



Compensation at Novartis

Shape and Share our Future

Dear Colleague,

At Novartis, our mission is to discover new ways to extend and improve patients' lives. We strive to be a global leader in growing areas of healthcare, satisfy unmet medical needs, and help patients to live longer, healthier lives. We also want to create long-term value for our shareholders and to be an employer of choice for our people.

The Novartis compensation system supports our business strategy. Each year we determine specific short-term and long-term targets under our incentive plans that measure the success with which our strategy is being executed. Our company values and behaviors set the expectations for how our targets should be achieved. We then reward our associates based on how and the extent to which we achieve our targets.

Our compensation system offers competitive compensation that is aligned with industry practice and supports the realization of our vision to be a trusted leader in changing the practice of medicine. It has the support of the Executive Committee and the Board of Novartis. This brochure explains our compensation philosophy and system, including the details of our Short-Term Incentives (STI).

Sincerely,

Steven Baert
Global Head of Human Resources,
Novartis AG



Our
Compensation
Philosophy

We aim to ensure that associates are rewarded according to their success in implementing the company strategy and contributing to company performance.

Compensation design principles

The compensation system is designed to reflect the following key principles:

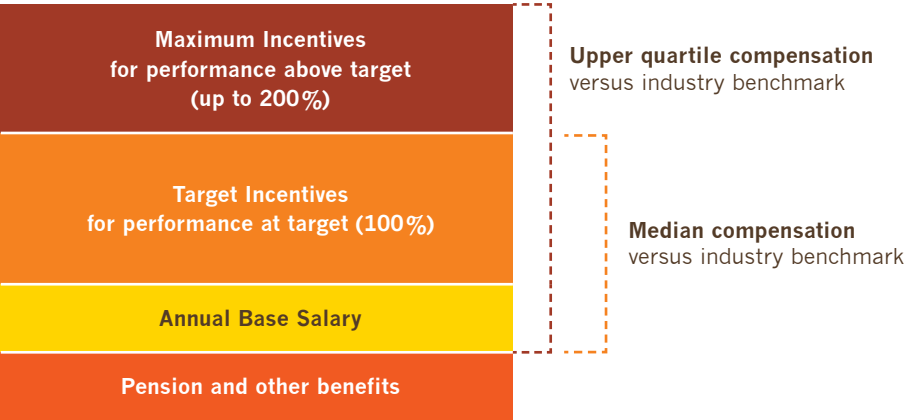
Pay for performance	Variable compensation is tied directly to the achievement of strategic company targets.
Balanced rewards to create sustainable value	Mix of targets based on financial metrics, individual objectives, values and behaviors.
Business ethics	The Novartis Values and Behaviors are an integral part of our compensation system.
Competitive compensation	Compensation competitive to relevant benchmarks ensures we are able to attract and retain key talents.

Benchmarking

To attract and retain key talent, it is important for us to offer competitive compensation levels. Associates meeting their objectives are generally awarded target compensation at a level comparable to the median level of similar roles in the external market (benchmark).

In the event of under- or over-performance, the actual compensation may be lower or higher than the benchmark median.

Compensation at Novartis – Industry benchmark





Compensation Overview

Total compensation levels are derived from GJFA¹ bands. These levels are based on relevant geographical market data and reviewed regularly.

GJFA bands

At Novartis, we have eight “GJFA bands”. Positions are evaluated according to four criteria based on role content, scope and complexity.

Band assignment criteria

- Business impact
- Functional or technical knowledge
- Influence
- Decision-making

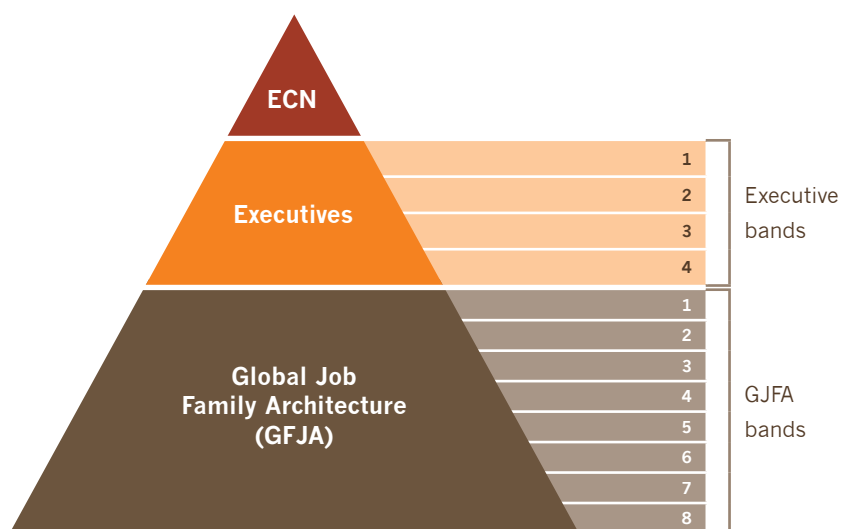
This method ensures roles are allocated a similar band for all associates worldwide in the same or similar positions.

¹ All associates who are not part of the Executive bands (so-called NTL-Novartis Top Leaders) are called GJFA associates (Global Job Family Architecture=our internal global job evaluation system)

GJFA bands within the overall Novartis job structure

Total compensation levels are derived from GJFA bands. These levels are defined based on relevant market data and reviewed regularly. Our compensation system ensures internal equity across associates within the Novartis Group and also provides competitive compensation versus the external markets. Each position within the Novartis Group has been evaluated according to governance rules.

Novartis job structure and job bands



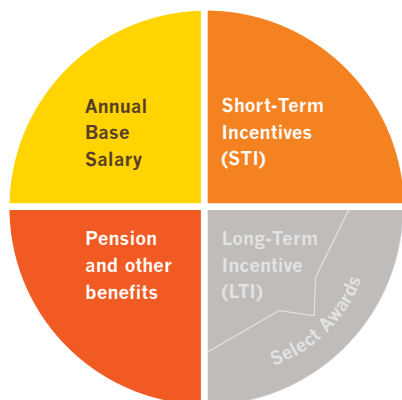
Compensation elements

Each associate (GJFA) has a total compensation package made up of three elements:

- **Annual Base Salary (ABS)**
- **Pension and other benefits**
- **Short-Term Incentives**
(with a one-year performance period)

For upper levels there is a fourth element:

- **Long-Term Incentive “Select Awards”**
(based on a one-year performance period with a three-year vesting period)





Compensation
Elements

The Novartis compensation system consists of fixed and variable elements. Variable elements are paid subject to the meeting of performance conditions.

Overview

Purpose and key characteristics of associate compensation

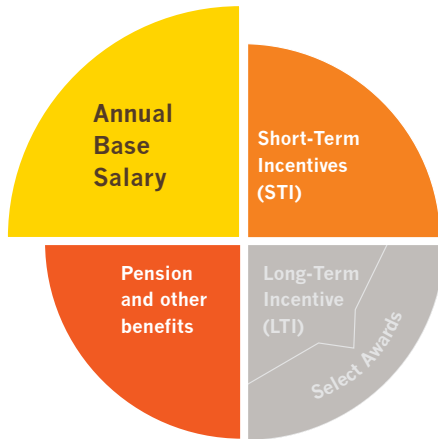
Incentive type		Purpose	Performance period	Performance measures	Delivery & special features
Plan element					
Annual Base Salary		Reflects the associate's responsibilities, job characteristics, experience and required skill set	n/a	n/a	Cash
Pension and other benefits		Establishes a level of security for associates and their dependents tailored to local market practice and regulations	n/a	n/a	Country-specific
Short-Term Incentives	Annual Incentive	Rewards performance against key short-term targets, values and behaviors	1 year	Individual and business performance	Cash

1.Fixed compensation

Annual Base Salary

The level of Annual Base Salary reflects each associate's key areas of responsibilities, job characteristics, required experience and skill sets. It is paid in cash, typically monthly or bi-weekly.

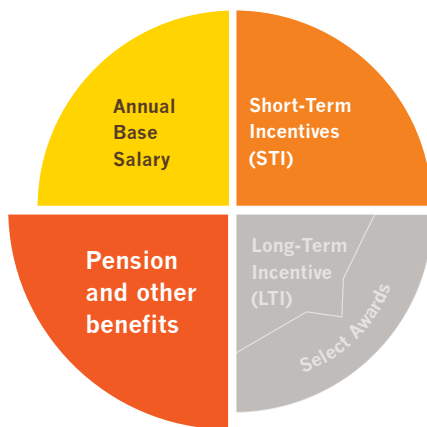
Annual Base Salary is reviewed annually, and any increase reflects both merit based on performance as well as market movements. It serves as the base amount for determining variable compensation and it is positioned around the market median.



Pension and other benefits

The primary purpose of pension and insurance plans is to establish a level of security for associates and their dependents with respect to age, health, disability and death.

The level is comparable to median local market practices and regulations and may be directly linked to the job band of the role. Benefits programs are balanced and aligned with global strategy and principles but with local flexibility. Associates who have been transferred on an international assignment also receive benefits (such as tax equalization) in line with the company's international assignment policies.



Please contact your local Human Resources department for more information.

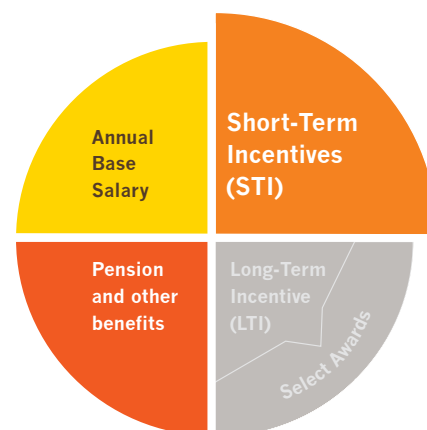
2. Variable compensation

Short-Term Incentives

Rewarding annual performance

The Short-Term Incentive (STI), also known as the Annual Incentive (AI), is a key vehicle through which the Novartis Group rewards its associates on the basis of a combination of business, team and individual results. These are measured against predetermined annual objectives as well as assessed values and behaviors (see “Performance measures” below). It is expressed as a percentage of Annual Base Salary and paid 100% in cash.

It allows the associate to share the financial success of Novartis. The target percentage is defined by the relevant GJFA band. The maximum payout is capped at 200% of the target.



Performance measures

A standard company-wide methodology is applied to determine the amount paid out under the STI. Payouts are based on a multiplicative combination of individual performance and business performance, including management discretion.

Individual Performance Factor (IPF)

The IPF is the first of the two multipliers in the STI payout calculation. It is determined by the individual objectives and the Novartis Values and Behaviors:

Individual objectives

The individual objectives differ for each associate depending on their responsibility and may include financial and non-financial targets. They are set during a discussion between the associate and his/her direct operational manager at the beginning of the performance period.

Novartis Values and Behaviors

The second element used to determine the IPF payout ensures the associate's performance is achieved in line with the highest standards of business conduct, as outlined in the Novartis Values and Behaviors. The Novartis Values and Behaviors are an essential element in the annual assessment of Novartis Group associates and are outlined below:

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

Payout matrix

Individual Performance Factor				
Individual objectives	3 Exceeded	3.1 50%–80%	3.2 110%–130%	3.3 130%–150%
	2 Fully met	2.1 0%–70%	2.2 90%–110%	2.3 110%–130%
	1 Partially met	1.1 0%	1.2 0%–70%	1.3 50%–80%
		1 Partially met	2 Fully met	3 Exceeded
Novartis Values and Behaviors				

Business Performance Factor (BPF)

The BPF is the second of the two multipliers in the STI payout calculation. The BPF is comprised of several business Key Performance Indicators (KPIs) with various weights. The KPIs are defined and agreed upon annually.

Determining your STI payout

To calculate your STI payout you will need the following formula:

Annual Base Salary¹ x Target Incentive% x IPF% x BPF% = Payout value²

¹ based on ABS from Dec. 31, year N-1 for the entire period unless job change during the period.

² payout will be made 100% in cash

Please note: In case of a job change during the year of the performance period, the new ABS and new target percentage are pro-rated to the number of days in each role.
Prorations are calculated in case of transfers, promotions, demotions, changes in employment level, certain leaves of absence, target incentive changes and so forth.

STI example calculation

Assumptions:
Associate with a Short-Term Target Incentive percentage of 10%
Annual Base Salary (ABS) = 100,000
Individual Performance Factor (IPF) = 120%
Business Performance Factor (BPF) = 110%

Step 1: Example calculation of STI at target
100,000 x 10% = 10,000

Step 2: Example calculation of STI payout including performance measures
10,000 x 120% x 110% = 13,200

→ The associate will receive 13,200 as a Short-Term Incentive in cash.

Please note: Income is taxable. Depending on the associate’s country of residence and domicile, income is subject to tax and social contributions. The example is for illustration purposes only.

STI Overview

	Annual Base Salary	Short-Term Incentive (10%)	Total
Target value	100,000	10,000	110,000
IPF (example only)		120%	
BPF (example only)		110%	
STI payout factor (IPF x BPF) (example only)		132%	
Value at payout	100,000	13,200	113,200

Legal disclaimer

Novartis will only implement programs that are fully consistent with all applicable laws and regulations as well as with Novartis company policies.

This brochure is designed to provide a general overview of the Novartis compensation structure. Please note that the Novartis incentive structure is subject to changes at any time as a result of Board/ECN decisions.

All examples given in this brochure are for illustration purposes only and neither represent a recommendation by Novartis nor a guaranteed or certain return on the securities described. Actual awards in any particular jurisdiction may differ from the awards described in this brochure. For example, in certain jurisdictions some awards are made as retention share bonus awards. The Legal documents comprising the awards take precedence over this brochure. Participants cannot base any claim or action on the content of this general brochure. Novartis reserves the right to amend or terminate its programs at any time, with or without notice.

