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**Subject:** Global Change - One BPF and Fixed IPF



**Novartis**  
**Human Resources**

# One BPF and Simplified IPF

## For 2018 Performance Year

Dear All,

Novartis is introducing a One Business Performance Factor (BPF) enabling us to measure our collective success and fostering a culture where we work together toward a common purpose. With changes also being made to our Individual Performance Factor (IPF), our reward system will become more transparent and simplified reward due to greater differentiation and simplified administration.

### One Business Performance Factor

#### What?

Novartis is introducing one Business Performance Factor (BPF) to drive and reward enterprise-wide success, regardless of our division or function. Going forward, we will all have the same measure of success and business-level payout.

This is a multiplier applied to the bonus targets of all associates worldwide, except for our associates on Sales Incentive plans.

#### Why?

At Novartis, we have always applied BPF - a business-level multiplier, to incentive payments. Historically this multiplier was determined at division level based on each unit or country organization's performance. But this did not reflect our position as one company.

**The One BPF is designed to encourage our people to think, and act, as one global enterprise and to channel our energy toward external competition.** We need to support our colleagues around the world, and to know that we can lean on them when we need to.

If everyone pulls together to help Novartis achieve its global strategic goals, all our people should be rewarded following a unified approach. This change is symbolically a strong sign of the culture we want to nurture at Novartis

## How?

One Novartis BPF for our global enterprise will be calculated each year and signed off by the Board of Directors, as follows.

Group Net Sales	30%
Group Operating Income	30%
Group Free Cash Flow (as % of Sales)	20%
Share of Peers	20%

## Transparent and simplified reward system

### What?

Greater simplification, transparent rewards, allowing for more time for meaningful performance conversations, will be enabled by following key changes to how we calculate IPF:

- Fixed percentages for each performance rating
- A more granular approach rewarding to 2.2 performers. Associates will receive a fixed IPF of 90%/100%/110%, depending on performance
- An increase to the overall IPF budget for the whole enterprise. This will allow for greater differentiation and rewards for performance
- The budget is calculated at a global division level, no longer at a country legal entity level

### Why?

These changes have been made with one aim: **to increase engagement, and to reward performance transparently and consistently.**

Managers can focus their energy on the quality of the performance management process, rather than spending time and effort assigning IPFs to ratings according to budget constraints.

### How?

We will continue to evaluate associates' contributions in terms of **what** is delivered (outcome-based objectives) and **how** these outcomes are delivered (Values & Behaviors)

The fixed Individual Performance Factor (IPF) grid (2019 payout) is as follows:

Exceeding Expectations	3.1 70%	3.2 120%	3.3 150%
Meeting Expectations	2.1 50%	<div> <div>2.2 100%</div> <div>2.2 90%</div> </div>	2.3 120%
Below Expectations	1.1 0%	1.2 50%	1.3 70%
	Below Expectations	Meeting Expectations	Exceeding Expectations

## What does this look like in practice?

Annual incentive payout\* = base salary x bonus target x BPF X IPF  
 \*capped at 200% maximum

For further information, please contact your HR Business Partner.

Cheers,  
**Savitha Shivsankar**

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