

# Explanations of the Board of Directors on the Amendment of the Articles of Incorporation

(Implementation of the revised Swiss Corporate Law)

Item 6 of the Agenda  
(The original German text is binding)

# A. Explanations

## Preliminary Remarks

On June 19, 2020, Swiss Parliament passed a reform of Swiss corporate law in the Swiss Code of Obligations (the “**Reform**”). The Reform includes, among other things, improving the protection of minority shareholders and modernizing the provisions governing the holding of general meetings. Furthermore, the Ordinance Against Excessive Compensation in Public Corporations which came into force on January 1, 2014, has been transferred to the Swiss Code of Obligations, with selective changes being made to the previous provisions. The Swiss Federal Council has put most of the new provisions into force as of January 1, 2023. Companies are granted a transition period of two-years to amend their articles of incorporation.

In accordance with the new provisions, the Board of Directors is submitting a proposal to amend the Articles of Incorporation to the General Meeting. This proposal both implements the requirements of the Reform and considers current best practices in corporate governance. In addition, the Board of Directors wishes to take this opportunity to include gender-neutral language in the Articles of Incorporation.

The proposed amendments to the Articles of Incorporation are explained below. Each proposed change is then listed and compared to the existing provisions. Deletions are shown in red, strikethrough font, new items in blue font, and changes in green font. References in this overview are to the renumbered Articles of Incorporation as proposed by the Board of Directors.

## 1. Agenda Item 6.1 – Participation by Electronic Means (Article 12a)

The Reform newly allows participation at general meetings by electronic means:

- On the one hand, shareholders who are not present at the physical location of the general meeting have the option to exercise their rights electronically (“hybrid general meeting”).
- On the other hand, it will be possible to hold a general meeting without a physical venue – i.e. exclusively using electronic means (“virtual general meeting”).

The law stipulates strict rules for holding general meetings with electronic participation. The board of directors must ensure that (a) every participant can ask questions, make motions and take part in the discussion, (b) the votes in the general meeting are transmitted directly, (c) the identity of the participating shareholders is certain, and (d) the voting result cannot be falsified. **This ensures that shareholders have the same rights in all forms of general meetings (physical, hybrid and virtual).** In addition, shareholders must agree in principle to the holding of virtual general meetings by granting the Board of Directors the power in the Articles of Incorporation to decide on the format for future general meetings.

In case of a hybrid or virtual format, shareholders will, as stated, have the same rights as in the case of a purely physical meeting, and namely will be allowed to ask questions or submit counterproposals live. Novartis envisages that this will happen via video.

Similarities and differences between the three possible formats can be illustrated as follows:

<b>Shareholder Right</b>	Traditional Physical Meeting	Hybrid Meeting	Virtual Meeting
Physical attendance	X	X	
Remote attendance		X	X
Vote real-time	X	X	X
Submit votes in advance via the Independent Proxy	X	X	X
Ask questions and receive answers live during the general meeting	X	X	X
Submit counterproposals live during the general meeting	X	X	X

With the introduction of the new article 12a, the necessary basis in the Articles of Incorporation for holding virtual general meetings is created. The time limit ensures that shareholders will be able to vote again on the authorization of the Board of Directors in five years.

## **2. Agenda Item 6.2 – Alignment with Compulsory New Regulations (Articles 10, 14, 30, 33, 34)**

Item 6.2 summarizes all changes to the provisions of the Articles of Incorporation that must be adjusted to align the Articles of Incorporation with the revised law.

### **a. Threshold to Request an Extraordinary General Meeting (Article 10)**

The threshold to request an extraordinary general meeting is aligned with the law and thus reduced from 10% to 5% of the share capital.

### **b. Proxies (Article 14)**

So far, the options of shareholders to be represented at the General Meeting were limited. With the amendment of article 14 of the Articles of Incorporation, shareholders can in future be represented by a representative of their choice.

### **c. Additional Amount for Joining Members of the Executive Committee (Article 30)**

The Reform restricts the use of the additional amount to new members of the Executive Committee. Use for promotions within the Executive Committee is no longer permitted. Article 30 of the Articles of Incorporation must be amended accordingly.

### **d. Duration of Contracts / Calculation of Compensation for Non-Competition Obligations (Article 33)**

Compensation for non-competition obligations must now be calculated based on the average compensation of the previous three years. Article 33 of the Articles of Incorporation must be amended because Novartis has so far based the compensation on the previous year. In addition, linguistic changes are made in article 33 to align the Articles of Incorporation with the wording of the law.

### **e. External Mandates (Article 34)**

Previously, only members of the Board of Directors were subject to the statutory provisions relating to external mandates. With the Reform, these provisions are extended to members of the Executive Committee. In addition, mandates in context have been redefined in the law. These changes are adopted with the amendment of article 34.

### **3. Agenda Item 6.3 – Other Changes and Gender-Neutral Language (Articles 4-7, 9, 11-13, 16-18, 20-24, 27, 38 and 39)**

Item 6.3 summarizes all other changes. These serve primarily to implement new, modernized options for using electronic means. In addition, the Articles of Incorporation will be cleaned up by removing provisions that are no longer required as a result of the Reform. Meanwhile, gender-neutral language shall be used consistently in the Articles of Incorporation.

#### **a. Conversion of Bearer Shares into Registered Shares and Vice-Versa (Article 4)**

Previously, a resolution by the general meeting to convert bearer shares into registered shares or registered shares into bearer shares required a basis in the articles of incorporation. This requirement was removed with the Reform, and therefore article 4 paragraph 2 of the Articles of Incorporation can be deleted.

#### **b. Publication of the Annual Report and the Report of the Auditors (Article 9)**

With the Reform, the company's obligation to make the annual report and the report of the auditors available for inspection at the company's registered office is abolished. Given that Novartis publishes its reports on the Internet, this provision is obsolete. Article 9 is adjusted accordingly.

#### **c. Content of the Notice of Meeting (Article 11)**

The legally required content of the invitation to the general meeting is no longer repeated in the Articles of Incorporation, and instead reference is made to the relevant provision of the law.

#### **d. Agenda Items Proposed by Shareholders (Article 12)**

Shareholders who exercise their right to have an item put on the agenda now also have the statutory right to include an explanatory statement in the invitation to the General Meeting. The change in articles 12 of the Articles of Incorporation defines the relevant deadlines.

#### **e. Powers of the General Meeting, Special Quorum and Powers of the Board of Directors (Articles 17, 18 and 24)**

These amendments serve the purpose of reflecting adjustments to the law in the Articles of Incorporation. Occasionally, earlier changes in the law that are not related to the Reform are also updated.

#### **f. Resolutions by the Board of Directors (Article 23)**

The provision on the modalities of resolutions by the Board of Directors now contains a general reference to the organizational regulations. However, the Articles of Incorporation continue to disallow a casting vote for the presiding officer.

#### **g. Notices to Shareholders (Article 38)**

To enable use of the new options for communication by electronic means introduced with the Reform, the Board of Directors proposes creating the corresponding basis in the Articles of Incorporation.

#### **h. Place of Jurisdiction (Article 39)**

The proposed change clarifies that the place of jurisdiction at the registered office of the Company is the exclusive place of jurisdiction.

#### **i. Language Adjustments (Articles 5-7, 13, 16, 20-22, 27)<sup>1</sup>**

The other changes only serve the use of gender-neutral language.

<sup>1</sup> For articles 5-7 the newly introduced gender-neutral language is only visible in the German text. For article 34, the changes to reflect gender-neutral language are already part of agenda item 6.2.

# B. Details on the amendment of the Articles of Incorporation<sup>2</sup>

## Section 1 – Corporate Name, Registered Office, Purpose and Duration

Current Version	Proposed Version
<p><b>Article 1 – Corporate name, Registered office</b> Under the Corporate name Novartis AG, Novartis SA, Novartis Inc., there exists a company limited by shares with its registered office in Basel.</p>	<p><b>Article 1 – Corporate name, Registered office</b> [Article unchanged]</p>
<p><b>Article 2 – Purpose</b></p> <ol style="list-style-type: none"> <li>1 Purpose of the Company is to hold interests in enterprises in the area of health care or nutrition. The Company may also hold interests in enterprises in the areas of biology, chemistry, physics, information technology or related areas.</li> <li>2 The Company may acquire, mortgage, liquidate or sell real estate and intellectual property rights in Switzerland or abroad.</li> <li>3 In pursuing its purpose, the Company strives to create sustainable value.</li> </ol>	<p><b>Article 2 – Purpose</b> [Article unchanged]</p>
<p><b>Article 3 – Duration</b> The duration of the Company is unlimited.</p>	<p><b>Article 3 – Duration</b> [Article unchanged]</p>

## Section 2 – Share Capital

Current Version	Proposed Version
<p><b>Article 4 – Share capital</b></p> <ol style="list-style-type: none"> <li>1 The share capital of the Company is CHF 1 201 860 626, fully paid-in and divided into 2 403 721 252 registered shares. Each share has a nominal value of CHF 0.50.</li> <li>2 Upon resolution of the General Meeting of Shareholders registered shares may be converted into bearer shares and reversed bearer shares may be converted into registered shares.</li> </ol>	<p><b>Article 4 – Share capital</b></p> <ol style="list-style-type: none"> <li>1 The share capital of the Company is CHF 1 201 860 626, fully paid-in and divided into 2 403 721 252 registered shares. Each share has a nominal value of CHF 0.50.<sup>3</sup></li> <li><del>2 Upon resolution of the General Meeting of Shareholders registered shares may be converted into bearer shares and reversed bearer shares may be converted into registered shares.</del></li> </ol>
<p><b>Article 5 – Shareholders register and restrictions of registration, Nominees</b></p> <ol style="list-style-type: none"> <li>1 The Company shall maintain a shareholders register showing the last names, first names, domicile, address and nationality (in the case of legal entities the registered office) of the holders or usufructuaries of registered shares.</li> <li>2 Upon request acquirers of registered shares are registered in the shareholders register as shareholders with the right to vote, provided that they declare explicitly to have acquired the registered shares in their own name and for their own account. Subject to the restrictions set forth in paragraph 6 of this article, no person or entity shall be registered with the right to vote for more than 2% of the registered share capital as set forth in the commercial register. This restriction of registration also applies to persons who hold some or all of their shares through nominees pursuant to this article. All of the foregoing is subject to Article 685d paragraph 3 of the Swiss Code of Obligations.</li> </ol>	<p><b>Article 5 – Shareholders register and restrictions of registration, Nominees</b> [Article unchanged]</p>

<sup>2</sup> The original German text remains, in all matters, binding and definitive.

<sup>3</sup> Subject to the approval of the General Meeting and after implementation of the capital reduction, the Board of Directors will amend this paragraph to the wording described under agenda item 4.

- 3 The Board of Directors may register nominees with the right to vote in the share register to the extent of up to 0.5% of the registered share capital as set forth in the commercial register. Registered shares held by a nominee that exceed this limit may be registered in the shareholders register if the nominee discloses the names, addresses and the number of shares of the persons for whose account it holds 0.5% or more of the registered share capital as set forth in the commercial register. Nominees within the meaning of this provision are persons who do not explicitly declare in the request for registration to hold the shares for their own account and with whom the Board of Directors has entered into a corresponding agreement.
- 4 Corporate bodies and partnerships or other groups of persons or joint owners who are interrelated to one another through capital ownership, voting rights, uniform management or otherwise linked as well as individuals or corporate bodies and partnerships who act in concert to circumvent the regulations concerning the limitation of participation or the nominees (especially as syndicates), shall be treated as one single person or nominee within the meaning of paragraphs 2 and 3 of this article.
- 5 After hearing the registered shareholder or nominee, the Board of Directors may cancel registrations in the shareholders register with retroactive effect as of the date of registration if the registration was effected based on false information. The respective shareholder or nominee shall be informed immediately of the cancellation of the registration.
- 6 The Board of Directors shall specify the details and give the necessary orders concerning the adherence to the preceding regulations. In particular cases it may allow exemptions from the limitation for registration in the share register or the regulation concerning nominees. It may delegate its duties.
- 7 The limitation for registration in the share register provided for in this article shall also apply to shares acquired or subscribed by the exercise of subscription, option or conversion rights.

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**Article 6 – Form of shares**

- 1 Subject to paragraphs 2 and 4 of this article, the registered shares of the Company are issued as uncertificated securities (in terms of the Swiss Code of Obligations) and as book entry securities (in terms of the Book Entry Securities Act).
- 2 The Company may withdraw shares issued as book entry securities from the custodian system (Verwahrungssystem).
- 3 Provided that the shareholder is registered in the shareholders register, the shareholder may request from the Company a statement of his or her registered shares at any time.
- 4 The shareholder has no right to the printing and delivery of certificates. The Company may, however, print and deliver certificates (individual share certificates, certificates or global certificates) for shares at any time. The Company may, with the consent of the shareholder, cancel issued certificates that are returned to the Company.

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**Article 6 – Form of shares**

[Article unchanged]

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**Article 7 – Exercise of rights**

- 1 The shares are not divisible. The Company accepts only one representative per share.
- 2 The right to vote and the other rights associated with a registered share may only be exercised vis-à-vis the Company by a shareholder, usufructuary or nominee who is registered in the share register.

**Article 7 – Exercise of rights**

[Article unchanged]

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## Section 3 – Corporate Bodies

### A. General Meeting of Shareholders

Current Version

Proposed Version

**Article 8 – Competence**

The General Meeting of Shareholders is the supreme body of the Company.

**Article 8 – Competence**

[Article unchanged]

**Article 9 – General Meetings****a. Annual General Meeting**

The Annual General Meeting of Shareholders shall be held each year within six months after the close of the financial year of the Company; at the latest twenty days before the meeting the annual report and the reports of the auditors shall be made available for inspection by the Shareholders at the registered office of the Company. Notification thereof may be made by way of a publication in the publication organs set forth in Article 38 of these Articles of Incorporation.

**Article 9 – General Meetings****a. Annual General Meeting**

The Annual General Meeting of Shareholders shall be held each year within six months after the close of the financial year of the Company; ~~at the latest twenty days before the meeting the annual report and the reports of the auditors shall be made available for inspection by the Shareholders at the registered office of the Company. Notification thereof may be made by way of a publication in the publication organs set forth in Article 38 of these Articles of Incorporation.~~

**Article 10 – b) Extraordinary General Meetings of Shareholders**

- 1 Extraordinary General Meetings of Shareholders shall take place upon request of the Board of Directors or the Auditors.
- 2 Furthermore, Extraordinary General Meetings of Shareholders shall be convened upon resolution of a General Meeting of Shareholders or if it is required by one or more shareholders who are representing in the aggregate not less than one tenth of the share capital and submit a petition signed by such shareholder or shareholders specifying the items for the agenda and the proposals.

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**Article 11 – Convening of General Meetings of Shareholders**

- 1 General Meetings of Shareholders shall be convened by the Board of Directors at the latest twenty days before the date of the meeting. The meeting shall be convened by way of a notice appearing once in the official publication organs of the Company. Registered shareholders may also be informed by mail.
- 2 The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and as the case may be of the shareholders who demanded that a General Meeting of Shareholders be convened and, in case of elections, the names of the nominated candidates.

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  - 2 ~~The notice of a meeting shall state the items on the agenda and the proposals of the Board of Directors and as the case may be of the shareholders who demanded that a General Meeting of Shareholders be convened and, in case of elections, the names of the nominated candidates.~~ [The content of a notice of meeting is governed by the law.](#)
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**Article 12 – Agenda**

- 1 One or more shareholders whose combined shareholdings represent an aggregate nominal value of at least CHF 1 million may demand that an item be included in the agenda of a General Meeting of Shareholders. Such a demand must be made in writing at the latest forty-five days before the meeting and shall specify the items and the proposals of such a shareholder.
- 2 No resolution shall be passed at a General Meeting of Shareholders on matters for which no proper notice was given. This provision shall not apply to proposals to convene an Extraordinary General Meeting of Shareholders or to initiate a special audit.

[No corresponding current provision]

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- 2 No resolution shall be passed at a General Meeting of Shareholders on matters for which no proper notice was given. This provision shall not apply to proposals to convene an Extraordinary General Meeting of Shareholders or to initiate a special ~~audit~~[investigation](#).

**Article 12a – Electronic Participation**

- 1 [The Board of Directors may provide that shareholders who cannot be present at the venue of the General Meeting of Shareholders may exercise their rights through electronic means.](#)
- 2 [The Board of Directors may at any time until June 30, 2028, also order that the General Meeting of Shareholders be held electronically without a venue.](#)

**Article 13 – Presiding officer, Minutes, Vote counters**

- 1 The General Meeting of Shareholders shall take place at the registered office of the Company, unless the Board of Directors decides otherwise. The Chairman of the Board of Directors or in his absence a Vice-Chairman or any other member of the Board of Directors designated by the Board of Directors shall take the chair.
- 2 The presiding officer shall appoint a secretary and the vote counters. The minutes shall be signed by the presiding officer and the secretary.

**Article 13 – Presiding officer, Minutes, Vote counters**

- 1 The General Meeting of Shareholders shall take place at the registered office of the Company, unless the Board of Directors decides otherwise. The ~~Chairman~~ [Chair](#) of the Board of Directors or in ~~his~~[the Chair's](#) absence a Vice-~~Chairman~~ [Chair](#) or any other member of the Board of Directors designated by the Board of Directors shall take the chair.
- 2 The presiding officer shall appoint a secretary and the vote counters. The minutes shall be signed by the presiding officer and the secretary.

**Article 14 – Proxies**

- 1 The Board of Directors may issue regulations regarding the participation and the representation at the General Meeting of Shareholders and may allow electronic proxies without qualified signatures.
- 2 A shareholder shall only be represented by his legal representative, another shareholder with the right to vote, or the Independent Proxy (in German: *Unabhängiger Stimmrechtsvertreter*).
- 3 The General Meeting of Shareholders shall elect the Independent Proxy for a term of office lasting until completion of the next Annual General Meeting of Shareholders. Re-election is possible.
- 4 If the Company does not have an Independent Proxy, the Board of Directors shall appoint the Independent Proxy for the next General Meeting of Shareholders.

**Article 14 – Proxies**

- 1 The Board of Directors may issue regulations regarding the participation and the representation at the General Meeting of Shareholders and may allow electronic proxies without qualified signatures.
- 2 A shareholder ~~shall only~~ [can](#) be represented by ~~his~~ [a](#) legal representative ~~or, another~~ [by means of a written proxy, by a representative of choice. Furthermore, a](#) shareholder ~~with the right to vote, or may be represented by~~ the Independent Proxy (in German: *Unabhängiger Stimmrechtsvertreter*).
- 3 The General Meeting of Shareholders shall elect the Independent Proxy for a term of office lasting until completion of the next Annual General Meeting of Shareholders. Re-election is possible.
- 4 If the Company does not have an Independent Proxy, the Board of Directors shall appoint the Independent Proxy for the next General Meeting of Shareholders.

**Article 15 – Voting rights**

Each share provides entitlement to one vote.

**Article 15 – Voting rights**

[Article unchanged]



**Article 16 – Resolutions, Elections**

- 1 Unless the law requires otherwise, the General Meeting passes resolutions and elections with the absolute majority of the votes validly represented.
- 2 Resolutions and elections shall be taken either on a show of hands or by electronic voting, unless the General Meeting decides for, or the presiding officer orders, a secret ballot.
- 3 The presiding officer may at any time order to repeat an election or resolution taken on a show of hands with a secret ballot, if he doubts the results of the vote. In this case, the preceding election or resolution taken on a show of hands is deemed not to have taken place.
- 4 If no election has taken place at the first ballot and if there is more than one candidate, the presiding officer shall order a second ballot in which the relative majority shall be decisive.

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- 3 The presiding officer may at any time order to repeat an election or resolution taken on a show of hands with a secret ballot, if ~~he~~ [the presiding officer](#) doubts the results of the vote. In this case, the preceding election or resolution taken on a show of hands is deemed not to have taken place.
- 4 If no election has taken place at the first ballot and if there is more than one candidate, the presiding officer shall order a second ballot in which the relative majority shall be decisive.

**Article 17 – Powers of the General Meeting of Shareholders**

The following powers shall be vested exclusively in the General Meeting of Shareholders:

- a) To adopt and amend the Articles of Incorporation;
- b) To elect and remove the members of the Board of Directors, the Chairman of the Board of Directors, the members of the Compensation Committee, the Independent Proxy and the Auditors;
- c) To approve the management report (if required) and the consolidated financial statements;
- d) To approve the financial statements and to decide on the appropriation of available earnings shown on the balance sheet, in particular with regard to dividends;
- e) To approve the aggregate amounts of compensation of the Board of Directors and the Executive Committee in accordance with Article 29 of these Articles of Incorporation;
- f) To grant discharge to the members of the Board of Directors and to the members of the Executive Committee;
- g) To decide on matters that are reserved by law or by the Articles of Incorporation to the General Meeting of Shareholders.

**Article 17 – Powers of the General Meeting of Shareholders**

The following powers shall be vested exclusively in the General Meeting of Shareholders:

- a) To adopt and amend the Articles of Incorporation;
- b) To elect and remove the members of the Board of Directors, the ~~Chairman~~ [Chair](#) of the Board of Directors, the members of the Compensation Committee, the Independent Proxy and the Auditors;
- c) To approve the management report (if required), ~~and~~ the consolidated financial statements [and the report on non-financial matters](#);
- d) To approve the financial statements and to decide on the appropriation of available earnings shown on the balance sheet, in particular with regard to dividends [\(including any repayment of the statutory capital reserves and the approval of interim dividends and the interim financial statements required for such purpose\)](#);
- e) To approve the aggregate amounts of compensation of the Board of Directors and the Executive Committee in accordance with Article 29 of these Articles of Incorporation;
- f) To grant discharge to the members of the Board of Directors and to the members of the Executive Committee;
- [g\) To delist the shares of the Company; and](#)
- ~~g~~h) To decide on matters that are reserved by law or by the Articles of Incorporation to the General Meeting of Shareholders.

**Article 18 – Special quorum**

The approval of at least two-thirds of the votes represented is required for resolutions of the General Meeting of Shareholders on:

- a) An alteration of the purpose of the Company;
- b) The creation of shares with increased voting powers;
- c) An implementation of restrictions on the transfer of registered shares and the removal of such restrictions;
- d) An authorized or conditional increase of the share capital;
- e) An increase of the share capital out of equity, by contribution in kind or for the purpose of an acquisition of property and the grant of special rights;

**Article 18 – Special quorum**

The approval of at least two-thirds of the votes represented is required for resolutions of the General Meeting of Shareholders on:

- a) An alteration of the purpose of the Company;
- ~~b) The creation of shares with increased voting powers;~~
- ~~c) An implementation of restrictions on the transfer of registered shares and the removal of such restrictions;~~
- ~~d) An authorized or conditional increase of the share capital;~~
- [b\) The consolidation of shares, unless the approval of all affected shareholders is required;](#)

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| <p>f) A restriction or suspension of rights of option to subscribe;</p> <p>g) A change of location of the registered office of the Company;</p> <p>h) The dissolution of the Company</p> | <p>ec) An increase of the share capital out of equity, by <del>contribution contributions</del> in kind or <del>for the purpose of an acquisition of property by way of set-off against a receivable</del> and the grant of special rights;</p> <p>fd) A restriction or suspension of rights of option to subscribe;</p> <p><u>e) The introduction of a conditional capital or a capital band;</u></p> <p><u>f) An implementation of restrictions on the transfer of registered shares and the removal of such restrictions;</u></p> <p><u>g) The creation of shares with increased voting powers;</u></p> <p><u>h) The change of the currency of the share capital;</u></p> <p><u>i) The introduction of the deciding vote for the presiding officer at the General Meeting of Shareholders;</u></p> <p><u>j) A provision in the Articles of Incorporation allowing the General Meeting of Shareholders to be held abroad;</u></p> <p><u>k) The delisting of the shares of the Company;</u></p> <p>g) A change of location of the registered office of the Company;</p> <p><u>m) The introduction of an arbitration clause in the Articles of Incorporation;</u></p> <p><u>n) The merger, split or transformation of the Company under the Merger Act (subject to mandatory statutory provisions); and</u></p> <p>h) The dissolution of the Company.</p> |
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## B. Board of Directors

### Article 19 – Number of Directors

The Board of Directors shall consist of a minimum of 8 and a maximum of 16 members.

### Article 19 – Number of Directors

[Article unchanged]

### Article 20 – Term of office

- 1 The members of the Board of Directors and the Chairman of the Board of Directors shall be elected individually by the General Meeting of Shareholders for a term of office lasting until completion of the next Annual General Meeting of Shareholders.
- 2 Members whose term of office has ended may be immediately re-elected, subject to paragraph 3 hereinafter.
- 3 A member shall not serve on the Board for more than 12 years. The Board of Directors may, under certain circumstances and if deemed in the best interests of the Company, recommend exceptions to this rule to the General Meeting of Shareholders.

### Article 20 – Term of office

- 1 The members of the Board of Directors and the ~~Chairman~~ Chair of the Board of Directors shall be elected individually by the General Meeting of Shareholders for a term of office lasting until completion of the next Annual General Meeting of Shareholders.
- 2 Members whose term of office has ended may be immediately re-elected, subject to paragraph 3 hereinafter.
- 3 A member shall not serve on the Board for more than 12 years. The Board of Directors may, under certain circumstances and if deemed in the best interests of the Company, recommend exceptions to this rule to the General Meeting of Shareholders.

### Article 21 – Organization

- 1 The Board of Directors constitutes itself in compliance with legal requirements and taking into consideration the resolutions of the General Meeting of Shareholders. It shall elect one or two Vice Chairmen. It shall appoint a secretary, who need not be a member of the Board of Directors.
- 2 If the office of the Chairman of the Board of Directors is vacant, the Board of Directors shall appoint a new Chairman from amongst its members for the remaining term of office.

### Article 21 – Organization

- 1 The Board of Directors constitutes itself in compliance with legal requirements and taking into consideration the resolutions of the General Meeting of Shareholders. It shall elect one or two ~~Vice Chairmen~~ Vice-Chairs. It shall appoint a secretary, who need not be a member of the Board of Directors.
- 2 If the office of the ~~Chairman~~ Chair of the Board of Directors is vacant, the Board of Directors shall appoint a new ~~Chairman~~ Chair from amongst its members for the remaining term of office.

**Article 22 – Convening of meetings**

The Chairman shall convene meetings of the Board of Directors if and when the need arises or if a member so requires in writing.

**Article 23 – Resolutions**

- 1 For the Board of Directors to pass resolutions, at least a majority of its members must be present. No such quorum shall be required for resolutions of the Board of Directors providing for the confirmation of capital increases or for the amendment of the Articles of Incorporation in connection with increases of the share capital.
- 2 The adoption of resolutions by the Board of Directors requires a majority of the votes cast. The Chairman shall not have the deciding vote.
- 3 Resolutions may also be passed via teleconference, or, unless a member calls for an oral deliberation, in writing by way of a circular or electronic data transfer.

**Article 24 – Powers of the Board of Directors**

- 1 The Board of Directors has in particular the following non-delegable and inalienable duties:
  - a) The ultimate direction of the Company's business and issuing of the necessary directives;
  - b) The determination of the organization of the Company;
  - c) The determination of the principles of accounting, financial controlling and financial planning;
  - d) The appointment and removal of the persons entrusted with the management and representation of the Company (including the CEO and the other members of the Executive Committee);
  - e) The ultimate supervision of the persons entrusted with the management of the Company, specifically in view of their compliance with the law, Articles of Incorporation, regulations and directives;
  - f) The preparation of the annual report and the compensation report in accordance with the provisions of the law and the Articles of Incorporation;
  - g) The preparations for the General Meeting of Shareholders and carrying out of the resolutions of the General Meeting of Shareholders;
  - h) The notification to the court in the event of over-indebtedness; and
  - i) The adoption of resolutions concerning increases in share capital to the extent that such power is vested in the Board of Directors (Article 651 paragraph 4 of the Swiss Code of Obligations), as well as resolutions concerning the confirmation of capital increases and respective amendments to the Articles of Incorporation.
- 2 In addition, the Board of Directors can pass resolutions with respect to all matters which are not reserved to the authority of the General Meeting of Shareholders by law or by these Articles of Incorporation.

**Article 22 – Convening of meetings**

The ~~Chairman~~ Chair shall convene meetings of the Board of Directors if and when the need arises or if a member so requires in writing.

**Article 23 – Meetings, Resolutions**

- 1 ~~For the Board of Directors to pass resolutions, at least a majority of its members must be present. No such quorum shall be required for resolutions of the Board of Directors providing for the confirmation of capital increases or for the amendment of the Articles of Incorporation in connection with increases of the share capital.~~ The organization of the meetings, including the quorum and the passing of resolutions, is regulated by the Board of Directors in the organizational regulations.
- 2 The ~~adoption of resolutions by the Board of Directors requires a majority of the votes cast. The Chairman~~ presiding officer shall not have the deciding vote.
- 3 ~~Resolutions may also be passed via teleconference, or, unless a member calls for an oral deliberation, in writing by way of a circular or electronic data transfer.~~

**Article 24 – Powers of the Board of Directors**

- 1 The Board of Directors has in particular the following non-delegable and inalienable duties:
  - a) The ultimate direction of the Company's business and issuing of the necessary directives;
  - b) The determination of the organization of the Company;
  - c) The determination of the principles of accounting, financial controlling and financial planning;
  - d) The appointment and removal of the persons entrusted with the management and representation of the Company (including the CEO and the other members of the Executive Committee);
  - e) The ultimate supervision of the persons entrusted with the management of the Company, specifically in view of their compliance with the law, Articles of Incorporation, regulations and directives;
  - f) The preparation of the annual report ~~and~~, the compensation report and the report on non-financial matters in accordance with the provisions of the law and the Articles of Incorporation, as well as further reports which must be approved by the Board of Directors;
  - g) The preparations for the General Meeting of Shareholders and carrying out of the resolutions of the General Meeting of Shareholders;
  - h) The filing of a request for a moratorium and the notification to the court in the event of over-indebtedness; ~~and~~
  - i) The adoption of resolutions concerning ~~increases the implementation of changes~~ in share capital to the extent that such power is vested in the Board of Directors ~~(Article 651 paragraph 4 of the Swiss Code of Obligations)~~, as well as resolutions concerning the confirmation of changes in share capital ~~increases~~ and respective amendments to the Articles of Incorporation; ~~and~~
  - j) All further non-delegable and inalienable duties of the Board of Directors provided for by the law.
- 2 In addition, the Board of Directors can pass resolutions with respect to all matters which are not reserved to the authority of the General Meeting of Shareholders by law or by these Articles of Incorporation.

**Article 25 – Delegation of powers**

The Board of Directors may, within the limits of the law and the Articles of Incorporation, delegate the management of the Company in whole or in part to one or several of its members (including to ad hoc or permanent committees of the Board of Directors) or to third persons (Executive Committee).

**Article 25 – Delegation of powers**

[Article unchanged]

**Article 26 – Signature power**

The Board of Directors shall designate those of its members as well as those third persons who shall have legal signatory power for the Company, and shall further determine the manner in which such persons may sign on behalf of the Company.

**Article 26 – Signature power**

[Article unchanged]

**Article 27 – Organization and powers of the Compensation Committee**

- 1 The Compensation Committee shall consist of a minimum of 3 and a maximum of 5 members of the Board of Directors.
- 2 The members of the Compensation Committee shall be elected individually by the General Meeting of Shareholders for a term of office lasting until completion of the next Annual General Meeting of Shareholders. Members of the Compensation Committee whose term of office has expired shall be immediately eligible for re-election.
- 3 If there are vacancies on the Compensation Committee, the Board of Directors shall appoint substitutes for the remaining term of office.
- 4 The Board of Directors shall elect a chairman of the Compensation Committee. The Board of Directors shall, within the limits of the law and the Articles of Incorporation, define the organization of the Compensation Committee in regulations.
- 5 The Compensation Committee has the following powers:
  - a) Develop a compensation strategy in line with the principles described in the Articles of Incorporation and submit it for approval to the Board of Directors;
  - b) Propose to the Board of Directors the principles and structure of the compensation plans;
  - c) Support the Board of Directors in preparing the proposals to the General Meeting of Shareholders regarding the compensation of the members of the Board of Directors and the Executive Committee;
  - d) Submit the compensation report to the Board of Directors for approval;
  - e) Inform the Board of Directors about policies, programs and key decisions as well as comparisons of compensation levels at key competitors;
  - f) Regularly report to the Board of Directors on the decisions and deliberations of the Compensation Committee;
  - g) Assume other responsibilities assigned to it by law, the Articles of Incorporation or by the Board of Directors.
- 6 The Board of Directors issues regulations to determine for which positions of the Board of Directors and of the Executive Committee the Compensation Committee shall submit proposals regarding compensation, and for which positions it shall determine the compensation in accordance with the Articles of Incorporation.

**Article 27 – Organization and powers of the Compensation Committee**

- 1 The Compensation Committee shall consist of a minimum of 3 and a maximum of 5 members of the Board of Directors.
- 2 The members of the Compensation Committee shall be elected individually by the General Meeting of Shareholders for a term of office lasting until completion of the next Annual General Meeting of Shareholders. Members of the Compensation Committee whose term of office has expired shall be immediately eligible for re-election.
- 3 If there are vacancies on the Compensation Committee, the Board of Directors shall appoint substitutes for the remaining term of office.
- 4 The Board of Directors shall elect a ~~chairman~~ [chair](#) of the Compensation Committee. The Board of Directors shall, within the limits of the law and the Articles of Incorporation, define the organization of the Compensation Committee in regulations.
- 5 The Compensation Committee has the following powers:
  - a) Develop a compensation strategy in line with the principles described in the Articles of Incorporation and submit it for approval to the Board of Directors;
  - b) Propose to the Board of Directors the principles and structure of the compensation plans;
  - c) Support the Board of Directors in preparing the proposals to the General Meeting of Shareholders regarding the compensation of the members of the Board of Directors and the Executive Committee;
  - d) Submit the compensation report to the Board of Directors for approval;
  - e) Inform the Board of Directors about policies, programs and key decisions as well as comparisons of compensation levels at key competitors;
  - f) Regularly report to the Board of Directors on the decisions and deliberations of the Compensation Committee;
  - g) Assume other responsibilities assigned to it by law, the Articles of Incorporation or by the Board of Directors.
- 6 The Board of Directors issues regulations to determine for which positions of the Board of Directors and of the Executive Committee the Compensation Committee shall submit proposals regarding compensation, and for which positions it shall determine the compensation in accordance with the Articles of Incorporation.

## C. Auditors

### Article 28 – Term, Powers and Duties

The Auditors, who shall be elected by the General Meeting of Shareholders each year, shall have the powers and duties vested in them by law.

### Article 28 – Term, Powers and Duties

[Article unchanged]

## Section 4 – Compensation of the Board of Directors and the Executive Committee

### Current Version

#### Article 29 – Approval of compensation by the General Meeting of Shareholders

- 1 The General Meeting of Shareholders shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:
  - a) Compensation of the Board of Directors for the period until the next Annual General Meeting of Shareholders; and
  - b) Compensation of the Executive Committee paid, promised or granted for the following financial year.
 

The Board of Directors may submit for approval by the General Meeting of Shareholders additional proposals relating to the same or different periods.
- 2 If the General Meeting of Shareholders rejects the proposal of the Board of Directors for the total compensation of the Board of Directors and/or the Executive Committee, the decision on how to proceed shall reside with the Board of Directors. The options for the Board of Directors shall be to either convene an Extraordinary General Meeting to submit a new compensation proposal, or to determine the compensation for the corresponding period on an interim basis, subject to approval at the next Annual General Meeting of Shareholders.
- 3 Notwithstanding the preceding paragraphs, the Company or companies controlled by it may pay out compensation prior to approval by the General Meeting of Shareholders subject to subsequent approval by a General Meeting of Shareholders.
- 4 The Board of Directors shall submit the compensation report to an advisory vote of the General Meeting of Shareholders.

### Proposed Version

#### Article 29 – Approval of compensation by the General Meeting of Shareholders

[Article unchanged]

#### Article 30 – Additional amount

If the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover the compensation of one or more members who become members of or are promoted within the Executive Committee during a compensation period for which the General Meeting of Shareholders has already approved the compensation of the Executive Committee, the Company or companies controlled by it shall be authorized to pay or grant to such member(s) an additional amount during the compensation period(s) already approved. The total additional amount for each relevant compensation period for which approval by the General Meeting of Shareholders has already been obtained shall not exceed (in full and not *pro rata temporis*) 40% of the aggregate amount of compensation of the Executive Committee last approved by the General Meeting of Shareholders per compensation period.

#### Article 30 – Additional amount

If the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover the compensation of one or more members who become members of ~~or are promoted within~~ the Executive Committee during a compensation period for which the General Meeting of Shareholders has already approved the compensation of the Executive Committee, the Company or companies controlled by it shall be authorized to pay or grant to such member(s) an additional amount during the compensation period(s) already approved. The total additional amount for each relevant compensation period for which approval by the General Meeting of Shareholders has already been obtained shall not exceed (in full and not *pro rata temporis*) 40% of the aggregate amount of compensation of the Executive Committee last approved by the General Meeting of Shareholders per compensation period.

**Article 31 – General compensation principles**

- 1 Compensation of the non-executive members of the Board of Directors comprises fixed compensation elements only. In particular, non-executive members of the Board of Directors shall receive no company contributions to any pension plan, no performance-related elements and no financial instruments (e.g. options).
- 2 Compensation of the members of the Executive Committee comprises fixed and variable compensation elements. Fixed compensation comprises the base salary and may comprise other compensation elements and benefits. Variable compensation may comprise short-term and long-term compensation elements.
- 3 Compensation (to non-executive members of the Board of Directors and to members of the Executive Committee) may be paid or granted in the form of cash, shares, other benefits or in kind. Compensation to members of the Executive Committee may also be paid or granted in the form of financial instruments or similar units. Compensation may be paid by the Company or companies controlled by it. The Board of Directors determines the valuation of each compensation element on the basis of the principles that apply to the establishment of the compensation report.

**Article 31 – General compensation principles**

[Article unchanged]

**Article 32 – Variable compensation**

- 1 The variable compensation paid or granted to the members of the Executive Committee in a certain year shall consist of compensation elements from short- and long-term compensation plans (as defined in this Article 32).
- 2 The short-term compensation plans are based on performance metrics that take into account the performance of the Novartis Group and/or parts thereof, and/or individual targets. Achievements are generally measured based on the one-year period to which the short-term compensation relates. The short-term compensation pay-outs shall be subject to caps that may be expressed as predetermined multipliers of the respective target levels.
- 3 The long-term compensation plans are based on performance metrics that take into account strategic objectives of the Novartis Group (such as financial, innovation, Shareholder return and/or other metrics). Achievements are generally measured based on a period of not less than three years. The long-term compensation pay-outs shall be subject to caps that may be expressed as predetermined multipliers of the respective target levels.
- 4 The Board of Directors or, to the extent delegated to it, the Compensation Committee determines performance metrics, target levels, and their achievement.
- 5 The Board of Directors or, to the extent delegated to it, the Compensation Committee determines grant, vesting, blocking, exercise and forfeiture conditions of the compensation; they may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation assuming target achievement or for forfeiture in the event of predefined events such as death, disability, retirement or termination of an employment or mandate agreement.

**Article 32 – Variable compensation**

[Article unchanged]

**Article 33 – Agreements with Members of the Board of Directors and of the Executive Committee**

- 1 The Company or companies controlled by it may enter into agreements with members of the Board of Directors relating to their compensation for a fixed term of one year. The Company or companies controlled by it may enter into contracts of employment with members of the Executive Committee for a fixed term not exceeding one year or for an indefinite period of time with a notice period not exceeding 12 months.
- 2 Contracts of employment with members of the Executive Committee may contain a prohibition of competition for the time after the end of employment for a duration of up to one year. The annual consideration for such prohibition shall not exceed the total annual compensation (i.e. base salary and annual incentive) last paid to such member of the Executive Committee.

**Article 33 – Agreements with Members of the Board of Directors and of the Executive Committee**

- 1 The Company or companies controlled by it may enter into agreements with members of the Board of Directors relating to their compensation for a ~~fixed one-year term~~ term not exceeding the term of office of the respective members of the Board of Directors. The Company or companies controlled by it may enter into contracts of employment with members of the Executive Committee for a fixed term not exceeding one year or for an indefinite period of time with a notice period not exceeding 12 months.
- 2 Contracts of employment with members of the Executive Committee may contain a prohibition of competition for the time after the end of employment ~~for a duration of up to one year if this is commercially justified~~. The ~~annual overall~~ annual overall consideration for such prohibition shall not exceed the ~~total average~~ total average annual compensation ~~(i.e. base salary and annual incentive) last paid to such member of the Executive Committee for the three preceding business years~~.

**Article 34 – Mandates outside of the Novartis Group**

- 1 No member of the Board of Directors may hold more than 10 additional mandates in other companies, of which no more than 4 additional mandates shall be in other listed companies. Chairmanships of the board of directors of other listed companies count as two mandates. Each of these mandates shall be subject to approval by the Board of Directors.
- 2 No member of the Executive Committee may hold more than 6 additional mandates in other companies, of which no more than 2 additional mandates shall be in other listed companies. Each of these mandates shall be subject to approval by the Board of Directors. Members of the Executive Committee are not allowed to hold chairmanship of the board of directors of other listed companies.
- 3 The following mandates are not subject to these limitations:
  - a) Mandates in companies which are controlled by the Company;
  - b) Mandates which a member of the Board of Directors or of the Executive Committee holds at the request of the Company or companies controlled by it. No member of the Board of Directors or of the Executive Committee shall hold more than 5 such mandates; and
  - c) Mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or of the Executive Committee shall hold more than 10 such mandates.
- 4 Mandates shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities which are under joint control are deemed one mandate.
- 5 The Board of Directors may issue regulations that may determine additional restrictions, taking into account the position of the respective member.

**Article 34 – Mandates outside of the Novartis Group**

- 1 No member of the Board of Directors may hold more than 10 additional mandates in other companies, of which no more than 4 additional mandates shall be in other listed companies. ~~Chairmanships~~ Chairs of the board of directors of other listed companies count as two mandates. Each of these mandates shall be subject to approval by the Board of Directors.
- 2 No member of the Executive Committee may hold more than 6 additional mandates in other companies, of which no more than 2 additional mandates shall be in other listed companies. Each of these mandates shall be subject to approval by the Board of Directors. Members of the Executive Committee are not allowed to hold ~~chairmanship~~ chairs of the board of directors of other listed companies.
- 3 The following mandates are not subject to these limitations:
  - a) Mandates in companies which are controlled by the Company; and
  - b) Mandates which a member of the Board of Directors or of the Executive Committee holds at the request of the Company or companies controlled by it. No member of the Board of Directors or of the Executive Committee shall hold more than 5 such mandates; ~~and~~
  - ~~e) Mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or of the Executive Committee shall hold more than 10 such mandates.~~
- 4 Mandates shall mean ~~mandates~~ any membership in the ~~supreme governing body of a legal entity which is required to be registered in the commercial register~~ board of directors, in the executive board or in the advisory board, or a comparable function under foreign ~~register~~ law, in a company with an economic purpose. Mandates in different legal entities which are under joint control are deemed one mandate.
- 5 The Board of Directors may issue regulations that may determine additional restrictions, taking into account the position of the respective member.

**Article 35 – Loans**

No loans or credits shall be granted to the members of the Board of Directors or the Executive Committee.

**Article 35 – Loans**

[Article unchanged]

## Section 5 – Annual Financial Statements, Consolidated Financial Statements and Profit Allocation

## Current Version

## Proposed Version

**Article 36 – Financial year**

The Board of Directors shall prepare for each financial year as of 31 December an annual report consisting of financial statements with a management report if required and the consolidated financial statements.

**Article 36 – Financial year**

[Article unchanged]

**Article 37 – Allocation of profit shown on the balance sheet, Reserves**

- 1 The allocation of the profit shown on the balance sheet shall be determined by the General Meeting of Shareholders subject to the legal provisions. The Board of Directors shall submit to the General Meeting of Shareholders its proposals.
- 2 In addition to statutory reserves additional reserves may be accrued.
- 3 Dividends which have not been claimed within five years after the due date fall back to the Company and shall be allocated to the general reserves.

**Article 37 – Allocation of profit shown on the balance sheet, Reserves**

[Article unchanged]

## Section 6 – Publications and Place of Jurisdiction

## Current Version

## Proposed Version

**Article 38 – Publications**

Shareholder communications of the Company shall be made in the Swiss Official Gazette of Commerce. The Board of Directors may designate additional publication organs.

**Article 38 – Publications**

- 1 ~~Shareholder~~ [Notifications to shareholders and external](#) communications of the Company shall be made in the Swiss Official Gazette of Commerce. The Board of Directors may designate additional publication organs.
- 2 [Notices to shareholders may instead or in addition be sent \(i\) by regular mail to their addresses entered in the share register, \(ii\) by e-mail or \(iii\) in any other form that the Board of Directors deems appropriate.](#)

**Article 39 – Place of jurisdiction**

The place of jurisdiction for any disputes arising from or in connection with the shareholding in the Company shall be at the registered office of the Company.

**Article 39 – Place of jurisdiction**

The [exclusive](#) place of jurisdiction for any disputes arising from or in connection with the shareholding in the Company shall be at the registered office of the Company.





# **We reimagine medicine to improve and extend people's lives.**

We use innovative science and technology to address some of society's most challenging healthcare issues. We discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible. We also aim to reward those who invest their money, time and ideas in our company.