

Novartis AG

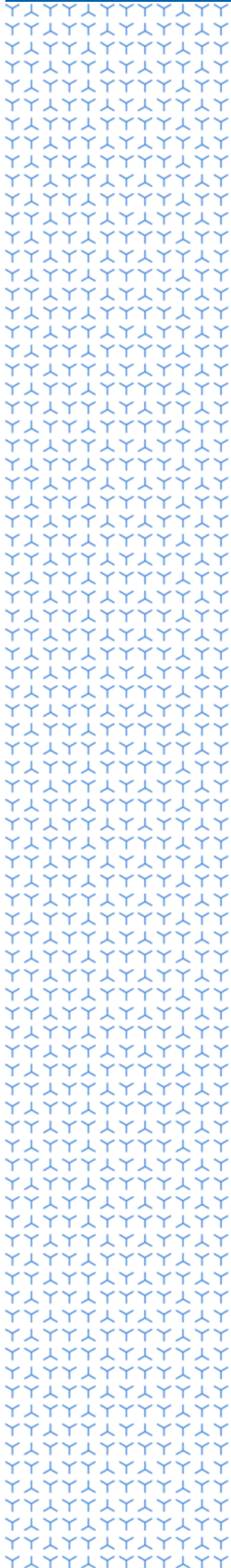
To the shareholders of Novartis AG

# Invitation to the Annual General Meeting

**Date:** Friday, February 28, 2020, 10.00 a.m. (doors open at 8.30 a.m.)

**Place:** St. Jakobshalle, St. Jakobs-Strasse 390, 4052 Basel, Switzerland

Basel, January 29, 2020



# Agenda

## 1 Approval of the Operating and Financial Review of Novartis AG, the Financial Statements of Novartis AG and the Group Consolidated Financial Statements for the 2019 Financial Year

The Board of Directors proposes approval of the operating and financial review of Novartis AG, the financial statements of Novartis AG and the Group consolidated financial statements for the 2019 financial year.

## 2 Discharge from Liability of the Members of the Board of Directors and the Executive Committee

The Board of Directors proposes to discharge its members and the members of the Executive Committee for the 2019 financial year.

## 3 Appropriation of Available Earnings of Novartis AG as per Balance Sheet and Declaration of Dividend for 2019

Balance brought forward	CHF	8 844 268 955
2019 net income of Novartis AG	CHF	15 179 937 729
Available earnings as per balance sheet	CHF	<u>24 024 206 684</u>

The Board of Directors proposes appropriation of the available earnings as per balance sheet as follows:

Gross dividend (before taxes and duties) of CHF 2.95 per dividend-bearing share* of CHF 0.50 nominal value	CHF	<u>-7 061 297 726</u>
Balance to be carried forward	CHF	<u>16 962 908 958</u>

\* No dividend will be declared on treasury shares held by Novartis AG or its fully owned subsidiaries.

If this proposal is approved, the dividend will be paid as from March 5, 2020. The last trading day with entitlement to receive the dividend is March 2, 2020. As from March 3, 2020 the shares will be traded ex-dividend.

## 4 Reduction of Share Capital

The Annual General Meeting held on February 28, 2019 authorized the Board of Directors to repurchase up to a maximum of CHF 10 billion worth of shares until the Annual General Meeting 2022 under an eighth share repurchase program, replacing the previous (seventh) program.

In 2019, 60 313 900 shares (thereof 59 483 900 under the eighth and 830 000 under the seventh share repurchase program) were repurchased via the second trading line on SIX Swiss Exchange.

These shares are to be cancelled and the share capital reduced accordingly. PricewaterhouseCoopers AG, the statutory auditor of Novartis AG, has confirmed in a special report prepared for the Annual General Meeting that, from today's perspective, the claims of creditors remain fully covered even after the proposed reduction in share capital.

The Board of Directors proposes:

(i) to state in accordance with the special report of PricewaterhouseCoopers AG that, from today's perspective, the claims of creditors are fully covered even after the proposed reduction of the share capital;

(ii) to reduce the share capital by CHF 30 156 950 (from CHF 1 263 687 410 to CHF 1 233 530 460) through cancellation of 60 313 900 own shares repurchased in 2019;

(iii) to amend Article 4 paragraph 1 of the Articles of Incorporation to read as follows:

The share capital of the Company is CHF 1 233 530 460, fully paid-in and divided into 2 467 060 920 registered shares. Each share has a nominal value of CHF 0.50.
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## **5 Votes on Compensation for the Members of the Board of Directors and the Executive Committee**

Further information on the compensation can be found in the enclosed brochure "Compensation Votes at the 2020 Annual General Meeting" and in the 2019 Compensation Report, available at <https://www.novartis.com/annualreport2019>.

### **5.1 Binding Vote on the Maximum Aggregate Amount of Compensation for the Board of Directors from the 2020 Annual General Meeting to the 2021 Annual General Meeting**

The Board of Directors proposes approval of a maximum aggregate amount of compensation for the Board of Directors of CHF 9 000 000, covering the period from the 2020 Annual General Meeting to the 2021 Annual General Meeting.

### **5.2 Binding Vote on the Maximum Aggregate Amount of Compensation for the Executive Committee for the Financial Year 2021**

The Board of Directors proposes approval of a maximum aggregate amount of compensation for the Executive Committee of CHF 93 000 000 to be paid, promised or granted during, or in respect of, the financial year 2021.

### **5.3 Advisory Vote on the 2019 Compensation Report**

The Board of Directors proposes endorsement of the 2019 Compensation Report (advisory vote).

## **6 Re-elections of the Chairman and the Members of the Board of Directors, Election of two new Members of the Board of Directors**

The Board of Directors proposes the re-election of the current members of the Board of Directors (incl. the Chairman) as well as the election of Bridgette Heller and Simon Moroney as new members of the Board of Directors, each until the end of the next Annual General Meeting. Information on the professional backgrounds of the current members of the Board of Directors can be found in the Annual Report, available at <https://www.novartis.com/annualreport2019>.

### **6.1 Re-election of Joerg Reinhardt as Member and Chairman**

### **6.2 Re-election of Nancy C. Andrews**

### **6.3 Re-election of Ton Buechner**

### **6.4 Re-election of Patrice Bula**

### **6.5 Re-election of Srikant Datar**

### **6.6 Re-election of Elizabeth Doherty**

### **6.7 Re-election of Ann Fudge**

### **6.8 Re-election of Frans van Houten**

### **6.9 Re-election of Andreas von Planta**

### **6.10 Re-election of Charles L. Sawyers**

### **6.11 Re-election of Enrico Vanni**

### **6.12 Re-election of William T. Winters**

### **6.13 Election of Bridgette Heller**

Bridgette Heller brings more than 35 years of experience at Fortune 100 companies and held several executive positions in the consumer goods and healthcare industry among others at Danone, Merck & Co as well as Johnson & Johnson. Furthermore, Bridgette Heller serves on several Boards. Bridgette Heller is the co-founder and CEO of The Shirley Proctor Puller Foundation which is committed to generating better educational outcomes for underserved children in St. Petersburg, Florida. Her extensive track record in global leadership roles coupled with her broad experience in both the consumer products as well as healthcare area will be a great addition to the Novartis Board's commercial expertise. She is independent from Novartis according to the independence criteria set forth by the Board of Directors.

#### **6.14 Election of Simon Moroney**

Simon Moroney is one of the cofounders of the Germany-based biotechnology company Morphosys and served as its CEO until September 1, 2019. Prior to founding Morphosys, Simon Moroney held several senior academic positions at the University of Cambridge, U.K., University of British Columbia, Canada and ETH in Switzerland. He also worked at the Harvard Medical School in the United States and was part of the team at US-based ImmunoGen, Inc., that pioneered the first generation of anti-cancer antibody conjugates. Simon Moroney's deep scientific knowledge as well as his experience leading and building a biotechnology company will strengthen the Board's scientific leadership expertise. He is independent from Novartis according to the independence criteria set forth by the Board of Directors.

#### **7 Re-elections to the Compensation Committee, Election of one new Member to the Compensation Committee**

The Board of Directors proposes the re-election of the current members of the Compensation Committee (with the exception of Ann Fudge, who is no longer standing for re-election) as well as the election of Bridgette Heller as new member of the Compensation Committee, each until the end of the next Annual General Meeting. The Board of Directors intends to designate Enrico Vanni again as Chairman of the Compensation Committee, subject to his re-election as a member of the Compensation Committee.

##### **7.1 Re-election of Patrice Bula**

##### **7.2 Re-election of Srikant Datar**

##### **7.3 Re-election of Enrico Vanni**

##### **7.4 Re-election of William T. Winters**

##### **7.5 Election of Bridgette Heller**

#### **8 Re-election of the Statutory Auditor**

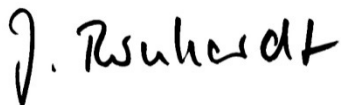
The Board of Directors proposes the re-election of PricewaterhouseCoopers AG as auditor for the financial year starting on January 1, 2020.

#### **9 Re-election of the Independent Proxy**

The Board of Directors proposes the re-election of lic. iur. Peter Andreas Zahn, Attorney at Law, Basel, as Independent Proxy until the end of the next Annual General Meeting.

For the Board of Directors

The Chairman:



Joerg Reinhardt, Ph.D.

(The original German text is binding)

Enclosures: - Registration form with reply envelope  
- Brochure "Compensation Votes at the 2020 Annual General Meeting"

# Organizational notes

## No Trading Restriction

The registration of shareholders for voting purposes does not affect the trading of shares held by registered shareholders before, during or after a General Meeting.

## Documentation

The full Annual Report for the 2019 financial year (incl. the operating and financial review of Novartis AG, the financial statements of Novartis AG, the Group's consolidated financial statements, the Compensation Report as well as the statutory auditor's reports) is available in English at <https://www.novartis.com/annualreport2019> and available for inspection by shareholders at the Registered Office of the Company\*.

A short version of the Annual Report ("Annual Review") is available in English and German, both as printed copy and electronically at <https://www.novartis.com/investors/novartis-annual-reporting-suite>. Shareholders who have requested or who will request a printed version will be provided with the Annual Review as of February 3, 2020.

## Admission Tickets

Admission tickets and voting materials will be sent from February 19 to 26, 2020 to shareholders who register for the Annual General Meeting. It will facilitate the preparations for the meeting if the enclosed registration form is returned as early as possible.

Voting rights may only be exercised for shares registered with the right to vote in the share register on February 25, 2020.

## Proxy Appointment

A shareholder may only be represented at the General Meeting by his or her legal representative, another shareholder with the right to vote or the Independent Proxy (lic. iur. Peter Andreas Zahn, Attorney at Law, St. Jakobs-Strasse 7, 4052 Basel, Switzerland). Proxies may only be appointed for one General Meeting.

Please note that family members who are not themselves shareholders cannot be appointed as proxies. This does not apply to family members acting as legal representatives.

## Sherpany Online Platform

Novartis offers shareholders the use of the Sherpany online platform to receive invitations to future General Meetings exclusively by e-mail. They can then use Sherpany to order their admission ticket, appoint a proxy, and give voting instructions.

Shareholders who are not yet registered can do so by using the account opening details sent to them with the Invitation to the Annual General Meeting. In case of questions, please contact the Novartis Share Registry (Novartis AG, Share Registry, Forum 1-2.77, 4002 Basel, Switzerland, Tel: +41 61 324 72 04, Fax: +41 61 324 32 44, E-mail: [share.registry@novartis.com](mailto:share.registry@novartis.com)).

## Proposals from Shareholders on Agenda Items

Proposals from shareholders on agenda items are only permissible if they are put to the General Meeting by the shareholders themselves or by an individual proxy acting on their behalf. The Independent Proxy cannot act as individual proxy in this sense.

## Transportation

Shareholders are requested to use public transport since parking facilities at the St. Jakobshalle are limited.

## Simultaneous Translations

The General Meeting will be held partially in German, in English and in French with simultaneous translations into German, English and French. Headphones will be provided in the foyer.

## Webcast

The General Meeting can be watched as webcast at <https://www.novartis.com/agm>.

\*At the Office of the Corporate Secretary, Lichtstrasse 35, 4056 Basel, Switzerland



# Compensation Votes

at the 2020 Annual General Meeting

Item 5 of the Agenda  
(The original German text is binding)

## Dear Shareholder,

As a leading global medicines company, we use innovative science and digital technologies to create transformative treatments in areas of great medical need. Our purpose as a company is to reimagine medicine to improve and extend people's lives. We foster a company culture that is curious, inspired, and unbossed. We believe these elements drive continued innovation and will support the creation of value over the long term for our company, society and to you as a shareholder.

During 2019, we continued the implementation of our strategy to become a leading focused medicines company, powered by advanced therapy platforms and data science. We completed the spin-off of Alcon in April 2019 and continued transforming Sandoz into a stronger and more agile generics unit within Novartis.

From a compensation perspective, we continued to engage with shareholders and proxy advisors to gather feedback on the compensation system for the Executive Committee, and as well as our disclosure practices in the Compensation Report, and we would like to thank you for the constructive dialogue.

As in prior years and in line with the Swiss Ordinance against Excessive Compensation in Listed Companies and our Articles of Incorporation, we are asking shareholders at the 2020 Annual General Meeting (AGM) to cast separate binding votes on two aggregate amounts of compensation, and an advisory (non-binding) vote on our 2019 Compensation Report as described in this brochure.

### **Vote 5.1: Binding Vote on the Maximum Aggregate Amount of Compensation for the Board of Directors from the 2020 Annual General Meeting to the 2021 Annual General Meeting**

The Board of Directors proposes approval of a maximum aggregate amount of compensation for the Board of Directors of CHF 9 000 000, covering the period from the 2020 Annual General Meeting to the 2021 Annual General Meeting.



### **Vote 5.2: Binding Vote on the Maximum Aggregate Amount of Compensation for the Executive Committee for the Financial Year 2021**

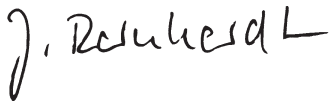
The Board of Directors proposes approval of a maximum aggregate amount of compensation for the Executive Committee of CHF 93 000 000 to be paid, promised or granted during, or in respect of, the financial year 2021.

### **Vote 5.3: Advisory Vote on the 2019 Compensation Report**

The Board of Directors proposes endorsement of the 2019 Compensation Report (advisory vote).

This brochure provides information on the three compensation-related votes. Further details regarding the compensation systems for our Board and Executive Committee members are set out in the 2019 Annual Report.

On behalf of the Novartis Board of Directors,



**Joerg Reinhardt**  
Chairman, Board of Directors



**Enrico Vanni**  
Vice Chairman, Board of Directors  
Chairman, Compensation Committee

## Vote 5.1

Binding Vote on the Maximum Aggregate Amount of Compensation for the Board of Directors from the 2020 Annual General Meeting to the 2021 Annual General Meeting, i.e. CHF 9 000 000

The Chairman of the Board and other Board member fee rates remain unchanged since the prior year. Fees reflect our governance structure and the responsibilities of the Board, in accordance with applicable laws and our own regulations. Aggregate Board compensation aligns with the current levels of other large Swiss companies.

Board members receive only fixed compensation. They receive no variable or performance-based compensation, no share options and no additional fees for attending meetings. Members do not receive any company pension, insurance or other benefits. Fees paid are at least 50% in Novartis shares (up to 100% at the option of each Board member) and the remainder is paid in cash.

### Board member annual fees payable from the period from the 2020 AGM to the 2021 AGM

CHF 000s	Fees for period from the 2020 AGM to the 2021 AGM
Chairman of the Board	3 800
Board membership	280
Vice Chairman	50
Chair of the Audit and Compliance Committee <sup>1</sup>	130
Chair of the Compensation Committee <sup>1</sup>	90
Chair of other committees <sup>1,2</sup>	70
Membership of the Audit and Compliance Committee <sup>1</sup>	70
Membership of the other committees <sup>1,3</sup>	40

<sup>1</sup> Additional committee fees for functions of Board members in committees, i.e. chairmanship/membership (not applicable for the Chairman)

<sup>2</sup> Applies to the Governance, Nomination and Corporate Responsibilities Committee; the Research and Development Committee; and the Risk Committee. The Chairman receives no additional committee fees for chairing the Research and Development Committee.

<sup>3</sup> Applies to the Compensation Committee; the Governance, Nomination and Corporate Responsibilities Committee; the Research and Development Committee; and the Risk Committee

## Amount requested for the period from the 2020 AGM to the 2021 AGM

The amount shown in the table below assumes that all proposed Board members (and Compensation Committee members) will be elected at the 2020 AGM. The total compensation amount requested is broadly in line with the prior term, except for the increase from twelve to fourteen proposed Board members compared to last year in order to ensure a smooth succession as some Board members reach the statutory retirement age of 70 in the near future, and a reallocation of committee memberships.

CHF	Approved for: 2019 AGM – 2020 AGM	Requested for: 2020 AGM – 2021 AGM
Chairman of the Board	3 805 000	3 805 000
Other Board members	4 395 000	5 195 000 <sup>1</sup>
<b>Total amount of compensation for the members of the Novartis Board of Directors</b>	<b>8 200 000</b>	<b>9 000 000<sup>2</sup></b>

<sup>1</sup> The amount will be payable in accordance with the fees for Board membership and the fees for committee chair and membership roles, as detailed on page 4.

<sup>2</sup> The total includes an estimated amount of CHF 26 000 mandatory employer contributions for all Board members payable by Novartis to Swiss governmental social security systems. This amount is out of estimated total employer contributions of approximately CHF 450 000, and provides a right to the maximum future insured government pension benefit for the Board member. These estimates exclude potential changes to governmental social security rates.

The total compensation earned by the Board from 2019 AGM to the 2020 AGM is CHF 8 191 756 which is below the CHF 8 200 000 approved by shareholders at the 2019 AGM.

## Vote 5.2

### Binding Vote on the Maximum Aggregate Amount of Compensation for the Executive Committee for the Financial Year 2021, i.e. CHF 93 000 000

To succeed in our mission, we need to attract and retain the best global talent. The Executive Committee (ECN) compensation system enables us to meet this ambition. It is aligned with our business strategy and shareholders' interests, and it supports our aspiration to be one of the world's most successful healthcare companies.

#### The ECN compensation system, effective since 2019

	Fixed pay and benefits		Variable pay – performance-related	
	Annual base salary	Pension and other benefits	Annual Incentive	Long-Term Incentive awards
<b>Purpose</b>	Reflects responsibilities, experience and skill sets	Tailored to local market practices / regulations	Rewards for performance against key short-term targets and Values and Behaviors <sup>2</sup>	Rewards long-term shareholder value creation and innovation in line with our strategic priorities
<b>Form of payment</b>	Cash	Country / individual specific and aligned with other employees	50% cash 50% equity <sup>1</sup> deferred for three years	Equity
<b>Performance cycle</b>	–	–	One year	Three years
<b>Performance measures</b>	–	–	Individual balanced scorecard, including financial targets (60% weighting) and strategic objectives aligned to the five strategic pillars (40% weighting): innovation, operational excellence, data and digital, people and culture and building trust with society <sup>2</sup>	Four equally weighted performance measures (25% weighting each): <ul style="list-style-type: none"> <li>• Net Sales growth (CAGR<sup>3</sup>)</li> <li>• Core Operating Income Growth (CAGR<sup>3</sup>)</li> <li>• Long-term innovation</li> <li>• Relative TSR vs. global sector peers<sup>4</sup></li> </ul>

<sup>1</sup> Executive Committee members may elect to receive up to 100% of their Annual Incentive in equity instead of cash.

<sup>2</sup> The Novartis Values and Behaviors are also a key component of the Annual Incentive and are embedded in our culture. As such, members of the Executive Committee are expected to demonstrate these to the highest standard.

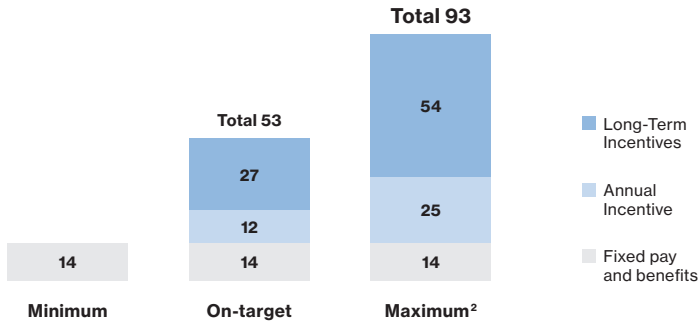
<sup>3</sup> CAGR = compound annual growth rate

<sup>4</sup> The selected peer group for relative TSR consists of 15 companies consistent with our global healthcare peer group, as follows: AbbVie, Amgen, AstraZeneca, Biogen, Bristol-Myers Squibb, Eli Lilly & Co., Gilead Sciences, GlaxoSmithKline, Johnson & Johnson, Merck & Co., Novartis, Novo Nordisk, Pfizer, Roche and Sanofi.

## Proposed total maximum compensation to be paid, promised or granted the Executive Committee for the next financial year, i.e. 2021

The table below presents a breakdown of the expected minimum, target and maximum 2021 total compensation for the 13 expected members of the Executive Committee.

(in CHF million, rounded)<sup>1</sup>



<sup>1</sup> One member is to be paid in USD. The exchange rate used is CHF 1.00 = USD 1.006, and the proposed amount excludes any currency exchange rate fluctuation between the time of the release of this brochure and December 31, 2021. The on-target and maximum amounts also exclude any share price evolution and dividend equivalents earned over the three-year performance cycle.

<sup>2</sup> The proposed total maximum compensation amount includes service costs of pension and other benefits such as a company car, tax and financial planning services, as well as international assignment benefits where applicable in accordance with standard company policies. It also includes an amount of approximately CHF 70 000 for estimated mandatory employer contributions for all Executive Committee members payable by Novartis to governmental social security systems. This amount is out of an estimated total employer contributions of approximately CHF 4 200 000, and provides a right to the maximum future insured government pension benefit for the Executive Committee member.

**Minimum:** Only fixed pay and benefits are payable. Variable compensation is not payable, assuming none of the performance criteria have been met.

**On-target:** Fixed pay and benefits together with variable compensation at 100% of target for both the Annual Incentive and Long-Term Incentive, assuming all members of the Executive Committee have met their performance targets on each incentive plan.

**Maximum:** The “maximum” amount assumes that all performance targets for both the Annual Incentive and Long-Term Incentive are at the maximum of 200%. The maximum payout at 200% of target for all Executive Committee members on an aggregated basis has never occurred at Novartis.

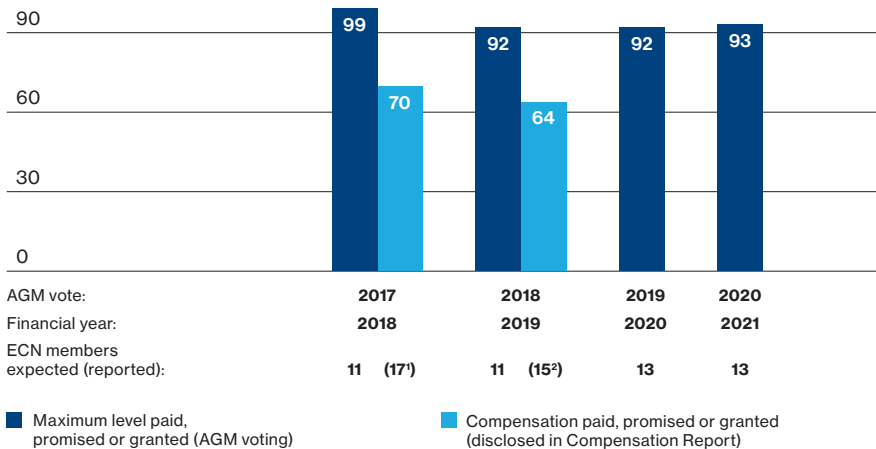
The value of Long-Term Incentive awards is determined at the time the shares are granted (the number of shares is determined by dividing the value at grant by the share price on the grant date). This excludes any share price evolution over the vesting period and any dividends that are paid each year on shares or dividend equivalents that accrue during the vesting period of the Long-Term Incentive awards.

## Evolution of Executive Committee compensation

The chart below shows the maximum amounts approved by shareholders from the 2017 AGM to the 2019 AGM, and to be approved at the 2020 AGM. In addition, it shows for comparison purposes the compensation paid, promised or granted to the members of the Executive Committee for the 2018 and 2019 financial years.

### Evolution of ECN compensation chart

(in CHF million, rounded)



<sup>1</sup> Includes 13 active Executive Committee members and 4 members who stepped down during 2018.

<sup>2</sup> Includes 13 active Executive Committee members and 2 members who stepped down during 2019.

## Vote 5.3

### **Advisory Vote on the 2019 Compensation Report**

The purpose of the Compensation Report is to inform shareholders about our Board and Executive Committee compensation systems, policies and practices, as well as the compensation paid to members of the Board and the Executive Committee. The advisory vote gives shareholders the opportunity to express their views on the Board and Executive Committee compensation programs and systems as well as the compensation disclosures, outlined in the 2019 Compensation Report.

The 2019 Compensation Report follows a similar structure to that of the prior year, which received strong support from shareholders at the 2019 AGM.

During 2019, the Compensation Committee continued to engage with shareholders and proxy advisors to gather feedback on the compensation system for the Executive Committee and our disclosures. In response to this feedback, and in order to better align with the interests of shareholders, we have introduced a mandatory holding period of 2 years beyond the vesting date for all Long-term Incentive awards (after applicable taxes) to the CEO and CFO granted from 2020 onwards.

### **Enhanced disclosure in the 2019 Compensation Report**

Reflecting our commitment to shareholders regarding transparency in executive pay, we would like to also draw attention to the following enhanced disclosures:

- Increased disclosure on the balanced scorecard for the CEO's Annual Incentive, in particular, on targets related to environmental, social and governance (ESG) metrics.
- Increased transparency on innovation metrics for the 2019-2021 Long-Term Performance Plan (LTPP) by taking them from published Novartis filing charts in the Annual Report.
- Added an interim update of how performance is tracking against targets for all metrics relating to the ongoing LTPP performance cycles to provide an upfront indication of ongoing performance.
- Provided detailed explanations of pension benefits for members of the Executive Committee, which are fully aligned with the pensions of all other associates at Novartis.





## **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.