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Dear Shareholder,

Novartis achieved another strong operating result in 2013 and reinforced its leadership position as a diversified global healthcare company. With the launch of innovative therapies, a clear focus on growth markets, and productivity-oriented cost control, we increased sales and net income at constant currency exchange rates.

This success was due primarily to the continued dynamic development of our largest division, Pharmaceuticals, which has one of the industry’s most robust product portfolios. Our eye care division, Alcon, and our generics business, Sandoz, also contributed to the positive result. With the market launch of state-of-the-art eye surgery systems, Alcon strengthened its leading position in the fast-growing area of cataract operations, while Sandoz gained further market share amid accelerated demand for sophisticated biosimilars.

The smaller businesses – Vaccines and Diagnostics, and Consumer Health – also improved their operations and created a solid basis for their activities following a series of difficult quarters. Our goal is to strengthen Novartis as a diversified healthcare company in its individual fields of business and as a whole. Given our continuous effort to optimize our businesses, we divested our blood transfusion diagnostics unit in January 2014 for USD 1.7 billion.

As a science-based healthcare company dedicated to serving the interests of patients, Novartis strives for a broad and competitive product portfolio and strong positioning in long-term growth markets. To this end, we are continuing to pursue our long-standing and proven diversification strategy, which – alongside our focus on innovation – includes the development of affordable and nonpatented medicines.

Research and development of innovative and highly effective drugs that fulfill unmet patient needs remains central to our strategy and fundamental to our future success. With more than 6 000 scientists in our global research organization, Novartis aims to provide measurable benefits for patients and for society.

Due to the ongoing demographic change – which affects developing and emerging countries and coincides with growing urbanization and high environmental pollution – chronic and age-related disorders such as eye diseases, diabetes, cardiovascular conditions, and cancer are rising. This will continue to put a great strain on public health, the economy and the labor market.

In this context, we are systematically working on innovative compounds that are aimed at enhancing treatment results and increasing patient satisfaction. In the past year, we have achieved significant progress to this end with the introduction of medicines in the areas of oncology and difficult-to-treat lung diseases that enabled Novartis to broaden its product portfolio.

Novartis can only operate successfully if the company acts as a trustworthy, cooperative and transparent partner. With this in mind, we are continuously reviewing our corporate governance principles and compensation systems – and adapting them regularly in consultation with investors and other stakeholder groups, while aspiring to the leading industry standards. We have simplified our corporate governance structure to free up resources, reduce bureaucratic hurdles, cut costs, and accelerate decision-making. We have empowered management to make decisions that were previously made by the Chairman’s Committee, which has been disbanded. These changes have also led to adjustments to the compensation system of the Board of Directors. Finally, the Board of Directors has set up a Research and Development Committee that is designed to oversee our research and development strategy and organization.

To help establish efficient healthcare systems amid rapidly evolving patient needs, Novartis also intends to assume greater social responsibility. We are seeking to enhance dialogue and collaboration with governments and health organizations to expedite the development of more comprehensive, integrated and cost-effective medical services. The creation and production of nonpatented therapies and generics remain essential to this goal, as millions of people in developing and emerging countries have no sustainable access to safe and effective medical care and rely – more than ever – on affordable, yet high-quality medicines.

Moreover, we strive to accelerate specifically-designed social business programs in fast-growing regions of Asia, Africa and Latin America that enable us to benefit from economic growth, while helping to build a sustainable base for regional healthcare systems. We are also continuing our fight against malaria and we delivered more than 600 million Coartem and Coartem Dispersible treatments without profit since 2001.

The strategic positioning of Novartis and the performance of our approximately 136,000 associates give us confidence about our medium- and long-term prospects. Following the strong results of the past year, we are poised in 2014 to consolidate our leading position as a science-based and patient-oriented healthcare company, and to sustainably increase shareholder value through the continuous management of our diversified product portfolio. Although economic and regulatory conditions remain generally challenging, and price and competitive pressures persist, Novartis stands on firm ground and is ready to address future challenges. We will continue to make every effort to fulfill our core tasks in the interest of all stakeholder groups: to cure diseases, ease suffering, and enhance the quality of life for patients around the world.

I would like to thank you, our shareholders, for the trust you have placed in our company, and am pleased to propose a 7% dividend increase to CHF 2.45 at the next Annual General Meeting.