retirement conditions under the plan rules for LTPP and LTRPP, will be grandfathered under the current rules (with the exception of the one-off performance award granted to the CEO of Alcon in 2016, which vests pro-rata on retirement, as per his contract).

2018 Executive Committee total target compensation increases

To aid transparency and as part of our commitment to good governance, the Compensation Committee has decided to voluntarily disclose the 2018 Executive Committee total target compensation increases at the start of the year.

Details of the 2018 compensation for Mr. Jimenez as the retiring CEO and Dr. Narasimhan as the appointed CEO are provided on page 143.

The other members of the Executive Committee will not be awarded any increases for 2018 with the exception of two members for reasons set out below. For context, average associate merit increases were 1% in Switzerland and 3% in the US.

James Bradner

James Bradner was hired externally as the President of Novartis Institute of Biomedical Research (NIBR) in 2015. Since he joined the organization he has delivered strong performance and has played a key role in increasing cooperation between NIBR and Global Drug Development. His compensation was adjusted to recognize his performance and also catch up towards US peers (NIBR, as well as most of its competitors are based and headquartered in the US). In this context, Mr. Bradner will receive an annual base salary increase in line with other US associates of 3% as from March 1, 2018. He will not receive increases to target incentives. Overall, his 2018 total target compensation will be increased by 2.8% compared to 2017.

Paul Hudson

Paul Hudson was hired externally as the CEO of the Pharmaceuticals division in June 2016. He led the division to overachieve its targets for 2017, contributing substantially to Novartis' overall performance for the year. His leadership focused the division on new product performance, securing future revenue for Novartis. He has also enhanced the division's culture and engagement. His compensation was adjusted to recognize these factors, as well as to gradually bring his compensation in line with his global peers. In this context, Mr. Hudson will receive an annual base salary increase of 3.1% as from March 1, 2018, and his target Long Term incentive will be increased from 230% of annual base salary to 250% as from 2018. No changes will be made to his Annual Incentive. Overall, his 2018 total target compensation will be increased by 7.8% compared to 2017.

2018 Executive Committee compensation system review

The current Executive Committee compensation system has been in place since January 2014. Each year, the Board and Compensation Committee review it to ensure it is in line with business needs and evolving best practice. In 2018, the review will focus particularly on the performance measures for the Long Term Incentive, to ensure they are appropriately aligned to the company's strategy and goals of the new CEO. The Compensation Committee will engage in dialogue with Novartis' major shareholders and will consult its independent advisor on this topic.

2017 Board compensation

Board compensation philosophy and benchmarking

In line with market practice in Switzerland, the Board sets compensation for its members at a level that allows for the attraction 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. Each year at the AGM, shareholders are requested to approve, in a binding vote, the total compensation of the Board until the following AGM.

The Board sets the level of compensation for its Chairman and the other members to be in line with relevant benchmark companies, which include other large Switzerland-based multinational companies: ABB, Credit Suisse, LafargeHolcim, Nestlé, Roche 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 Swiss rules regarding Board and Executive Committee compensation related to the Ordinance against Excessive Compensation in Listed Companies), and under US law (due to the company's secondary listing on the New York Stock Exchange).

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

Compensation of the Chairman of the Board

As Chairman, 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.

For 2017, the Chairman voluntarily waived the increase in compensation to which he is contractually entitled, which is an amount not lower than the average annual compensation increase awarded to associates based in Switzerland (1% for 2017).

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 with effect from the 2014 AGM, and align our aggregate Board compensation with the current levels of other large Swiss companies.

2017 Board member annual fee rates

CHF	AGM 2017-2018 annual fee
Chairman of the Board	3 800 000
Board membership	300 000
Vice Chairman	50 000
Chair of the Audit and Compliance Committee	120 000
Chair of the following committees:	
• Compensation Committee	
• Governance, Nomination and Corporate Responsibilities Committee	
• Research & Development Committee	
• Risk Committee	60 000
Membership of the 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

In addition, the following policies apply regarding Board compensation:

- 50% of compensation is delivered in cash, paid on a quarterly basis in arrears. Board members may choose to receive more of their compensation in shares instead of cash.
- At least 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.

Board member total compensation earned for financial year 2017

The following tables disclose the 2017 Board member total compensation and prior-year comparative information. Board compensation is reported as the amount earned in the financial year.

	Board membership	Vice Chairman	Audit and Compliance Committee	Compensation Committee	Governance, Nomination and Corporate Responsibilities Committee	Research & Development Committee	Risk Committee	Shares (number) ¹	Cash (CHF) (A)	Shares (CHF) (B)	Other (CHF) (C) ²	Total (CHF) (A)+(B)+(C) ³
Board members active on December 31, 2017												
Joerg Reinhardt ⁴	Chair					Chair		24 407	1 900 000	1 900 000	4 336	3 804 336
Enrico Vanni	•	•	•	Chair	•			3 210	250 000	250 000	3 475	503 475
Nancy Andrews	•					•	•	2 311	180 000	180 000	–	360 000
Dimitri Azar	•		•			•		2 504	195 000	195 000	–	390 000
Ton Buechner	•						• ⁵	4 039	–	325 000	–	325 000
Srikant Datar	•		• ⁷	•			Chair ⁵	2 989	227 500	227 500	–	455 000
Elizabeth Doherty	•		Chair ⁵				• ⁵	2 591	217 500	217 500	–	435 000
Ann Fudge	•			•	•		•	2 504	195 000	195 000	–	390 000
Frans van Houten (from February 28, 2017)	•							1 305	75 000	175 000	–	250 000
Pierre Landolt ⁶	•				•			4 238	–	330 000	3 475	333 475
Andreas von Planta	•		•		Chair		• ⁸	2 989	227 500	227 500	4 336	459 336
Charles L. Sawyers	•				•	•		2 311	180 000	180 000	–	360 000
William T. Winters	•			•				4 238	–	330 000	–	330 000
Total								59 636	3 647 500	4 732 500	15 622	8 395 622

See next page for 2016 comparative figures.

¹ The shown amounts represent the gross number of shares delivered to each Board member in 2017 for the respective Board member's service period. The number of shares reported in this column represent: (i) the second and final equity installment delivered in February 2017 for the services from the 2016 AGM to the 2017 AGM, and (ii) the first of two equity installments delivered in August 2017 for the services from the 2017 AGM to the 2018 AGM. The second and final equity installment for the services from the 2017 AGM to the 2018 AGM will take place in February 2018.

² Includes an amount of CHF 15 622 for mandatory employer contributions for all Board members paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of CHF 298 206, and provides a right to the maximum future insured government pension benefit for the Board member.

³ All amounts are before deduction of the social security contribution and income tax due by the Board member.

⁴ No additional committee fees for chairing the Research & Development Committee were delivered to Dr. Reinhardt.

⁵ From February 28, 2017

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

⁷ Until February 27, 2017, Chair of the Audit and Compliance Committee

⁸ Until February 27, 2017, Chair of the Risk Committee

Board member total compensation earned for financial year 2016 (comparative information)

	Board membership	Vice Chairman	Audit and Compliance Committee	Compensation Committee	Governance, Nomination and Corporate Responsibilities Committee	Research & Development Committee	Risk Committee	Shares (number) ¹	Cash (CHF) (A)	Shares (CHF) (B)	Other (CHF) (C) ²	Total (CHF) (A)+(B)+(C) ³
Board members active on December 31, 2016												
Joerg Reinhardt ⁴	Chair					Chair		25 020	1 900 000	1 900 000	4 336	3 804 336
Enrico Vanni	*	*	*	Chair	* ⁵	* ⁶		3 291	250 000	250 000	4 336	504 336
Nancy Andrews	*					*	* ⁵	2 265	177 500	177 500	-	355 000
Dimitri Azar	*		*			*		2 567	195 000	195 000	-	390 000
Ton Buechner (from February 24, 2016)	*							1 864	-	250 000	-	250 000
Srikant Datar	*		Chair	*			*	3 159	240 000	240 000	-	480 000
Elizabeth Doherty (from February 24, 2016)	*		*					1 118	150 000	150 000	-	300 000
Ann Fudge	*			*	*	*	*	2 567	195 000	195 000	-	390 000
Pierre Landolt ⁷	*				* ⁸			4 553	-	335 000	3 475	338 475
Andreas von Planta	*		*		Chair ⁵		Chair	3 055	237 500	237 500	4 336	479 336
Charles L. Sawyers	*				*	*		2 369	180 000	180 000	-	360 000
William T. Winters	*			*				4 344	-	330 000	-	330 000
Subtotal								56 172	3 525 000	4 440 000	16 483	7 981 483
Board members who stepped down at the 2016 AGM												
Verena A. Briner (until February 23, 2016)	*						*	1 147	27 500	27 500	579	55 579
Subtotal								1 147	27 500	27 500	579	55 579
Total								57 319	3 552 500	4 467 500	17 062	8 037 062

¹ The shown amounts represent the gross number of shares delivered to each Board member in 2016 for the respective Board member's service period. The number of shares reported in this column represent: (i) the second and final equity installment delivered in February 2016 for the services from the 2015 AGM to the 2016 AGM, and (ii) the first of two equity installments delivered in August 2016 for the services from the 2016 AGM to the 2017 AGM. The second and final equity installment for the services from the 2016 AGM to the 2017 AGM will take place in February 2017.

² Includes an amount of CHF 17 062 for mandatory employer contributions for all Board members paid by Novartis to Swiss governmental social security systems. This amount is out of total employer contributions of CHF 387 308, and provides a right to the maximum future insured government pension benefit for the Board member.

³ All amounts are before deduction of the social security contribution and income tax due by the Board member.

⁴ Does not include EUR 1 045 800 paid to Joerg Reinhardt on January 31, 2016, for lost entitlements at his former employer. This amount is the third and final of three installments totaling EUR 2 665 051, which compensates him for lost entitlements at his former employer. The lost entitlements of EUR 2 665 051 were included in full on page 124 of the 2014 Compensation Report. No additional committee fees for chairing the Research & Development Committee were delivered to Dr. Reinhardt.

⁵ From February 24, 2016.

⁶ Until February 23, 2016.

⁷ According to Pierre Landolt, the Sandoz Family Foundation is the economic beneficiary of the compensation.

⁸ Until February 23, 2016, Chair of the Governance, Nomination and Corporate Responsibilities Committee.

Reconciliation between the reported Board compensation and the amount approved by shareholders at the AGM

CHF	Compensation earned for the respective 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 by shareholders at the respective AGM	Amount within the amount approved by shareholders at the respective AGM
	2017	January 1, 2017 to 2017 AGM	January 1, 2018 to 2018 AGM ²	2017 AGM to 2018 AGM	2017 AGM	2017 AGM
Joerg Reinhardt	3 804 336	633 334	633 334	3 804 336	3 805 000	Yes
Other Board members	4 591 286	713 334	773 334	4 651 286	4 720 000	Yes
Total	8 395 622	1 346 668	1 406 668	8 455 622	8 525 000	Yes
	2016	January 1, 2016 to 2016 AGM	January 1, 2017 to 2017 AGM	2016 AGM to 2017 AGM	2016 AGM	2016 AGM
Joerg Reinhardt	3 804 336	633 334	633 334	3 804 336	3 805 000	Yes
Other Board members	4 232 726	653 334	713 334	4 292 726	4 355 000	Yes
Total	8 037 062	1 286 668	1 346 668	8 097 062	8 160 000	Yes

¹ See page 147 for 2017 Board member compensation.

² To be confirmed and reported in the 2018 Compensation Report

Additional disclosures

Share ownership requirements for Board members

The Chairman is required to own a minimum of 30 000 Novartis shares, and other members of the Board are required to own at least 4 000 Novartis shares within three years after joining the Board, to ensure their interests are aligned with those of 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. As of December 31, 2017, all current and former members of the Board who were required to meet the minimum share ownership requirements did so. From the 2018 AGM, the requirement will be increased (see details on page 151).

Shares, ADRs and share options owned by Board members

The total number of vested Novartis shares and ADRs owned by members of the Board and “persons closely linked” to them as of December 31, 2017, is shown in the table below.

As of December 31, 2017, no members of the Board, either individually or 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 held any share options to purchase Novartis shares.

	Number of shares At December 31, 2017 ^{1,2}
Joerg Reinhardt	518 310
Enrico Vanni	20 101
Nancy Andrews	4 042
Dimitri Azar	13 094
Ton Buechner	4 428
Srikant Datar	37 239
Elizabeth Doherty	2 761
Ann Fudge	15 457
Frans van Houten	978
Pierre Landolt ³	61 029
Andreas von Planta	130 634
Charles L. Sawyers	7 763
William T. Winters	12 397
Total	828 233

¹ Includes holdings of “persons closely linked” to Board members (see definition on page 142)

² Each share provides entitlement to one vote.

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

Loans to Board members

Our policy does not allow loans to be granted to current or former members of the Board or to “persons closely linked” to them. Therefore no loans were granted in 2017, and none were outstanding as of December 31, 2017.

Other payments to Board members

During 2017, no payments (or waivers of claims) other than those set out in the Board member compensation table (including its footnotes) on page 147 were made to current members of the Board or to “persons closely linked” to them.

Payments to former Board members

During 2017, no payments (or waivers of claims) were made to former Board members or to “persons closely linked” to them, except for the payments reported in Note 26 to the Group’s audited consolidated financial statements (page 240).

2018 Board compensation

Board and committee membership fees

For the year 2018, the Chairman has voluntarily waived his contractual compensation increase entitlement, which is an amount not lower than the average annual compensation increase awarded to associates based in Switzerland.

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

The Board membership fee will decrease, and the committee membership fees will increase. The Board took into consideration external benchmarking information in the Swiss market and independent advice. The change is cost-neutral for the company, as the new fee structure results in the same average fee per Board member, excluding the Chairman. The total aggregated Board fees will decrease in 2018 due to the reduction in the number of Board members, following the departure of Mr. Pierre Landolt, who will reach the age limit for Board membership specified in the Articles of Incorporation.

CHF	AGM 2018-2019 annual fee
Chairman of the Board	3 800 000
Board membership	280 000
Vice Chairman	50 000
Chair of the Audit and Compliance Committee	130 000
Chair of the Compensation Committee	90 000
Chair of the following committees:	
• Governance, Nomination and Corporate Responsibilities Committee	
• Research & Development Committee	
• Risk Committee	70 000
Membership of the Audit and Compliance Committee	70 000
Membership of the following committees:	
• Compensation Committee	
• Governance, Nomination and Corporate Responsibilities Committee	
• Research & Development Committee	
• Risk Committee	40 000

Share ownership requirements

The Chairman's share ownership requirement of 30 000 shares will remain unchanged for 2018.

For the other Board members, and following a review of market practices at our peer group companies, the Board has decided to increase the share ownership requirement from 4 000 to 5 000 shares, effective from the 2018 AGM. The increase will also strengthen the alignment of interests with those of our shareholders.

To allow sufficient time for Board members to achieve the increased requirement, they will have four years from appointment to acquire the minimum 5 000 shares under the new policy. In addition, Board members will continue to be required to hold these shares for 12 months after retiring from the Board.

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).

Risk management principles

The Compensation Committee, with support from its independent advisor, reviews market trends in compensation and changes in corporate governance rules and best practices. Together with the Risk Committee, it also reviews the Novartis compensation systems to ensure that they do not encourage inappropriate or excessive risk taking, and instead encourage 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
- Balanced mix of short-term and long-term variable compensation elements
- Performance evaluation under the Annual Incentive includes an individual balanced scorecard and assessed Values and Behaviors
- Clawback and malus principles apply to all elements of variable compensation
- 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 from the end of employment (annual base salary and Annual Incentive of the prior year only) as per contract, if applicable
- Good and bad leaver provisions apply to variable compensation of leavers
- 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).

For share ownership requirements, please refer to page 141 – share ownership requirements for the CEO and other Executive Committee members.

Compensation decision-making authorities

Authority for decisions related to compensation is governed by the Articles of Incorporation, Board Regulations

and the Compensation Committee Charter, which are all published on the company website: www.novartis.com/investors/company-overview/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 in line with the Compensation Committee Charter. A summary of discussions and conclusions of each committee meeting is delivered to the full Board. 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	DECISION-MAKING AUTHORITY
Compensation of Chairman and other Board members	Board of Directors
Compensation of CEO	Board of Directors
Compensation of other Executive Committee members	Compensation Committee

Committee member independence

The Compensation Committee is composed exclusively of members of the Board who meet the independence criteria set forth in the Board Regulations. From the 2016 AGM, the Compensation Committee had the following four members: Ann Fudge, Srikant Datar, Enrico Vanni and William Winters. Mr. Vanni has served as a member since 2011 and as Chair since 2012.

Role of the Compensation Committee's independent advisor

The Compensation Committee retained Frederic W. Cook & Co. Inc., appointed in 2011, as its independent external compensation advisor until June 2017. During the year, as part of its normal governance practices, the Compensation Committee conducted a market review of compensation advisors, with a focus on companies with extensive experience in European markets. Following a tendering process and an analysis to ensure that there were no conflicts-of-interest, the Compensation Committee appointed Mercer Limited as its independent compensation advisor with effect from July 2017.

Compensation Committee meetings held in 2017

In 2017, the Compensation Committee held six formal meetings, and one additional joint meeting with the Research & Development Committee to review and endorse for approval by the Board the innovation targets and achievements of the LTPP and Annual Incentive. The Compensation Committee annual performance evaluation was undertaken by an external specialist firm (Egon Zehnder) as part of a wider review of the Board and each of its committees in 2017. In addition, the Compensation Committee reviewed its charter, as it does every year, and recommended updates to the Board to reflect the ongoing evolution of compensation governance practices.

Report of the statutory auditor on the Compensation Report of Novartis AG

To the General Meeting of Novartis AG, Basel

We have audited the 2017 CEO and other Executive Committee members' realized compensation on pages 133-134 and the 2017 CEO and other Executive Committee members' compensation at grant value on pages 135-136, and additional disclosures on pages 139-142 as well as the 2017 Board Compensation on pages 146-149 and the additional disclosures on page 150 of the accompanying Compensation Report of Novartis AG for the year ended December 31, 2017.

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 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, 2017 complies with Swiss law and articles 14-16 of the Ordinance.

PricewaterhouseCoopers AG



Martin Kennard
Audit expert
Auditor in charge

Stephen Johnson
Global relationship
partner

Basel, 23 January 2018