



The New Novartis Incentive System

NHPL, Hyderabad

June 2016



Why we are changing

Increasing pressure from shareholders to:

- influence compensation
- gain transparency on performance multipliers
- implement a proper variation in compensation in good versus bad performance years
- link vesting of equity to performance

Changes in external environment led to:

- need to adjust incentives to current trends in order to continue to attract and retain talented people
- pressure from external compensation initiatives and advisors to change performance metrics, to avoid interconnectivity between plans and to focus on long term, pipeline and quality

Business strategy led to:

- strong need for alignment to facilitate associates understanding & mobility
- use it as an opportunity for global recalibration and harmonization.

In January 2014, Novartis introduced a new compensation structure for the ECN members to align internal programs to market practice and shareholder requirements.

Over time our executive & non-executive compensation programs became inadequate and highly complex.

Need to adapt & align the Novartis compensation system globally.

New design principles

Design criteria:

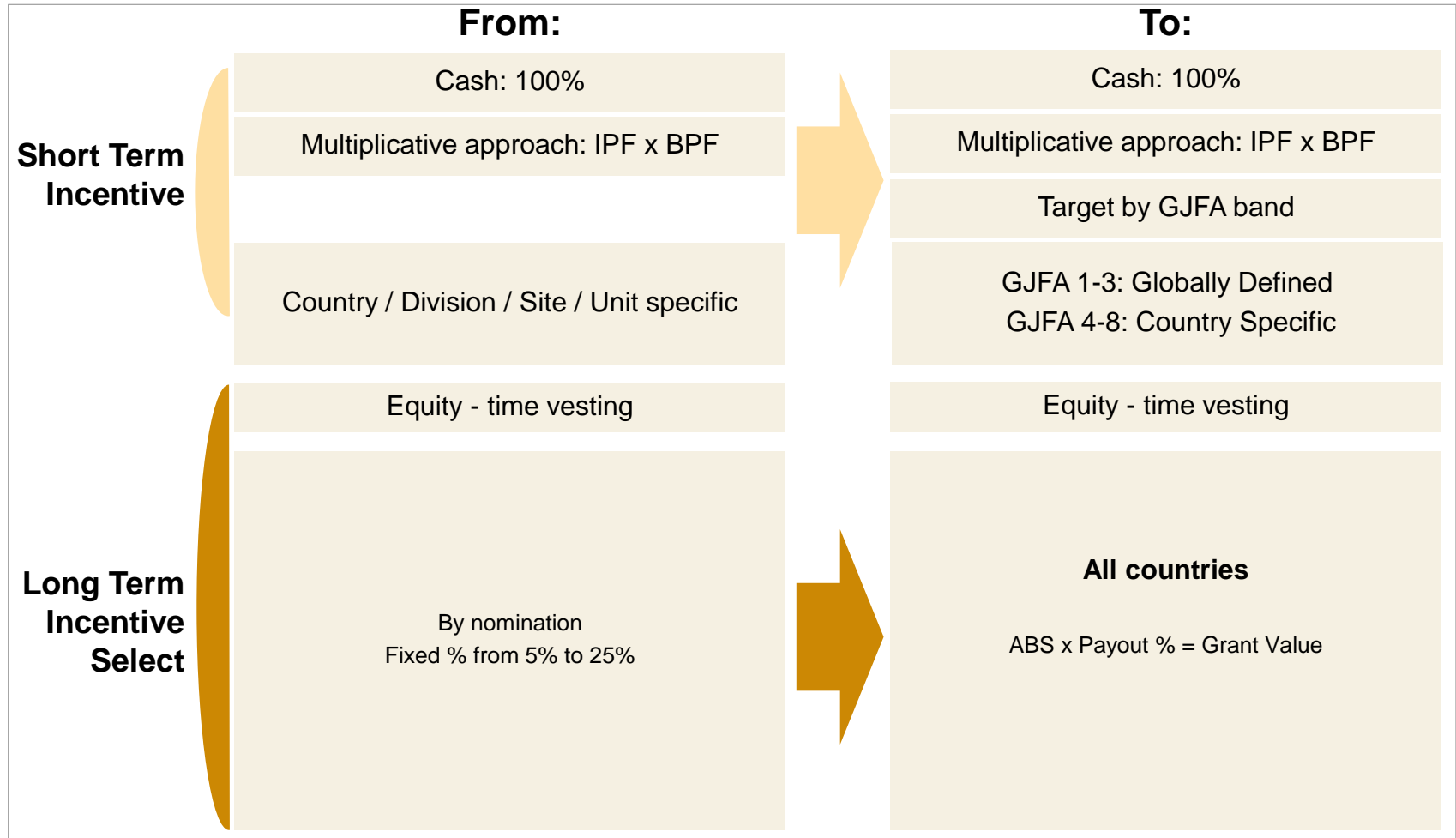
- **Alignment** of the new compensation structure with the overarching Novartis business strategy and the Novartis Human Resources strategy.
- **Consistency.** One consistent **global approach for the entire organization.** Applied across all positions, divisions, regions and bands.
- **Competitiveness.** Offer competitive packages at all locations, benchmarked against peer companies.
- **Intra-company mobility & cross-divisional moves.** Make it easier for employees to progress in their careers at Novartis – across division and country lines.
- **Easy-to-use platform.** Create a simplified, harmonized platform that allows for straightforward governance.

Our pay philosophy remains unchanged:

- Offer **competitive total direct** pay, i.e. base salary + incentives
- **Pay for performance** and
- **Shared success** between employer and associate

What is changing between 2016 and 2017

Old vs. new GJFA compensation system

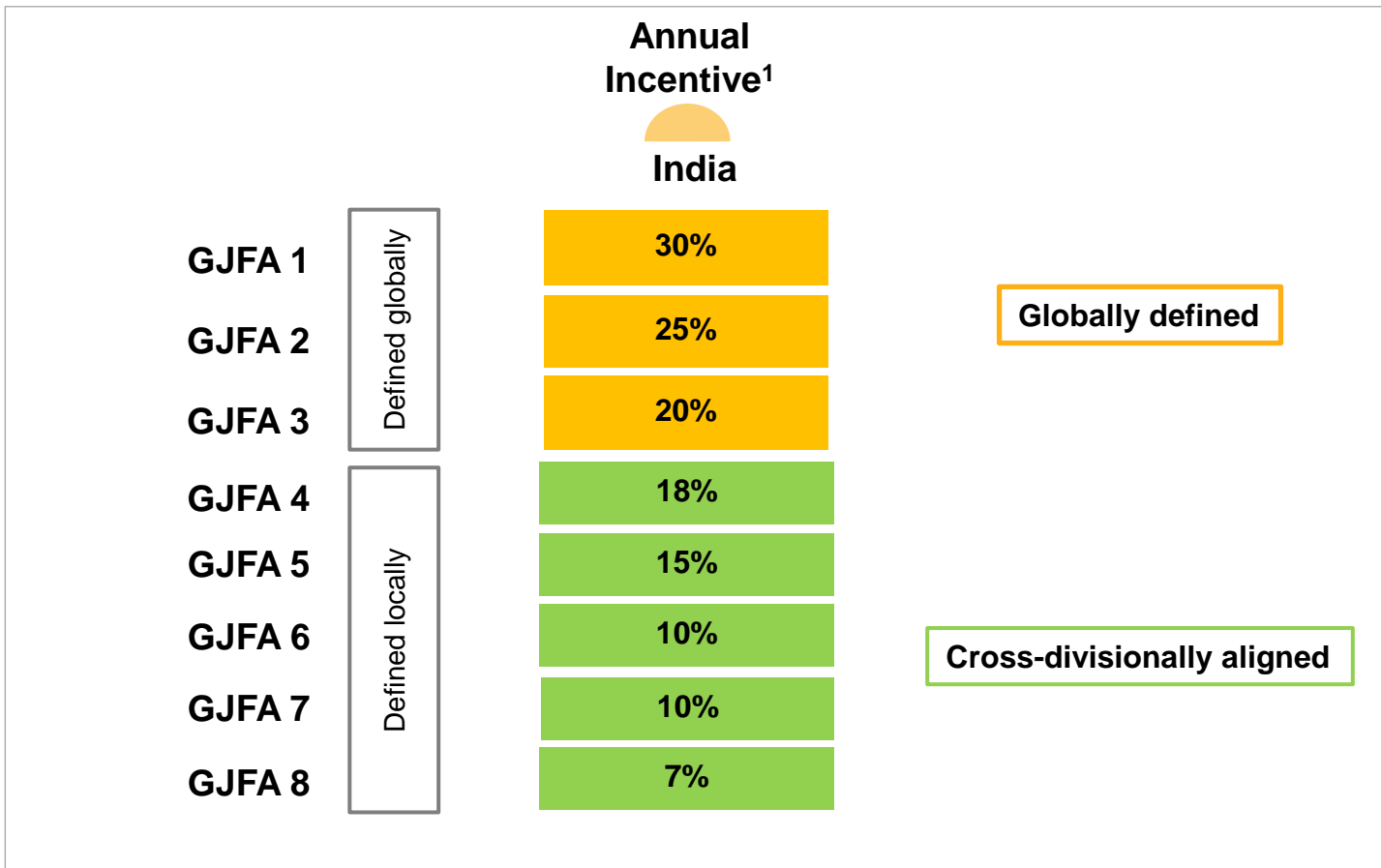


Legend: IPF = Individual Performance Factor BPF = Business Performance Factor
ABS = Annual Base Salary

Short-Term Incentive (STI)

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For GJFA population (non-sales incentive eligibles)



¹ Excludes sales incentive plan
Applicable from Jan 2017

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For GJFA population (non-sales incentive eligibles)

Purpose	Is also known as annual incentive (AI) or bonus. Recognizes short term / annual performance.
Multiplicative approach	Payout formula unchanged – multiplicative approach with leveraging impact on individual and business performance
Target %	GJFA 1-3: Globally Defined GJFA 4-8: Cross- divisionally aligned in India
Formula	$\text{Payout} = \text{ABS} \times \text{Target (\%)} \times \text{IPF (\%)} \times \text{BPF (\%)}$
Performance measures	IPF and BPF
<ul style="list-style-type: none"> Individual Performance Factor 	IPF is based on the result of the yearly performance evaluation (see table below).
<ul style="list-style-type: none"> Business Performance Factor 	BPF is an indicator of a division's/unit's performance vs target
Delivery	100% cash
Max Payout	Capped at 200% of target %.

Average Funding budget at disposal of each manager to make reward decisions - 107.5% (*new, was previously at 105%*)

Legend: IPF = Individual Performance Factor
BPF = Business Performance Factor
ABS = Annual Base Salary

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%
Individual Performance Factor	1 Partially met		2 Fully met	3 Exceeded
	Novartis Values and Behaviors			

Short-Term Incentive (STI)

Transition Approach

Scenario	Approach
GJFA based STI target % is the same as current STI target %	No change
GJFA based STI target % is lower than current STI target %	Differential STI Amount will be added back to ABS(marginal increase in CTC) Please refer to the example below

➤ Example

GJFA Band 4

Old MIP %	20
New MIP %	18

Old CTC Break Up

ABS (as on 1st April 2016)	TFP (as on 1st April 2016)	Current MIP%	MIP amt (as on 1st April 2016)	CTC (as on 1st April 2016)
2000000	2152204	20	400000	2552204

New ABS(As on 1st Jan 2017)	New TFP(As on 1st Jan 2017)	New MIP %	New MIP Amt(As on 1st Jan 2017)	New CTC(As on 1st Jan 2017)
2040000	2195248	18	367200	2562448

0.40%

Short-Term Incentive (STI)

Timelines

Activities	Timelines
NNIS Orientation session to all managers by HRBPs	1 st June - 17 th June 2016
C&B to share the Revised compensation letters of impacted associates with HRBP's	20 th June 2016
Manager communicates the revised STI target % and the revised compensation details to impacted associates	20 th June to 30 th June 2016

Revised compensation with new STI targets is effective 1st Jan 2017 though the revised compensation letters will given in the month of June 2016

Manager talking points

Background / Rationale

We come to work every day to live our mission, which is to care and cure. Our Company strives 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 compensation philosophy remains unchanged with aim to deliver median actual total compensation comparable to our peer companies if sustained individual and business performance is achieved. Associates meeting their objectives are generally awarded target compensation at a band comparable to the median band of similar roles in the external market. In the event of under- or over-performance, the actual compensation may be lower or higher than the benchmark median.

The new system is aligning all associates from the ECN to the lowest GJFA band.

Global Q & A

1. Why is this change happening?

The external market, as well as the internal company structure, is evolving rapidly. There is a need to review, simplify, harmonize & adjust depending on country, band and division in order to retain or improve market competitiveness.

2. Who is supporting the change?

The ECN, the Board of directors and the Compensation Committee are supportive of the changes.

3. What is our compensation philosophy and how does this change impact it?

Our pay for performance compensation philosophy remains unchanged. Associates meeting their objectives are generally awarded target compensation at a band comparable to the median band of similar roles in the external market. In the event of under- or over-performance, the actual compensation may be lower or higher than the median.

4. Is this change competitive with the market?

Yes, it is.

5. Is this happening in all the divisions and countries?

Yes, the changes are applied to all divisions and countries.

6. Will the change impact all bands of employees within Novartis?

Yes. The ECN is already implemented, the executives are rolled into the new system as from 2016 and the GJFA population as from 2017, in line with legal/works councils' requirements.

7. What exactly is changing?

On STI, the targets are now linked to the GJFA band and aligned cross-divisionally within a country.

Global Q & A

8. What about my current equity holdings with Novartis?

Current equity holdings remain unchanged.

9. What happens with my STI target if I move from country A to country B?

If the move is from a local contract in A to another new local contract in B, then the new country targets and/or payout ranges are applied for the new role. In case of International Assignment, the employing entity (home) country targets and/or payout ranges are applied.

10. What happens if I move to another country where the STI target payout range are lower?

The new country incentive structure applies.

11. Can I get a lower actual STI payout vs. my target?

Yes, as the payout is linked to both performance and payout grid. This is no change vs. the current approach.

12. Is there a guarantee I get the same STI every year?

No, it depends on performance and manager discretion within the respective payout range.

13. How is the change impacting my performance assessment?

This change does not impact the performance assessment.

14. Who should I contact if I have questions about the changes?

Please contact your line manager or your local HRBP for all questions related to the changes.

15. What effect will NNIS have on the current year (performance year 2016) STI payout?

There will be no change in the current year (performance year 2016) STI payout that will happen in March 2017. The payout will be as per the current STI target only.

Contact

Your HRBP

Thank you!

Legal Disclaimer

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

This brochure is designed to provide an overview of the Novartis compensation structure. Please note that the Novartis incentive structure is subject to changes by the board/ECN decision at any time. All examples given in this brochure are for illustrative purposes only and neither represent a recommendation by Novartis nor a guaranteed or certain return on the securities described. All equity investments are subject to changes in the market and therefore all returns are at risk. Actual awards in any particular jurisdictions may differ from the awards described in this deck. For example, in certain jurisdictions some awards are made as retention share bonus awards. The legal documents comprising the awards take precedence over this presentation. Participants cannot base any claim or action on the content of this general document.