

## Novartis

Country	Switzerland
Meeting date	28 February 2020 10:00
Meeting location	St. Jakobshalle, St. Jakobs-Strasse 390, 4052 Basel, Switzerland
Meeting type	Annual General Meeting
Securities	ISIN CH0012005267, Valor number 1200526

### General Meeting Highlights

**ITEM 5.2** - Binding prospective vote on the total remuneration of the executive management. The total remuneration package requested for 13 expected members of the executive management is CHF 93 million for the 2021 financial year. Ethos cannot approve such an amount so far in advance, as performance targets have not yet been set. Also, the potential maximum variable remuneration (950% of base salary for the CEO) significantly exceeds the limit set in Ethos' guidelines. Ethos recommends to OPPOSE (points 4.6.a and 4.6.d of Ethos' guidelines).

**ITEM 5.3** - Advisory vote on the remuneration report. The remuneration report is not in line with Ethos' guidelines. Ethos recommends to OPPOSE (point 4.2.a of Ethos' guidelines).

**ITEM 6.4** - Re-elect Mr. Patrice Bula. He holds an excessive number of mandates. Ethos recommends to OPPOSE (point 2.1.c of Ethos' guidelines).

**ITEM 7.1** - Re-elect Mr. Patrice Bula to the remuneration committee. As Ethos did not support the election of Mr. Bula to the board of directors, he cannot be elected to the committee. Ethos recommends to OPPOSE (point 2.4.a of Ethos' guidelines).

**ITEM 8** - Re-elect PricewaterhouseCoopers as auditors. The audit firm has been in office for 24 years, which exceeds Ethos' guidelines. Ethos recommends to OPPOSE (point 3.1.b of Ethos' guidelines).

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# 1. General Meeting Overview

## 1.1 Voting positions at this general meeting

Item	Proposal		Ethos voting position	Board recommendation
1	Approve annual report, financial statements and accounts		FOR	FOR
2	Discharge board members and executive management		FOR	FOR
3	Approve allocation of income and dividend		FOR	FOR
4	Reduce share capital via cancellation of shares		FOR	FOR
5.1	Binding prospective vote on the total remuneration of the board of directors		FOR	FOR
5.2	Binding prospective vote on the total remuneration of the executive management	●	OPPOSE	FOR
5.3	Advisory vote on the remuneration report	●	OPPOSE	FOR
6	Elections to the board of directors			
6.1	Re-elect Dr. Jörg Reinhardt as board member and chairman		FOR	FOR
6.2	Re-elect Dr. Nancy C. Andrews		FOR	FOR
6.3	Re-elect Mr. Ton Büchner		FOR	FOR
6.4	Re-elect Mr. Patrice Bula	●	OPPOSE	FOR
6.5	Re-elect Prof. Dr. oec. Srikant Datar		FOR	FOR
6.6	Re-elect Ms. Elizabeth Doherty		FOR	FOR
6.7	Re-elect Ms. Ann Marie Fudge		FOR	FOR
6.8	Re-elect Mr. Frans van Houten		FOR	FOR
6.9	Re-elect Dr. iur. Andreas von Planta		FOR	FOR
6.10	Re-elect Prof. Dr. Charles L. Sawyers		FOR	FOR
6.11	Re-elect Dr. Enrico Vanni		FOR	FOR
6.12	Re-elect Mr. William T. Winters		FOR	FOR
6.13	Elect Ms. Bridgette Heller		FOR	FOR
6.14	Elect Dr. Simon Moroney		FOR	FOR
7	Elections to the remuneration committee			
7.1	Re-elect Mr. Patrice Bula to the remuneration committee	●	OPPOSE	FOR
7.2	Re-elect Prof. Dr. oec. Srikant Datar to the remuneration committee		FOR	FOR
7.3	Re-elect Dr. Enrico Vanni to the remuneration committee		FOR	FOR
7.4	Re-elect Mr. William T. Winters to the remuneration committee		FOR	FOR
7.5	Elect Ms. Bridgette Heller to the remuneration committee		FOR	FOR

8	Re-elect PricewaterhouseCoopers as auditors	●	OPPOSE	FOR
9	Re-elect Peter Andreas Zahn as independent proxy		FOR	FOR
	Transact any other business	●	OPPOSE	

## 1.2 Voting results of the general meeting of 28 February 2019

Item	Proposal	% For	Result	Ethos voting position	Board recommendation
1	Approve annual report, financial statements and accounts	100 %	Accepted	<i>FOR</i>	<i>FOR</i>
2	Discharge board members and executive management	95 %	Accepted	<i>FOR</i>	<i>FOR</i>
3	Approve allocation of income and dividend	100 %	Accepted	<i>FOR</i>	<i>FOR</i>
4	Reduce share capital via cancellation of shares	100 %	Accepted	<i>FOR</i>	<i>FOR</i>
5	Approve share buyback programme	98 %	Accepted	<i>FOR</i>	<i>FOR</i>
6	Special distribution by way of a dividend in kind to effect the spin-off of Alcon Inc.	100 %	Accepted	<i>FOR</i>	<i>FOR</i>
7.1	Binding prospective vote on the total remuneration of the board of directors	97 %	Accepted	<i>FOR</i>	<i>FOR</i>
7.2	Binding prospective vote on the total remuneration of the executive management	94 %	Accepted	● <i>OPPOSE</i>	<i>FOR</i>
7.3	Advisory vote on the remuneration report	95 %	Accepted	<i>FOR</i>	<i>FOR</i>
8	Elections to the board of directors	-	-		
8.1	Re-elect Dr. Jörg Reinhardt as board member and chairman	97 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.2	Re-elect Dr. Nancy C. Andrews	99 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.3	Re-elect Mr. Ton Büchner	99 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.4	Re-elect Prof. Dr. oec. Srikant Datar	91 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.5	Re-elect Ms. Elizabeth Doherty	99 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.6	Re-elect Ms. Ann M. Fudge	98 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.7	Re-elect Mr. Frans van Houten	99 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.8	Re-elect Dr. iur. Andreas von Planta	92 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.9	Re-elect Prof. Dr. Charles L. Sawyers	98 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.10	Re-elect Dr. Enrico Vanni	98 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.11	Re-elect Mr. William T. Winters	98 %	Accepted	<i>FOR</i>	<i>FOR</i>
8.12	Elect Mr. Patrice Bula	94 %	Accepted	● <i>OPPOSE</i>	<i>FOR</i>
9	Elections to the remuneration committee	-	-		
9.1	Re-elect Prof. Dr. oec. Srikant Datar to the remuneration committee	92 %	Accepted	<i>FOR</i>	<i>FOR</i>
9.2	Re-elect Ms. Ann M. Fudge to the remuneration committee	98 %	Accepted	<i>FOR</i>	<i>FOR</i>

## Voting Positions

9.3	Re-elect Dr. Enrico Vanni to the remuneration committee	97 %	Accepted		<i>FOR</i>	<i>FOR</i>
9.4	Re-elect Mr. William T. Winters to the remuneration committee	98 %	Accepted		<i>FOR</i>	<i>FOR</i>
9.5	Elect Mr. Patrice Bula to the remuneration committee	94 %	Accepted	●	<i>OPPOSE</i>	<i>FOR</i>
10	Election of the auditors	95 %	Accepted	●	<i>OPPOSE</i>	<i>FOR</i>
11	Election of the independent proxy	100 %	Accepted		<i>FOR</i>	<i>FOR</i>
	Transact any other business		-	●	<i>OPPOSE</i>	

### Attendance details

The attendance rate at the 2019 AGM was 66% of the voting shares. The votes were represented as follows:

- Independent proxy: 94%
- Shareholders in the room: 6%

## 2. Proxy Analysis

1	Approve annual report, financial statements and accounts	FOR																		
<p>The board of directors requests shareholder approval of the company's annual report and of the annual and consolidated accounts for the fiscal year 2019.</p>																				
<p><b>Company performance in 2019 (see detailed figures in section 3.3 of this report)</b></p>																				
<table border="0"> <tr> <td data-bbox="316 636 1401 672">- Total revenues variation in 2019</td> <td data-bbox="1401 636 1477 672">+6%</td> </tr> <tr> <td data-bbox="316 676 1401 712">- Total revenues variation (3-year annualised)</td> <td data-bbox="1401 676 1477 712">+3.9%</td> </tr> <tr> <td data-bbox="316 716 1401 752">- Operating margin 2019</td> <td data-bbox="1401 716 1477 752">19.2%</td> </tr> <tr> <td data-bbox="316 757 1401 792">- Operating margin 2018</td> <td data-bbox="1401 757 1477 792">18.8%</td> </tr> <tr> <td data-bbox="316 797 1401 833">- Net income variation</td> <td data-bbox="1401 797 1477 833">-7%</td> </tr> <tr> <td data-bbox="316 837 1401 873">- Return on equity 2019</td> <td data-bbox="1401 837 1477 873">17.5%</td> </tr> <tr> <td data-bbox="316 878 1401 913">- Return on equity 2018</td> <td data-bbox="1401 878 1477 913">16.5%</td> </tr> <tr> <td data-bbox="316 918 1401 954">- Total Shareholder Return (TSR)</td> <td data-bbox="1401 918 1477 954">12.7%</td> </tr> <tr> <td data-bbox="316 958 1401 994">- 3-year TSR</td> <td data-bbox="1401 958 1477 994">35.4%</td> </tr> </table>			- Total revenues variation in 2019	+6%	- Total revenues variation (3-year annualised)	+3.9%	- Operating margin 2019	19.2%	- Operating margin 2018	18.8%	- Net income variation	-7%	- Return on equity 2019	17.5%	- Return on equity 2018	16.5%	- Total Shareholder Return (TSR)	12.7%	- 3-year TSR	35.4%
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- 3-year TSR	35.4%																			
<p><b>2019 Company milestones</b></p>																				
<ul style="list-style-type: none"> <li>In April 2019, following approval by the 2019 AGM, Novartis completed the spin off of its Alcon eye care devices business allowing Novartis to fully focus on its medicines.</li> </ul>																				
<p>In January 2020, Novartis published its corporate responsibility report (called "Novartis in society"). The report, which is available on Novartis' website, has been prepared in accordance with the GRI Standards, with disclosure at "core" application level. All performance indicators have been externally verified. Novartis' areas of focus presented in the sustainability report encompass the four material issues determined as part of a materiality assessment carried out in 2017, the results of which have been published in a comprehensive report in 2018.</p>																				
<p>In line with the provisions of the International Standards on Auditing (ISA), the audit report mentions 3 key audit matters that were most significant in the audit of the 2019 consolidated financial statements and how these key audit matters were addressed by PricewaterhouseCoopers. In addition, the audit report mentions the materiality threshold used by PricewaterhouseCoopers (USD 400 million, corresponding to less than 5% of income before taxes from continuing operations) as well as the scope of the audit. Ethos welcomes the voluntary disclosure of the materiality threshold and the audit scope.</p>																				
<p>Ethos has no special concerns regarding the accuracy of the company's financial statements and accounts and, in accordance with its voting guidelines, recommends to vote FOR.</p>																				
2	Discharge board members and executive management	FOR																		
<p>The board of directors requests shareholders to discharge its members as well as those of the executive management of their responsibilities for their management of the company for the fiscal year 2019.</p>																				
<p>In line with the Swiss Code of Obligations, shareholders are requested to release the members of the board of directors from liability for their activities during the fiscal year under review. Shareholders that grant the discharge lose their right to file claims against the members of the board of directors for activities carried out during the year relating to facts that have been disclosed to shareholders. Nevertheless, all shareholders maintain their rights to file claims for facts that have not been disclosed to shareholders when the discharge was granted.</p>																				

Ethos notes that Novartis has made a provision of USD 700 million in 2019 for a possible settlement related to a bribery case which refers to events which took place between 2002 and 2011. Since the provision booked refers to an old case which had already been revealed in the past, Ethos will not oppose the discharge.

The auditor's reports are not qualified and Ethos is not aware of any revealed facts that would give reason to oppose the discharge. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

### 3 Approve allocation of income and dividend FOR

The board of directors proposes that the amount at the disposal of the AGM be allocated as follows:

Available earnings brought forward	CHF	8'844'268'955
2019 Income of the parent company	CHF	15'179'937'729
At the disposal of the AGM	CHF	24'024'206'684
Payment of dividend	CHF	-7'061'297'726
Allocation to reserves	CHF	0
Carry forward to statutory accounts	CHF	16'962'908'958

#### Key indicators

Consolidated net income	USD	11.7 billion
Free cash flow from continuing activities (Cash flow from operating activities - Capital expenditures)	USD	12.9 billion
Dividend per share	CHF	2.95 (2018: 2.85)
Payout ratio		58.8%
Dividend yield (based on the share price at year-end)		3.2%
Net debt (Current and non-current debt - Cash and cash equivalents - Marketable securities)	USD	15.9 billion

Subject to shareholder approval, the dividend will be paid on 05 March 2020 and the shares will be traded ex-dividend from 3 March 2020. Given the company's results, Ethos, in accordance with its voting guidelines, recommends to vote FOR.

### 4 Reduce share capital via cancellation of shares FOR

The board of directors proposes to reduce the company's share capital by CHF 30'156'950 via the cancellation of 60'313'900 registered shares with a nominal value of CHF 0.5. This corresponds to a 2.4% reduction of the issued share capital. The new share capital shall amount to CHF 1'223'530'460 divided into 2'467'060'920 registered shares with a nominal value of CHF 0.5.

The proposal is in connection with the eighth share repurchase programme approved by the 2019 AGM, which authorises the board to repurchase shares up to a maximum value of CHF 10 billion until 2022. In 2019, 60'313'900 shares were repurchased via the second trading line of the SIX Swiss Exchange and will be cancelled upon approval of this item. The purpose of such programmes is to absorb the excess of cash.

Ethos, in accordance with its voting guidelines, recommends to vote FOR.

### 5.1 Binding prospective vote on the total remuneration of the board of directors FOR

The board of directors requests shareholder approval of the total maximum remuneration to be paid to the board of directors for the period from the 2020 AGM to the 2021 AGM (prospective vote).

### A) Board proposal

The board requests a maximum total amount of CHF 9'000'000 million for its 14 members, including the chairman (see section 5 of this report for details). According to the meeting agenda, the board individual fees will remain unchanged from last year. The increase of CHF 800'000 in the requested amount compared to last year is only due to the appointment of 2 additional board members at this AGM.

Taking into account the information disclosed in the meeting agenda, the requested amount can be split as follows:

Chairman	CHF	3'805'000
Other board members (average)	CHF	399'615

### B) Comparison to company peers

Ethos considers it is relevant to compare the remuneration of board members of a Swiss listed company to that of other Swiss peers. In fact, the role of board members in Swiss companies includes both strategic guidance to the management and supervisory functions which is not always the case in other countries. Novartis mentions in its remuneration report that it compares the remuneration of its chairman and other board members to a peer group of large Swiss listed companies : ABB, Credit Suisse, LafargeHolcim, Nestlé, Roche and UBS.

Median remuneration of chairmen (Novartis' peer group)	CHF	4'058'270
Median remuneration of other board members (Novartis' peer group)	CHF	397'468

Therefore, Novartis' board remuneration is close to the median of its own peer group. Novartis being the third largest capitalisation in Switzerland, Ethos has also compared Novartis' board remuneration to the 10 largest capitalisations in the SPI and found that the remuneration is also very close to the median.

When compared to the SMI Index (20 largest capitalisations), the remuneration of the chairman is 132% higher than the median (22% higher than the peer group for the other board members).

### C) Ethos' recommendation

The remuneration of Dr. Reinhardt, chairman of the board, remains high when compared to chairmen of the SMI companies. However, as mentioned above, Novartis, together with Roche and Nestlé, is included in the top 3 largest Swiss listed companies in terms of market capitalisation (the other SMI companies are substantially smaller in terms of both market capitalisation and revenues). For comparison purposes, the chairman of Roche received CHF 6.2 million for 2019 and the chairman of Nestlé received CHF 4.06 million for 2018 (last available data), which exceeds the remuneration received by Dr. Reinhardt. In addition, Ethos considers that his remuneration has to be analysed in light of his workload and commitment to Novartis. When contacted, Novartis explained that Dr. Reinhardt's time commitment was at least 60% and that he always remains available for extra work, despite the fact the he is also non-executive board member of Swiss Re since 2017. While his remuneration can be accepted this year, Ethos still believes that the chairman's remuneration should be reduced considering that he does not act as full-time chairman of the board. Ethos will convey its concerns to the company and reassess its position next year.

Ethos considers that the remuneration of the other non-executive board members is acceptable compared to peers. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

5.2

**Binding prospective vote on the total remuneration of the executive management**
**OPPOSE**

The board of directors requests shareholder approval of the total maximum remuneration to be paid to the executive management for the 2021 financial year (prospective vote).

### A) Board proposal

The board requests a maximum amount of CHF 93 million to be paid to the 13 expected members of the executive management, including the CEO (see section 5 of this report for details). The requested amount includes the maximum potential leverage under the long term incentive plan (200%), assuming a constant share price from grant (in early 2021) to vesting (end 2023).

## B) Ethos' appraisal of the requested amount

### B.1) Fixed remuneration, including base salaries and other benefits (CHF 14 million)

As explained under ITEM 5.3, Dr. Vasant Narasimhan's annual base salary for his CEO function was set at CHF 1'674'000 on 1 March 2019 but will be increased to CHF 1'757'700 on 1 March 2020. The remuneration committee might however further increase his annual remuneration over the next years contingent upon strong performance and proven ability in his CEO role.

In 2018 (most recent figures available), the base salaries paid to the CEOs of companies similar to Novartis (peers included in Novartis' Global Healthcare peer group) were the following:

Median base salary of CEOs	CHF	1'561'882
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Therefore, the announced base salary of CHF 1'757'700 as of March 2020 is 12.5% above the median of the peer group. When compared to the 10 largest capitalisations in Switzerland, the CEO's base salary is 4% above the median, which is acceptable. However, as explained above, his base salary might further increase in 2021.

### B.3) Variable remuneration (annual bonus of CHF 25 million and long-term incentives of CHF 54 million)

Novartis mentions in the meeting agenda that the target amount of the annual bonus for the 13 members of the executive management is CHF 12 million (if 100% of targets are reached) and that the maximum potential amount of CHF 25 million will be paid only upon achieving 200% of the targets. As stipulated in the meeting agenda, at least 50% of the annual incentive is paid in Novartis shares that will vest in 3 years (meaning that the beneficiary will receive the shares only if he is still employed by the company 3 years after grant).

According to the meeting agenda the annual bonus depends on undisclosed financial targets and strategic objectives in the areas of innovation, operational excellence, data and digital, people and culture and building trust with society. Ethos regrets that Novartis does not disclose the financial performance indicators that will be used for the 2021 annual bonus, preventing shareholders from assessing the functioning of the annual bonus.

For the long term incentive plan (LTIP), the targeted amount to be granted in conditional shares (upon reaching 100% of the targets) is CHF 27 million while the maximum amount (excluding share price appreciation at the end of the three year performance period) is CHF 54 million. The vesting of the shares will depend on Novartis' performance between 2021 and 2023. Depending on the achievement of performance measures, the final number of shares to vest in three years can vary between 0% and 200%. Novartis discloses in the meeting agenda the 4 equally weighted performance measures that will apply to the 2021-2023 LTIP: net sales growth, core operating income growth, innovation and relative TSR compared to 15 healthcare companies. As mentioned under ITEM 5.3, Ethos regrets that only 25% of the LTIP depends on relative performance.

Based on the information published in the 2019 remuneration report, the company CEO's targeted variable remuneration is 475% of his base salary and can reach 950% in case of overachievement. This target and maximum variable pay opportunity as a percentage of the base salary will remain unchanged for the 2020 financial year.

## C) Ethos' recommendation

As mentioned above, the potential variable remuneration significantly exceeds Ethos' guidelines. In addition, the CEO's base salary will be adjusted upwards conditional upon achieving strong performance and demonstrated ability in his CEO role. While the remuneration report mentions the level of the CEO's base salary as from 1 March 2020, shareholders have no information about what will be his base salary in 2021. Therefore, Ethos, in accordance with points 4.6.a and 4.6.d of its voting guidelines, recommends to OPPOSE.

5.3

Advisory vote on the remuneration report

OPPOSE

The board of directors requests an advisory vote on the remuneration report included in the annual report. While the vote is not binding, it allows shareholders to send a message to the board that could help shape executive remuneration. The remuneration report describes the remuneration policy and discloses the remuneration paid to both non-executive board members and members of the executive board. Section 4 of this report includes the description and detailed figures of the 2019 remuneration of the board of directors and of the members of the executive management of the company.



### A) Changes implemented

In 2019, the following changes were introduced to the remuneration structure and report:

- Dr. Vasant Narasimhan, who was appointed CEO on 1 February 2018, received a first increase of 8% in his annual base salary applicable as from 1 March 2019 (his annual base salary increased from CHF 1'550'000 to CHF 1'674'000). He will receive another 5% annual base salary increase as from 1 March 2020 (from CHF 1'674'000 to CHF 1'757'700). His base salary remains below the base salary of his predecessor, Mr. Joe Jimenez (CHF 2.1 million).
- The long-term incentive plan has been amended for grants made as of 2019. Until 2018, Novartis had two long-term incentive plans: the LTPP, which depended on innovation and net cash value added (NCVA), and the LTRPP, which depended on relative TSR. In 2019, both long-term plans have been discontinued and replaced by a single long-term incentive plan with the following performance conditions equally weighted: net sales (compound annual growth rate), core operating income (compound annual growth rate), innovation and relative TSR. The target and maximum opportunity under the long-term plan(s) remains unchanged for the CEO (respectively 325% and 650% of his base salary).
- The transparency of the remuneration has been further improved: In particular, the explanation on the achievement level of non-financial performance measures under the annual bonus has been improved and an interim evaluation on the achievement of the performance conditions under the long-term plans which have been granted but have not yet vested is now provided.

In addition to the above changes, Novartis announced that a sale restriction of two years will be applied for awards which will vest under the long-term plan for the CEO and the CFO. This change will be applicable for grants made in 2020 and onwards.

### B) Ethos' appraisal of the remuneration system

#### B.1) Disclosure

- The overall transparency of Novartis' remuneration report is very good. As mentioned above, further improvements were made in terms of transparency. In particular, Ethos notes that Novartis is the only company of the SPI that publishes both the remuneration of the executive management at grant and the total realised remuneration in dedicated tables. In addition to the above, the following positive features can be mentioned:
- Novartis discloses the remuneration of the members of the executive management at time of grant individually for each member of the executive committee, which exceeds the requirements of Swiss company law.
- The company discloses the precise performance conditions for the annual bonus, as well as the target and maximum bonus as a percentage of the base salary. In addition, the level of bonus paid with regard to the performance achieved during the year under review is clearly explained in the remuneration report.
- Under the long-term plans, Novartis discloses ex-post the performance targets that were set at the beginning of the performance cycle, and their level of achievement at time of vesting. In addition, the company mentions the corresponding level of vesting (in % of the initial grant) and the value realised.

#### B.2) Remuneration structure: Board members

During the year under review, the chairman of the board, Mr. Reinhardt, received CHF 3'804'373 (unchanged), while the other members of the board received on average CHF 392'831 (-1%). The chairman's remuneration is 9.7 times the average remuneration of the other members of the board.

The non-executive directors do not receive any performance-related remuneration or options, which is compliant with best practice.

Ethos notes that at least 50% of the fees are paid in unrestricted shares. Ethos generally recommends that the shares be blocked for at 3 years, to better align the interests of the beneficiaries with the interests of the shareholders. However, in the case of Novartis, the lack of blocking period for the shares is mitigated by the shareholding requirement of 5'000 shares for board members (to be met within 5 years after joining the board), which corresponds to a value of CHF 459'500 taking into account the year-end share price. This exceeds an annual board fee. In addition, Novartis' chairman, Dr. Reinhardt holds 542'199 shares with an aggregate market value of CHF 52 million at year end 2019 which is far above his annual fee and the minimum shareholding requirement of 30'000 shares for the chairman.

### B.3) Remuneration structure: Executive management

The members of the executive management, including the CEO, have a base salary and can receive variable remuneration under the annual bonus plan and the long-term incentive plans (LTIP), which are described in detail under section 4.5 of this report. As mentioned above, Novartis discloses the remuneration amounts for the executive management in two different ways:

- Remuneration valued at grant that includes the annual bonus for 2019 and the target value of the LTIP awarded in 2019 for the performance period 2019-2021, assuming that the LTIP awards will vest at 100%. For the year under review, the company CEO, Mr. Narasimhan, received a total remuneration at grant of CHF 11'437'501 (+15.3%), of which 83% is variable. His total variable remuneration at grant corresponds to 5.72 times his base salary. The other members of the management received on average CHF 3'844'450 (-5.7%), of which 70% is variable. Their total variable remuneration at grant corresponds to 3.35 times their average base salary.
- Realised remuneration to reflect the actual payouts based on performance, which includes the annual bonus for 2019 and the realised remuneration on the LTIP for the performance period 2017-2019 that vested in January 2020. For 2019, Dr. Narasimhan's total realised remuneration was CHF 10'651'740, of which 79% is variable. His realised variable remuneration represents 5.22 times his base salary. The realised remuneration of the CEO is lower than the remuneration granted for 2019 (CHF 11'437'501) for the following reason: the amount of the LTIP that vested reflects grants that were made in 2017, prior to Dr. Narasimhan's appointment as CEO. Therefore, part of his realised remuneration does not reflect his current CEO role.

#### Pay-for-performance connection

In order to assess the pay-for-performance connection, and thus the relevance of the level of bonus paid, Ethos reviews the performance of the company compared to 41 companies active in the same industry as Novartis (based on the Global Industry Classification Standard (GICS) level 3). Ethos considers that the sales growth, the evolution of EBITDA (relative to the sales at the beginning of the period) and the total shareholder return (TSR) give a good overview of the performance of the company.

For the 2019 financial year, the company ranks at the following percentiles (100 is best) for each of the indicators:

Sales growth	66th
Evolution of EBITDA	59th
TSR	68th

Ethos notes that two of the above 3 performance indicators (evolution of EBITDA and sales growth) are not fully comparable in the case of Novartis as the data for the full year 2019 are not available for most companies in the peer group. The only fully comparable data is the TSR that is above the median of the peer group. Novartis' 2019 TSR is also above the median of Novartis' own peer group (called "Global Healthcare peer group").

For the annual bonus, the final payout can range between 0% to 200% of the target. For 2019, the board approved an above target payout of 160% for the CEO. This decision was based on group net sales (constant currencies), operating income, free cash flow and market share above target or well above target. In absolute terms, net sales were up 6% (9% in constant currencies), the free cash flow from continuing operations up 15% and the operating income increased by 8% (14% in constant currencies). In addition, strategic objectives, that include targets linked to innovation, operational excellence, data and digital, people and culture and building trust with society were all met or exceeded. Ethos notes that the CEO has waived the part of his bonus related to "building trust with society" due to the reputational impact linked to the Zolgensma case (Novartis has been accused of having allegedly withheld information about animal testing data to the FDA) which Ethos considers appropriate.

In addition, the 3-year performance cycle for the 2 long-term incentive plans (LTIP) granted in 2017 was completed in 2019. The payout under the LTIP can range between 0% to 200% of the target award depending on the achievement of the performance conditions. For the LTIP which depends on relative TSR (total shareholder return), the payout was 138% of target as Novartis' 3-year TSR in USD against the global healthcare peer group ranked 6th out of 16 companies. When extending the peer group to the companies included in the same industry as Novartis based on GICS 3, Novartis' TSR for the same period is significantly above the median of the peer group. In absolute terms, Novartis' TSR in USD was 63.4% during that 3-year period.

For the LTIP which depends on Novartis' cash value added (NCVA) and innovation, the final payout after the performance period was respectively 184% of the target for the NCVA and 105% of the target for innovation. The targeted NCVA in constant currencies for the 2017-2019 cycle which was USD 6.1 billion has been exceeded by 28%. On the innovation side, Novartis considers it achieved important innovation milestones during that period (it received approval for 11 new molecular entities of which 5 were approved in 2019).

**Positive features**

- Novartis' remuneration report is one of the most transparent in Switzerland. The very good description of the remuneration system, the publication of the realised remuneration and the detailed explanation of the achievement of the performance conditions under both the annual bonus and the long-term incentive plans allow for an adequate assessment of the pay-for-performance connection.
- The variable remuneration paid versus targets is acceptable based on the company's performance.

**Concerns**

- Dr. Narasimhan's realised remuneration for 2019 is CHF 10.6 million. As mentioned above, this remuneration does not fully correspond to his role as CEO as the value of the long-term incentive plan that vested in January 2020 for the 2017-2019 performance period reflects grants that were made in 2017 prior to Dr. Narasimhan's appointment as CEO. Therefore, Ethos has estimated what would have been his realised remuneration if he had received in 2017 awards for a CEO function under the long-term incentive plan. Based on Ethos' estimates, his realised remuneration for 2019 would have been close to CHF 15 million, which Ethos considers excessive. Ethos' calculation does not take into account the share price appreciation under the LTIP.
- Ethos' 2019 voting guidelines recommend that, in principle, the total variable remuneration (including short-term and long-term incentives) should not exceed 3 times the base salary for the CEO and 2 times the base salary for the other members of the executive management. At Novartis, the CEO's target variable remuneration is 475% of the base salary, while the maximum potential variable remuneration can reach 950% of his base salary, which significantly exceeds Ethos' guidelines.
- While Ethos can understand that a company of the size of Novartis with many competitors in the US must pay higher levels of variable remuneration to retain key talents, Ethos considers that a major part of the variable remuneration should be measured against a peer group of companies considering the very high level of variable remuneration. In 2019, the long-term incentive plan (LTIP) was amended. The part of the LTIP which depends on relative TSR has been reduced and now represents 25% of the LTIP only. Ethos regrets that greater emphasis is placed on internal performance conditions for the CEO as of 2019 rather than on relative performance, despite the fact that Ethos has repeatedly conveyed its concerns to the company for many years. Based on the 2019 remuneration structure, only 21% of the CEO's total target variable remuneration (bonus and LTIP) depends on relative performance targets, which is not sufficient in light of the level of variable remuneration and the upward potential.

**C) Ethos' recommendation**

Ethos commends the very high level of transparency of the remuneration report, which allows an adequate assessment of the pay for performance connexion. However, Ethos regrets that relative performance accounts for a smaller part of the LTIP as of 2019, especially since the CEO's base salary has been adjusted upward (and will continue to increase) and the target and maximum variable remuneration as a percentage of base salary have not been reduced. In light of this, Ethos, in accordance with point 4.2.a of its voting guidelines, recommends to OPPOSE.

**6 Elections to the board of directors**

The board of directors proposes that all its current members be re-elected to serve for another 1-year term. In addition, the board proposes to newly appoint Mrs. Bridgette Heller and Mr. Simon Moroney for a 1-year term.

**Main features of board composition after the AGM (for more details, see section 6 of this report)**

Board size	14
Combination of the functions of Chairman and CEO	No
% independent directors	57.1%

% executive directors	0.0%
% women directors	28.6%
Average age of directors	62.7
Average board tenure	6.4 years

**6.1 Re-elect Dr. Jörg Reinhardt as board member and chairman FOR**

The board proposes to re-elect Dr. Jörg Reinhardt (German, 64) for a further 1-year term, as board member and chairman of the board. He has been board member and chairman since 2013 and is currently chairman of the research & development committee.

While Novartis considers Dr. Reinhardt as an independent chairman, Ethos, based on its voting guidelines, cannot consider Dr. Reinhardt independent due to his annual remuneration of CHF 3.8 million. Ethos also notes that Dr. Reinhardt has held executive functions at Novartis until 2010.

Novartis proposes a single vote for the election of Dr. Reinhardt as board member and chairman of the board. While Ethos generally prefers two separate votes, Ethos has no reserves regarding his re-election and the overall board independence is sufficient. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**6.2 Re-elect Dr. Nancy C. Andrews FOR**

The board proposes to re-elect Dr. Nancy C. Andrews (US Citizen, 62) for a further 1-year term. She has been board member since 2015 and is currently member of the research & development committee and the risk committee. She is considered independent. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**6.3 Re-elect Mr. Ton Büchner FOR**

The board proposes to re-elect Mr. Ton Büchner (Dutch, 55) for a further 1-year term. He has been board member since 2016 and is currently member of the audit committee. He is considered independent. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**6.4 Re-elect Mr. Patrice Bula OPPOSE**

The board proposes to re-elect Mr. Patrice Bula (Swiss, 64) for a further 1-year term. He has been board member since 2019 and is currently member of the remuneration committee. He is considered independent.

Ethos has concerns over his aggregate time commitments. Mr. Bula is member of the executive board of Nestlé, one of the largest companies in the world. In addition, he is board member of Schindler, a large Swiss-listed company included in the SMI Index. Ethos considers that a member of the executive committee of a listed company should have no more than one external mandate in another listed company.

While Ethos does not question the competencies of Mr. Bula, Ethos considers that his current activities could impair his ability to adequately fulfil his duties as board member of Novartis. Ethos in accordance with point 2.1.c of its voting guidelines, recommends to OPPOSE.

**6.5 Re-elect Prof. Dr. oec. Srikant Datar FOR**

The board proposes to re-elect Prof. Dr. oec. Srikant Datar (US Citizen, 67) for a further 1-year term. He has been board member since 2003 and is currently chairman of the risk committee, as well as member of the audit committee and the remuneration committee. He is considered affiliated due to his board tenure of 17 years exceeding Ethos' 12-year limit for independence. The overall board independence being sufficient, Ethos, in accordance with its voting guidelines, recommends to vote FOR.

- 6.6 Re-elect Ms. Elizabeth Doherty FOR**
- The board proposes to re-elect Ms. Elizabeth Doherty (British, 63) for a further 1-year term. She has been board member since 2016 and is currently chairwoman of the audit committee and member of the risk committee. She is considered independent. Ethos, in accordance with its voting guidelines, recommends to vote FOR.
- 6.7 Re-elect Ms. Ann Marie Fudge FOR**
- The board proposes to re-elect Ms. Ann Marie Fudge (US Citizen, 69) for a further 1-year term. She has been board member since 2008 and is currently member of the nomination committee and the risk committee. She is considered affiliated due to her board tenure of 12 years having reached Ethos' limit for independence. The overall board independence being sufficient, Ethos, in accordance with its voting guidelines, recommends to vote FOR.
- 6.8 Re-elect Mr. Frans van Houten FOR**
- The board proposes to re-elect Mr. Frans van Houten (Dutch, 60) for a further 1-year term. He has been board member since 2017 and is currently member of the research & development committee. He is considered independent. Ethos, in accordance with its voting guidelines, recommends to vote FOR.
- 6.9 Re-elect Dr. iur. Andreas von Planta FOR**
- The board proposes to re-elect Dr. iur. Andreas von Planta (Swiss, 65) for a further 1-year term. He has been board member since 2006 and is currently chairman of the nomination committee, as well as member of the audit committee and risk committee. He is considered affiliated due to his board tenure of 14 years exceeding Ethos' 12-year limit for independence. The overall board independence being sufficient, Ethos, in accordance with its voting guidelines, recommends to vote FOR.
- 6.10 Re-elect Prof. Dr. Charles L. Sawyers FOR**
- The board proposes to re-elect Prof. Dr. Charles L. Sawyers (US Citizen, 61) for a further 1-year term. He has been board member since 2013 and is currently member of the nomination committee and the research & development committee.
- Dr. Sawyers co-developed Novartis' cancer drug Gleevec. In addition, Dr. Sawyers is Chairman of the Sloan Kettering Memorial Cancer Center (USA), where Novartis has a licensing agreement to develop a monoclonal antibody series that Novartis will be able to develop for all indications. In exchange, Novartis paid an up-front amount and will make potential payments in the future upon achievement of development, regulatory and sales milestones as well as annual net sales royalty payments to the Center. For all these reasons, Ethos cannot consider Dr. Sawyers as independent. However, the board being sufficiently independent, Ethos, in accordance with its voting guidelines, recommends to vote FOR.
- 6.11 Re-elect Dr. Enrico Vanni FOR**
- The board proposes to re-elect Dr. Enrico Vanni (Swiss, 69) for a further 1-year term. He has been board member since 2011 and is currently chairman of the remuneration committee, as well as member of the audit committee and the nomination committee. He is considered independent. Ethos, in accordance with its voting guidelines, recommends to vote FOR.
- 6.12 Re-elect Mr. William T. Winters FOR**
- The board proposes to re-elect Mr. William T. Winters (British, 59) for a further 1-year term. He has been board member since 2013 and is currently member of the nomination committee and the remuneration committee. He is considered independent. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**6.13 Elect Ms. Bridgette Heller FOR**

The board proposes to newly appoint Ms. Bridgette Heller (US Citizen, 59) for a 1-year term. She is also proposed as a new member of the remuneration committee under ITEM 7.5. She is considered independent by Novartis and Ethos. Ms. Heller is currently CEO of a foundation she co-founded (the Shirley Procol Puller Foundation) and she also sits on the board of two US listed companies: DexCom and Tech Data Corporation. She previously held executive function at Danone, Merck and Johnson & Johnson. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**6.14 Elect Dr. Simon Moroney FOR**

The board proposes to newly appoint Dr. Simon Moroney (New Zealander, 61) for a 1-year term. Dr. Moroney co-founded Morphosys in 1992 and acted as its CEO between 1994 until his retirement in 2019. Morphosys is a clinical-stage biopharmaceutical company focused on cancer therapies.

Morphosys and Novartis entered into a partnership in 2007 for the discovery and development of biopharmaceuticals. While Dr. Moroney left Morphosys on 1 September 2019, he still holds 1.4% of Morphosys' share capital, which represents more than EUR 50 million in market value. In light of this, he cannot be considered independent. The overall board independence being sufficient, Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**7 Elections to the remuneration committee**

The board of directors proposes that the current members of the remuneration committee be re-elected for a 1-year term, except Ms. Ann M. Fudge who will not remain a member of the committee. In addition, the board proposes to newly appoint Ms. Bridgette Heller to the committee.

**Main features of the remuneration committee composition after the AGM**

Committee size	5
Number of independent members	4
Number of executive members	0
Number of members with executive functions in other listed companies	1

**7.1 Re-elect Mr. Patrice Bula to the remuneration committee OPPOSE**

The board proposes to re-elect Mr. Patrice Bula to the remuneration committee for a 1-year term. As Ethos did not support the election of Mr. Bula to the board of directors under ITEM 6.4, he cannot be elected to the committee. Ethos, in accordance with point 2.4.a of its voting guidelines, recommends to OPPOSE.

**7.2 Re-elect Prof. Dr. oec. Srikant Datar to the remuneration committee FOR**

The board proposes to re-elect Prof. Dr. oec. Srikant Datar to the remuneration committee for a 1-year term. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**7.3 Re-elect Dr. Enrico Vanni to the remuneration committee FOR**

The board proposes to re-elect Dr. Enrico Vanni to the remuneration committee for a 1-year term. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**7.4 Re-elect Mr. William T. Winters to the remuneration committee FOR**

The board proposes to re-elect Mr. William T. Winters to the remuneration committee for a 1-year term. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

**7.5 Elect Ms. Bridgette Heller to the remuneration committee FOR**

The board proposes to elect Mr. Bridgette Heller to the remuneration committee for a 1-year term. Ethos, in accordance with its voting guidelines, recommends to vote FOR.

<b>8</b>	<b>Re-elect PricewaterhouseCoopers as auditors</b>	<b>OPPOSE</b>
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The board of directors recommends that shareholders ratify the re-appointment of PricewaterhouseCoopers as the company's external auditors for a further 1-year term.

**Audit versus non-audit fees**

Non-audit fees / Audit fees (2019)	14.6%
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Non-audit fees / Audit fees (3-year aggregate)	40.6%
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PricewaterhouseCoopers has been the company's external auditor since 1996 (24 years). While the rotation of the audit firm is not mandatory in Switzerland, the EU audit market reform requires to change external auditors on a regular basis (every 10 years or every 20 years if a public tendering process is conducted) to guarantee the independence of the audit firm and the quality of the audit. In the same spirit, Ethos' voting guidelines include a 20-year limit for the tenure of the audit firm. Therefore, Ethos cannot accept the re-election of PricewaterhouseCoopers and, in accordance with point 3.1.b of its voting guidelines, recommends to OPPOSE.

<b>9</b>	<b>Re-elect Peter Andreas Zahn as independent proxy</b>	<b>FOR</b>
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The board of directors proposes to re-elect Mr. Peter Andreas Zahn as independent proxy for a 1-year term. Ethos is not aware of any potential conflict of interests and, in accordance with its voting guidelines, recommends to vote FOR.

	<b>Transact any other business</b>	<b>OPPOSE</b>
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Ethos recommends to oppose any unannounced additional proposals made during the AGM either by the board or by a shareholder. The formal meeting agenda does not include this proposal, which is only included in the proxy card with no precise item number. Ethos, in accordance with point 9.1 of its voting guidelines, recommends to OPPOSE.

## 3. Company Information

Before the General Meeting of 28 February 2020

### 3.1 General Information

Headquarters	Basel (BS), Switzerland
Activities	Novartis is one of the world's largest pharmaceutical companies active in research and development as well as marketing of products. Novartis offers its products and services through its two divisions: Innovative Medicines (79% of the 2019 group's net sales on continuing operations) which includes the pharmaceuticals and oncology divisions, and Sandoz (21%) which consists in the generics and biosimilars divisions. Furthermore, Novartis holds 33.3% of the bearer shares of Roche, representing a market value of USD 16.9 billion at the end of 2019.
Employees	Total number on 31.12.2019: 103914 full-time equivalents
Chairman	Dr. Jörg Reinhardt (since 2013), German, aged 64
CEO	Dr. Vasant Narasimhan (since 2018), US Citizen, aged 43
Listing	SIX Swiss Exchange New York Stock Exchange (ADS)



### 3.2 Capital

Issued Capital	In CHF	Number	Nominal Value	Issued Capital
Registered shares		2'527'374'820	0.50	1'263'687'410
<b>Total issued capital</b>				<b>1'263'687'410</b>

In 2019, Novartis reduced its share capital by CHF 11.6 million via the cancellation of 23.3 million registered shares repurchased on the second trading line.

The company has no authorised or conditional capital.

In 2019, the AGM approved a new share buyback programme of up to CHF 10 billion until the 2022 AGM.

Conditions to file a shareholder resolution	Date	31.12.2019	In CHF	Nominal value required	1'000'000
				Market value required	183'800'000
				% of listed voting capital	0.08%

Restriction on registration of shares or voting rights  
 Registration with voting rights is limited to 2% for shareholders and shareholder unions. Nominee registration is limited to 0.5%, unless full disclosure of beneficial owners is made. Exceptions may be authorised by the board of directors.

Important shareholders	Shareholder	% of Voting Rights	% of Capital	Comments
	JPMorgan Chase Bank	12.5%	12.5%	
	Chase Nominees	10.4%	10.4%	
	Nortrust Nominees	3.9%	3.9%	
	Bank of New York Mellon Corp.	3.8%	3.8%	
	Emasan	3.5%	3.5%	
	Norges Bank	2.1%	2.1%	
	Novartis-Mitarbeiterbeteiligungsstiftung	2.1%	2.1%	
	UBS Fund Management (Switzerland)	2.1%	2.1%	
	BlackRock	2.0%	4.1%	
	Capital Group Companies	2.0%	3.0%	
	<b>Total</b>	<b>44.4%</b>	<b>47.5%</b>	

The shareholdings in the above table are as of 31 December 2019.

Exemptions to the 2% voting right limit were granted to the above shareholders, except for BlackRock and Capital Group Companies.

JPMorgan Chase Bank acts as depositary of ADS listed on the NYSE. JPMorgan Chase Bank exercises the voting right for registered shares underlying ADRs for which no voting instructions have been given by providing a discretionary proxy to an uninstructed independent designee.

Unregistered shares (with no voting rights) on 31.12.2019: 30.28% of capital (including 5.7% of the share capital held by Novartis as treasury shares).

### 3.3 Financials and Key Figures

Year end 31. December

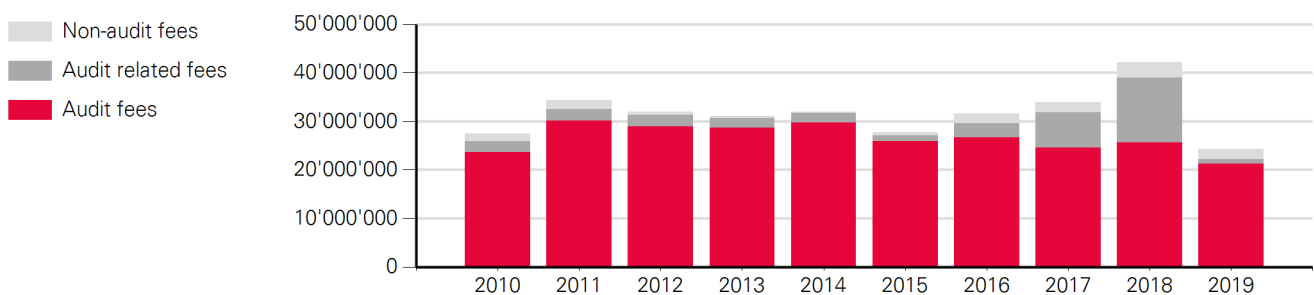
Reporting standard IFRS

		2019	2018	2017
Sales	USD	47.45 billion	44.75 billion	42.34 billion
EBIT	USD	9.09 billion	8.40 billion	8.70 billion
Net income attributable to shareholders (without minority interests)	USD	11.73 billion	12.61 billion	7.70 billion
Shareholders' equity	USD	55.47 billion	78.61 billion	74.17 billion
Market capitalisation at year-end	CHF	232.27 billion	214.35 billion	221.20 billion
Earnings per registered share (basic)	USD	5.12	5.44	3.28
Dividend per registered share	CHF	2.95	2.85	2.80
Payout ratio (on group net income)		58.75 %	53.00 %	87.00 %
Market value per registered share at year-end	CHF	91.90	84.04	84.20

### 3.4 External Auditor

Auditor PricewaterhouseCoopers, since 1996

Fees	In USD	2019	2018	2017
Audit fees		21'200'000	25'600'000	24'600'000
Audit related fees		1'000'000	13'400'000	7'200'000
Non-audit fees		2'100'000	3'100'000	2'200'000
<b>Total</b>		<b>24'300'000</b>	<b>42'100'000</b>	<b>34'000'000</b>



Comments Mr. Luc Schulthess, auditor in charge and Mr. Kris Muller, global relationship partner, began serving in their respective roles in 2018 and 2019 respectively. The audit and compliance committee ensures that these partners are rotated at least every five years.

Audit related fees include fees for services such as audits of pension and benefit plans, contractual audits of third-party arrangements, assurance services on corporate responsibility reporting, other audit-related services and, in 2017 and 2018, services related to the Alcon strategy review.

In 2019, the non-audit fees are broken down as follows:

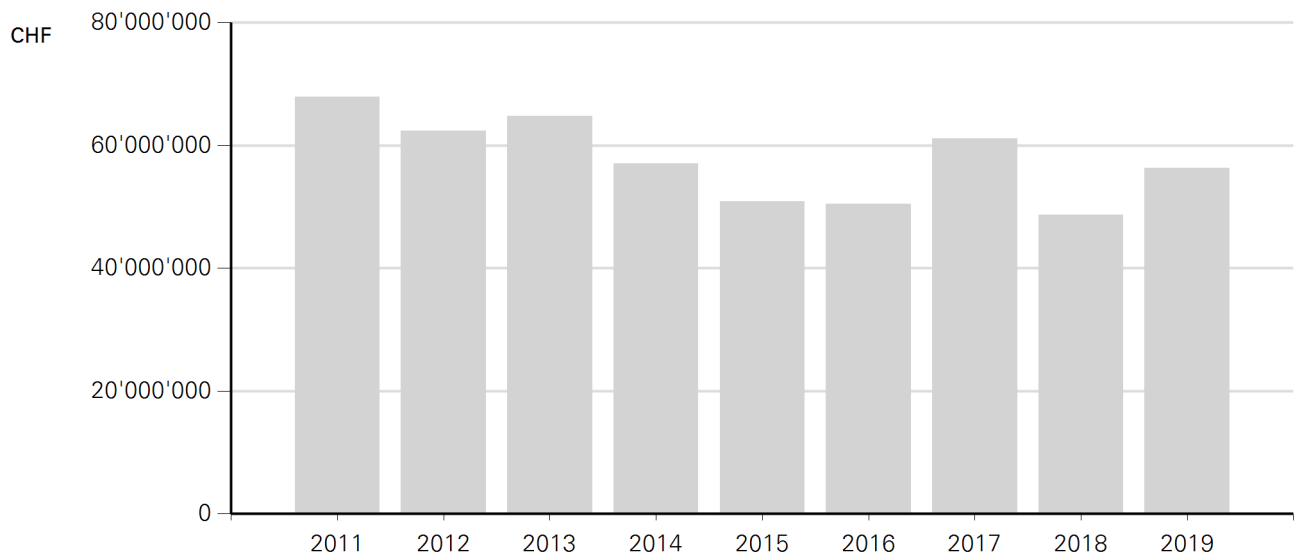
- Tax services : USD 0.7 million
- Other services including procedures related to corporate integrity agreements, training in the finance area, benchmarking studies, and license fees for use of accounting and other reporting guidance databases: USD 1.4 million.



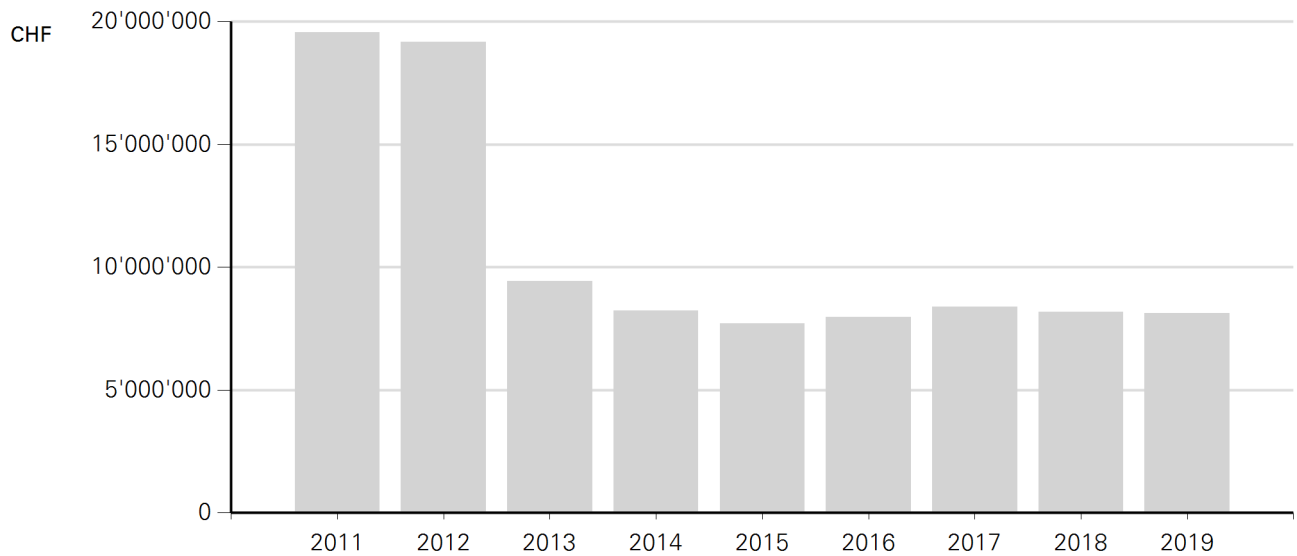
## 4. Remuneration Report

### 4.1 Evolution of the Aggregate Remuneration

#### A Members of the Executive Management



#### B Board Members (Outside Executive Management)



## 4.2 Global Remuneration Figures

### A Members of the Executive Management

		2019 Number	2019 CHF	2018 Number	2018 CHF	Var.
Total number of persons (FTE)		12.7		10.5		
Cash	Fixed		11'024'155		9'514'083	15.9%
	Variable		7'818'487		6'533'730	19.7%
Shares	Fixed	0	0	0	0	0.0%
	Variable	356'528	33'076'132	330'941	27'950'623	18.3%
Options	Variable	0	0	0	0	0.0%
Other			4'428'053		4'656'963	-4.9%
<b>Total</b>			<b>56'346'827</b>		<b>48'655'399</b>	<b>15.8%</b>
Highest paid executive			11'437'501		9'921'491	15.3%
Average other executives			3'844'450		4'077'254	-5.7%

### B Board Members (Outside Executive Management)

		2019 Number	2019 CHF	2018 Number	2018 CHF	Var.
Total number of persons (FTE)		12.0		12.0		
Cash	Fixed		3'538'333		3'515'001	0.7%
	Variable		0		0	0.0%
Shares	Fixed	51'188	4'571'666	57'344	4'645'002	-1.6%
	Variable	0	0	0	0	0.0%
Options	Variable	0	0	0	0	0.0%
Other			21'004		16'483	27.4%
<b>Total</b>			<b>8'131'003</b>		<b>8'176'486</b>	<b>-0.6%</b>
Highest paid non-executive			3'804'373		3'804'336	0.0%
Average other non-executives			393'330		397'468	-1.1%

## Comments

Members of the executive management:

The executive remuneration includes the following elements:

- Base salary
- Short-term incentive plan: half paid in cash and half in shares that vest after 3 years (see point 4.5.B of this report)
- Long-term incentive plan consisting in performance share units with a 3-year performance period (see point 4.5.C of this report)
- Pensions
- Other benefits

All shares are valued at their fair market value at date of grant.

The highest paid member of the management was Dr. Vasant Narasimhan both in 2018 and 2019. Dr. Vasant Narasimhan was Head of Global Drug Development until 31 January 2018 and is CEO since 1 February 2018.

Non-executive board members:

Non-executive board members receive fixed fees for board membership as well as committee chairmanship and membership fees. At least 50% of the fees must be taken in unrestricted shares.

The following fees have been approved for the period from the 2019 AGM to the 2020 AGM (unchanged compared to last year):

- Chairman of the board: CHF 3'800'000
- Board membership (does not apply to the chairman): CHF 280'000
- Vice chairman: CHF 50'000
- Chairman of the audit committee: CHF 130'000
- Chairman of the remuneration committee : CHF 90'000
- Chairman of the other board committees: CHF 70'000
- Member of the audit committee: CHF 70'000
- Member of the other board committees: CHF 40'000

The highest paid non-executive in 2019 and in 2018 is the chairman of the board, Dr. Reinhardt.

## 4.3 Individual Remuneration Figures

Individual figures for 2019 (CHF)

### A Members of the Executive Management

Name, Function	Cash Fixed	Cash Variable	Shares Fixed	Shares Variable	Options Variable	Other	Total
V. Narasimhan, CEO	1'653'333	2'008'800	0	7'449'369	0	325'999	11'437'500
H. Kirsch, CFO	1'053'000	1'045'044	0	3'789'696	0	192'125	6'079'865
J. Tsai, Group	858'333	602'000	0	2'666'083	0	558'592	4'685'008
K. Moosmayer, Group	500'000	260'000	0	1'060'139	0	297'232	2'117'371
R. Weltevreden, Group	607'500	158'340	0	1'449'608	0	162'283	2'377'731
S. Baert, Group	789'750	633'360	0	2'296'002	0	286'433	4'005'545
S. Klinger, Group	783'333	468'000	0	2'068'078	0	300'365	3'619'776



J. Bradner, Divisional	1'120'061	946'044	0	3'761'618	0	442'802	6'270'525
R. Saynor, Divisional	356'021	179'315	0	179'371	0	846'136	1'560'843
S. Schaffert, Divisional	850'000	459'000	0	2'941'181	0	327'348	4'577'529
B. Bodson, OE	607'500	341'040	0	1'315'568	0	308'004	2'572'112
M. Tschudin, OE	481'667	290'630	0	1'258'902	0	92'090	2'123'289
S. Lang, OE	745'000	408'000	0	1'812'171	0	177'625	3'142'796
P. Hudson, Ex-Mbr	439'342	0	0	270'451	0	74'994	784'787
R. Francis, Ex-Mbr	179'315	18'914	0	757'895	0	36'025	992'149

## B Board Members (Outside Executive Management)

Name, Function	Cash Fixed	Cash Variable	Shares Fixed	Shares Variable	Options Variable	Other	Total
J. Reinhardt, Ch	1'900'000	0	1'900'000	0	0	4'373	3'804'373
E. Vanni, VCh	220'833	0	309'166	0	0	3'512	533'511
N. Andrews, Mbr	180'000	0	180'000	0	0	0	360'000
T. Büchner, Mbr	145'833	0	204'166	0	0	4'373	354'372
P. Bula, Mbr	0	0	266'667	0	0	4'373	271'040
S. Datar, Mbr	230'000	0	230'000	0	0	0	460'000
E. Doherty, Mbr	225'000	0	225'000	0	0	0	450'000
A. Fudge, Mbr	200'000	0	200'000	0	0	0	400'000
C. Sawyers, Mbr	180'000	0	180'000	0	0	0	360'000
F. van Houten, Mbr	26'667	0	293'334	0	0	0	320'001
A. von Planta, Mbr	230'000	0	230'000	0	0	4'373	464'373
W. Winters, Mbr	0	0	353'333	0	0	0	353'333
D. Azar, Ex-Mbr	30'000	0	30'000	0	0	0	60'000

### Comments

Members of the executive management:

- Marie-France Tschudin joined the executive committee on 7 June and Richard Saynor on 15 July. Their remuneration disclosed in the above table reflects the pro-rata remuneration from the date they joined the executive committee to 31 December 2019 (or to the end of the performance cycle for the long-term incentive plan).
- Richard Saynor was granted buyout awards (PSUs and RSUs) in place of forfeited compensation at his former company. The corresponding total value at grant equals 1'191'890 CHF (not included in the table above). He did not receive any awards under long-term incentive plan (LTIP) as he joined the company after the annual grant date.
- Paul Hudson resigned on 7 June 2019 and Richard Francis stepped down on 31 March 2019. The figures included in the above table reflects their pro-rata remuneration for their period as executive committee members.

## 4.4 Best Practice Checklist

### A Members of the Executive Management

Company practice	Each member's remuneration disclosed separately	Ok
	All pay components disclosed separately (salary, bonus, LTI, pension)	Ok
	Peer group for setting the remuneration levels disclosed	Ok
	Peer group for benchmarking the company's performance under the variable remuneration plan(s) disclosed	Ok
	Accrual principle applied	Ok
	Performance criteria for short-term incentive adequately disclosed	Ok
	% of annual bonus depending on individual criteria disclosed	Ok
	Ex-post explanation of the level of achievement of the performance objectives for the short-term incentive	Ok
	Performance criteria for the vesting of long-term incentive adequately disclosed	Ok
	Precise performance objectives for the vesting of the long-term incentive disclosed ex-ante	-
	Precise performance objectives for the vesting of the long-term incentive disclosed ex-post	Ok
	Level of vesting of the long-term incentive (in % of the initial grant) disclosed	Ok
	Value realised upon vesting of the long-term incentive disclosed	Ok
	Shares granted valued at fair market value	Ok
	Options granted valued at fair market value	Not relevant
	Reconciliation of reported remuneration with amounts approved prospectively	Ok

### B Board Members (Outside Executive Management)

Company practice	Non-executive directors' fees partly paid in shares	Ok
	Non-executive directors do not receive options	Ok
	Non-executive directors do not receive performance based remuneration	Ok
	Minimum share ownership requirements exist for non-executive board members	Ok
	Reconciliation of reported remuneration with amounts approved prospectively	Ok

Comments Non executive board members are required to own at least 5'000 Novartis shares within 5 years after joining the board of directors (30'000 for the chairman).

## 4.5 Remuneration Structure (Executives)

### A Remuneration Breakdown

Breakdown	Base salary	Short-term incentives	Long-term incentives	Pensions / Other
Of highest paid executive	14.5%	35.1%	47.6%	2.9%
Of other executives	20.9%	28.4%	41.6%	9.1%

### B Short-term Incentives

Short-term incentives in % of base salary	On target	Maximum	Actual
Of highest paid executive	150.0%	300.0%	243.0%
Of other executives	NA	NA	136.3%

Performance criterion	Type	Weighting (highest paid)	Weighting (other executives)
Market share	Relative	12.0%	NA
Net sales	Absolute	18.0%	NA
Operating profit	Absolute	18.0%	NA
Free cash flow as % of sales	Absolute	12.0%	NA
Innovation	Absolute	8.0%	NA
Operational excellence	Absolute	8.0%	NA
Data and digital	Absolute	8.0%	NA
People and culture	Absolute	8.0%	NA
Society	Absolute	8.0%	NA

The annual bonus is paid half in cash and half in shares restricted for three years. However, beneficiaries may elect to receive all or part of the cash portion in unrestricted shares. If a member leaves the company voluntarily or for misconduct, all the unvested restricted shares are forfeited.

The target bonus is 150% of the base salary for the CEO and ranges from 80% to 120% of the base salary for the other executives. The final payout may vary from 0 to 2 times the target bonus depending on the achievement of performance conditions.

For the CEO, the achievement level of each performance criteria for the 2019 financial year as well as the final payout under the annual bonus (160% of target for 2019) is disclosed in a comprehensive way on p. 136 of the 2019 annual report.

## C Long-term Incentives

Incentive	Plan 1	Plan 2	Plan 3
Type of awards	LTPP	-	-
Fair value at grant date disclosed	Yes	-	-
Vesting period for time-vesting awards	NR	-	-
Performance period	3 years	-	-
Sale restriction after performance/vesting period	None	-	-
Absolute performance criteria for vesting	Net sales, Core operating income, Innovation	-	-
Relative performance criteria for vesting	TSR	-	-
Sustainability criteria for vesting	No	-	-
Initial grant for the highest paid (in % of the base salary)	325%	-	-
Minimum final grant (in % of initial grant)	0%	-	-
Maximum final grant (in % of initial grant)	200%	-	-
Maximum payout (valued at date of grant, in % of the base salary)	650%	-	-

### Comments

## Plan 1

Each participant receives a grant of performance share units (PSU) at the beginning of each performance period (target number of PSUs). The PSUs do not have voting rights but carry dividends equivalents that are paid in shares at the end of the performance period. If a participant leaves the company voluntarily or for misconduct, no PSUs vest. In case of termination by the company for other reasons, PSUs will vest on a pro-rata basis for time spent with the company during the performance period.

The level of vesting after the 3-year performance period is determined by the degree by which the following 4 performance measures are met:

- Net sales: 25 % weighting
- Core operating income: 25 % weighting
- Innovation: 25 % weighting
- Relative Total Shareholder Return (TSR): 25 % weighting

Concerning the net sales and core operating income, the payout levels range from 0 to 200% with no payout if the metrics are below 40% target opportunity. These two metrics are evaluated with their respective compound annual growth rate.

Innovation targets are set in relation to eight to 10 key research and development programs. Depending of the achievement of the target milestones, the payout ranges from 0% to 150%. Outstanding performance can lead to a payout between 150% to 200%.

Relative TSR is benchmarked against a peer group of 15 companies in the healthcare industry: AbbVie, Amgen, AstraZeneca, Biogen, Bristol-Myers Squibb, Celgene, Eli Lilly, Gilead Sciences, GlaxoSmithKline, J&J, Merck, Novo Nordisk, Pfizer, Roche and Sanofi.

Depending on the performance achieved, the vesting scale is as follows at the end of the performance period:

- 170% to 200% of the award vest if Novartis' TSR ranks between the 1st and the 2th position
- 130% to 160% of the awards vest if Novartis' TSR ranks between the 3rd and the 5th position
- 80% to 120% of the awards vest if Novartis' TSR ranks between the 6th and the 8th position
- No awards vest if Novartis' TSR ranks 9th or below.

After the first year of the three-year performance cycle of the 2019-2021 LTPP, the net sales and core operating income are above target while the innovation metric is at target. The relative TSR is above the median of the peer group.

## 4.6 Remuneration and Financial Performance

### A Change in Remuneration 2018-2019

Highest paid executive	15.3%
Average other executives	-5.7%
Highest paid non-executive	0.0%
Average other non-executives	-1.1%

### B Change in Financial Performance 2018-2019

Sales	6.0%
Operating income	8.1%
Net income	-7.0%
Total shareholder return	12.7%

## 4.7 Share and Option Holdings

### A Members of the Executive Management

Name	Function	31.12.2019 Shares	31.12.2019 Options	31.12.2018 Shares	31.12.2018 Options
V. Narasimhan	CEO	59'983	0	25'240	0
H. Kirsch	CFO	108'193	0	97'081	0
J. Tsai	Group	11'859	0	6'429	0
K. Moosmayer	Group	0	0	0	0
R. Weltevreden	Group	150	0	150	0
S. Baert	Group	39'785	0	23'365	0
S. Klinger	Group	12'193	0	14'007	0
J. Bradner	Divisional	21'794	0	924	0
R. Saynor	Divisional	0	0	NA	NA
S. Schaffert	Divisional	43'770	0	NA	NA
B. Bodson	OE	4'600	0	0	0
M. Tschudin	OE	5'500	0	NA	NA
S. Lang	OE	56'063	0	23'793	0
P. Hudson	Ex-Mbr	NA	NA	16'756	0
R. Francis	Ex-Mbr	NA	NA	48'079	0
<b>Total</b>		<b>363'890</b>	<b>0</b>	<b>255'824</b>	<b>0</b>

### B Board Members (Outside Executive Management)

Name	Function	31.12.2019 Shares	31.12.2019 Options	31.12.2018 Shares	31.12.2018 Options
J. Reinhardt	Ch	563'697	0	542'199	0
E. Vanni	VCh	26'645	0	23'500	0
N. Andrews	Mbr	7'265	0	5'739	0
T. Büchner	Mbr	10'950	0	8'069	0
P. Bula	Mbr	1'946	0	NA	NA
S. Datar	Mbr	41'334	0	39'383	0
E. Doherty	Mbr	6'765	0	4'882	0
A. Fudge	Mbr	14'114	0	14'818	0
C. Sawyers	Mbr	10'986	0	9'460	0
F. van Houten	Mbr	4'764	0	2'728	0
A. von Planta	Mbr	161'035	0	133'493	0
W. Winters	Mbr	18'170	0	15'371	0
D. Azar	Ex-Mbr	NA	NA	14'863	0
<b>Total</b>		<b>867'671</b>	<b>0</b>	<b>814'505</b>	<b>0</b>

Comments

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The above figures include only vested shares.



## 5. Remuneration Requested

### Executive Management

Item	Component	Type	Amount requested (CHF)	Nb. of pers. (FTE)	Modality
5.2	Fixed remuneration	Cash	14'000'000	13	Prospective
5.2	Short-term variable remuneration	Cash, shares	25'000'000	13	Prospective
5.2	Long-term variable remuneration	Shares	54'000'000	13	Prospective

Total remuneration requested for the executive management: 93'000'000

### Board of Directors

Item	Component	Type	Amount requested (CHF)	Nb. of pers. (FTE)	Modality
5.1	Fixed fees of the chairman	Cash, shares	3'805'000	1	Prospective
5.1	Fixed fees of the other board members	Cash, shares	5'195'000	13	Prospective

Total remuneration requested for the board of directors: 9'000'000

## 6. Board of Directors

### Composition after the General Meeting of 28 February 2020

Committee	Executive	Affiliated non-executive	Independent non-executive	Total
Board of Directors	0	6	8	14
Audit committee	0	2	3	5
Nomination committee	0	3	2	5
Remuneration committee	0	1	4	5
Risk committee	0	3	2	5
Other committee	0	2	2	4

Election procedure for directors	Individual
Mandate duration	1 year
Mandatory age limit	70 years
Single signature	No
Number of board meetings during the past year	8 (98% attendance)
Number of audit committee meetings during the past year	9 (96% attendance)
Number of remuneration committee meetings during the past year	7 (100% attendance)
Number of nomination committee meetings during the past year	4 (100% attendance)
Number of risk committee meetings during the past year	4 (95% attendance)
Individual attendance rate at board meetings disclosed	

- At the 2020 AGM, all board members are up for re-election. In addition, the board proposes to newly appoint Mrs. Bridgette Heller and Mr. Simon Moroney.

- Other committee corresponds to the Research & Development committee in this report (3 meetings held in 2019 with 92% attendance).

- Average duration of meetings: Board meetings (7h48), Audit and Compliance committee (2h15), Risk committee (2h10), Compensation committee (1h55), Governance, Nomination and Corporate Responsibilities committee (2h07) and Research and Development committee (8h10).

- Novartis considered all directors as independent. Ethos cannot consider Dr. Datar, Dr. von Planta, and Mrs. Fudge as independent due to their presence in Novartis' board for more than 12 years. Ethos also considers Dr. Reinhardt, chairman, as non independent due to his annual remuneration of CHF 3.8 million. Finally, Ethos considers Dr. Sawyers as non independent due to the business relationship between Novartis and the Memorial Sloan Kettering Cancer Center (USA), where he is Chair of the Human Oncology and Pathogenesis Program.

## Dr. Jörg Reinhardt

Affiliated Chairman Up for Re-election

Nationality	German
Age	64
Director since / term ends	2013 / 2021
Committee memberships	– Other committee, Chairman
Affiliation	– Miscellaneous
	Receives an annual remuneration of CHF 3.8 million.
Main activity	none
Directorships	– Swiss Re (listed), Switzerland - Member
Other relevant mandates	– Novartis Foundation, Switzerland - Chairman – Institute of Molecular and Clinical Ophthalmology Basel (IOB), Switzerland - Chairman – Temasek, Singapore - Member, European Advisory Panel – Law and Economics Foundation St. Gallen, Switzerland - Member – Stiftung Avenir Suisse, Switzerland - Member
Comments	CEO of Bayer Pharmaceuticals (2010-2013). COO of Novartis (2008-2010). CEO of the Vaccines & Diagnostics Division at Sandoz (2006-2008).

## Dr. Enrico Vanni

Independent Vice chairman Up for Re-election

Nationality	Swiss
Age	69
Director since / term ends	2011 / 2021
Committee memberships	– Audit committee – Nomination committee – Remuneration committee, Chairman
Main activity	none
Directorships	– Advanced Oncotherapy Plc (listed), United Kingdom - Member – Banque Privée BCP (Suisse) SA, Switzerland - Member – Banque Lombard Odier & Cie SA, Switzerland - Member
Comments	Head of European Pharmaceutical Practice at McKinsey (2004-2007). Manager of the Geneva office for McKinsey (1988-2004).

## Dr. Nancy C. Andrews

Independent Member Up for Re-election

Nationality	US Citizen
Age	62
Director since / term ends	2015 / 2021
Committee memberships	– Risk committee – Other committee
Main activity	– Duke University School of Medicine, USA - Professor Pediatrics, Pharma & Cancer Biology
Other relevant mandates	– American Academy of Arts and Sciences - Chairman – Massachusetts Institute of Technology (MIT) Corporation, USA - Member – Dyne Therapeutics, USA - Member, Scientific Advisory Board
Comments	Dean and Vice Chancellor for Academic Affairs at the Duke University School of Medicine (USA) (2007-2017) Biomedical research investigator at Howard Hughes Medical Institute (USA) (1993-2006).

## Ton Büchner

Independent Member Up for Re-election

Nationality	Dutch
Age	55
Director since / term ends	2016 / 2021
Committee memberships	– Audit committee
Main activity	none
Directorships	– Burckhardt Compression (listed), Switzerland - Chairman – Swiss Prime Site (listed), Switzerland - Chairman
Other relevant mandates	– Voith GmbH (listed), Germany - Member, Presidential and shareholder committees
Comments	CEO of Akzo Nobel (Netherlands) (2012-2017). CEO (2007-2011) and Divisional President (2001-2007) of Sulzer.

<b>Patrice Bula</b>		
Independent	Member	Up for Re-election
Nationality	Swiss	
Age	64	
Director since / term ends	2019 / 2021	
Committee memberships	– Remuneration committee	
Main activity	– Nestlé (listed), Switzerland - Executive Vice President	
Directorships	– Schindler (listed), Switzerland - Member – Cereal Partners Worldwide (joint venture of Nestlé and General Mills), Switzerland - Member – Froneri (joint venture of Nestlé and R&R Ice Cream), United Kingdom - Member – Nestlé Ventures SA, Switzerland - Member	
Comments	Various positions at Nestlé since 1980: - Executive Vice President with responsibility for the Strategic Business Units, Marketing, Sales, and Nespresso (since 2011). - Market Head for the Greater China Region (2007-2011). - Market Head of Nestlé Germany (2003-2007). - Head of Chocolate, Confectionery and Biscuits Strategic Business Unit (2000-2003).	

<b>Prof. Dr. oec. Srikant Datar</b>		
Affiliated	Member	Up for Re-election
Nationality	US Citizen	
Age	67	
Director since / term ends	2003 / 2021	
Committee memberships	– Audit committee – Remuneration committee – Risk committee, Chairman	
Affiliation	– Board membership exceeding time limit for independence	
Main activity	– Harvard Business School, USA - Arthur Lowes Dickinson Professor	
Directorships	– Stryker (listed), USA - Member – T-Mobile US (listed), USA - Member – ICF International Inc. (listed), USA - Member	
Other relevant mandates	– Harvard Innovation Lab, USA - Faculty Chair	
Comments	Chartered Accountant. Senior Associate Dean for University Affairs at Harvard Business School (USA). Worked with many corporations, including GM, Mellon Bank, General Chemicals, Solectron, TRW, VISA, AT&T, Boeing and DuPont on field-based projects in management accounting.	

<b>Elizabeth Doherty</b>		
Independent	Member	Up for Re-election
Nationality	British	
Age	63	
Director since / term ends	2016 / 2021	
Committee memberships	<ul style="list-style-type: none"> <li>– Audit committee, Chairman</li> <li>– Risk committee</li> </ul>	
Main activity	none	
Directorships	<ul style="list-style-type: none"> <li>– Koninklijke Philips (listed), Netherlands - Member</li> <li>– Corbion N.V. (listed), Netherlands - Member</li> <li>– GBfoods, United Kingdom - Advisor</li> <li>– Affinity Petcare SA, United Kingdom - Advisor</li> </ul>	
Other relevant mandates	– Chartered Institute of Management Accountants, United Kingdom - Fellow	
Comments	Chartered Accountant. CFO of Reckitt Benckiser (2011-2013). CFO and Executive Director of Brambles Industries Ltd. (2007-2009). Group International Finance Director of Tesco (2001-2007). Various positions, including Senior Vice President Finance, Central & Eastern Europe, at Unilever (1979-2001).	
<b>Ann Marie Fudge</b>		
Affiliated	Member	Up for Re-election
Nationality	US Citizen	
Age	69	
Director since / term ends	2008 / 2021	
Committee memberships	<ul style="list-style-type: none"> <li>– Nomination committee</li> <li>– Risk committee</li> </ul>	
Affiliation	– Board membership exceeding time limit for independence	
Main activity	none	
Directorships	– Northrop Grumman (listed), USA - Member	
Other relevant mandates	<ul style="list-style-type: none"> <li>– Harvard Business School, USA - Member, Visiting committee</li> <li>– WGBH Public Media, USA - Chairman</li> </ul>	
Comments	CEO of Young & Rubicam Brands at WPP Group Plc (2003-2006). Various positions, including President of Maxwell House Coffee and Kraft General Food at Kraft Foods (USA) (1986-2001).	

## Bridgette Heller

Independent Member New Nominee

Nationality	US Citizen
Age	59
Director since / term ends	2020 / 2021
Committee memberships	– Remuneration committee
Main activity	– The Shirley Proctor Puller Foundation, USA - CEO and co-founder
Directorships	– DexCom (listed), USA - Member – Tech Data Corporation (listed), USA - Member
Other relevant mandates	– Kellogg School of Management, USA - Member, Advisory board
Comments	Executive Vice President Specialized Nutrition at Danone (2016-2019). Executive Vice President and President of Merck Consumer Care at Merck (2010-2015). Global President of Baby Care division at Johnson & Johnson (2005-2010).

## Dr. Simon Moroney

Affiliated Member New Nominee

Nationality	New Zealander
Age	61
Director since / term ends	2020 / 2021
Committee memberships	none
Affiliation	– Miscellaneous
Main activity	CEO of Morphosys until September 2019, that has a partnership with Novartis for the discovery and development of biopharmaceuticals. Holds 1.4% in Morphosys.
Comments	Co-founder (1992) and CEO (1994-2019) of Morphosys. Several academic positions at the University of Cambridge (1991-1992), University of British Columbia (1989-1990) and ETH (1986-1989).

## Prof. Dr. Charles L. Sawyers

Affiliated Member Up for Re-election

Nationality	US Citizen
Age	61
Director since / term ends	2013 / 2021
Committee memberships	<ul style="list-style-type: none"> <li>– Nomination committee</li> <li>– Other committee</li> </ul>
Affiliation	<ul style="list-style-type: none"> <li>– Business relationship</li> </ul> <p>Chair of the Human Oncology and Pathogenesis Program at Memorial Sloan-Kettering Cancer Center that has a licencing agreement with Novartis to produce a series of monoclonal antibodies.</p>
Main activity	– Weill-Cornell Graduate School of Medical Sciences, USA - Professor of Medicine and Cell Dev. Biology
Other relevant mandates	<ul style="list-style-type: none"> <li>– Memorial Sloan-Kettering Cancer Center, USA - Chairman, Human Oncology and Pathogenesis Program</li> <li>– National Cancer Advisory Board, USA - Member</li> <li>– Agios Pharmaceuticals Inc. (listed), USA - Member, Scientific Advisory Board</li> <li>– Housey Pharmaceutical Research Laboratories, USA - Member, Scientific Advisory Board Cancer</li> <li>– Nextech Invest, Switzerland - Member, Exclusive Scientific Board</li> <li>– BluePrint Medicines Corporation (listed), USA - Member, Scientific Advisory Board</li> <li>– BeiGene (listed), China - Member, Scientific Advisory Board</li> <li>– The Column Group, USA - Member, Science Partner</li> <li>– ORIC Pharmaceuticals, USA - Member, Scientific Founder</li> <li>– KSQ Therapeutics, USA - Member, Scientific Advisory Board</li> <li>– PMV Pharmaceuticals, USA - Member, Scientific Advisory Board</li> <li>– Foghorn Therapeutics Inc., USA - Member, Scientific Advisory Board</li> </ul>
Comments	<p>Cancer researcher.            Co-developer of Novartis' cancer drug, Glivec.            Investigator at the Howard Hughes Medical Institute (USA).</p>

## Frans van Houten

Independent Member Up for Re-election

Nationality	Dutch
Age	60
Director since / term ends	2017 / 2021
Committee memberships	– Other committee
Main activity	– Koninklijke Philips (listed), Netherlands - CEO
Comments	<p>COO of Koninklijke Philips N.V, the Netherlands (2010-2011)            CEO of NXP Semiconductors N.V, the Netherlands (2006-2009)            MSc in Economics</p>



## Dr. iur. Andreas von Planta

Affiliated Member Up for Re-election

Nationality	Swiss
Age	65
Director since / term ends	2006 / 2021
Committee memberships	<ul style="list-style-type: none"> <li>– Audit committee</li> <li>– Nomination committee, Chairman</li> <li>– Risk committee</li> </ul>
Affiliation	– Board membership exceeding time limit for independence
Main activity	– Lenz & Staehelin Law Firm, Switzerland - Senior Counsel
Directorships	<ul style="list-style-type: none"> <li>– Helvetia (listed), Switzerland - Member</li> <li>– HSBC Private Banking Holdings (Suisse) SA, Switzerland - Chairman</li> <li>– AP Moller Finance SA, Switzerland - Member</li> <li>– Burberry (Suisse) SA, Switzerland - Member</li> <li>– Socotab Frana SA, Switzerland - Member</li> </ul>
Other relevant mandates	<ul style="list-style-type: none"> <li>– SIX Swiss Exchange, Switzerland - Chairman, Regulatory Board</li> <li>– International Road Transport Union, Switzerland - Chairman, Audit Committee</li> </ul>
Comments	Partner of Lenz & Staehelin (1988-2017). Co-Editor of the Swiss Review of Business Law.

## William T. Winters

Independent Member Up for Re-election

Nationality	British
Age	59
Director since / term ends	2013 / 2021
Committee memberships	<ul style="list-style-type: none"> <li>– Nomination committee</li> <li>– Remuneration committee</li> </ul>
Main activity	– Standard Chartered (listed), United Kingdom - CEO
Directorships	– Standard Chartered (listed), United Kingdom - Member
Other relevant mandates	<ul style="list-style-type: none"> <li>– The Print Room theater, United Kingdom - Member</li> <li>– International Rescue Committee, United Kingdom - Member,</li> </ul>
Comments	CEO and founder of Renshaw Bay (UK) (2010-2015). Co-CEO of JPMorgan Investment Bank (2003-2010).

## 7. Glossary

English	Deutsch	Français
<b>A</b>		
Activities	Aktivitäten	Activités
Affiliated	Affiliert	Affilié
AGM (Annual General Meeting)	Ordentliche Generalversammlung	Assemblée générale ordinaire
Annual bonus	Jahresbonus	Bonus annuel
Attendance rate	Teilnahmequote	Taux de présence
Audit committee	Prüfungsausschuss	Comité d'audit
Audit fees	Honorare für Revisionsdienstleistungen	Honoraires de révision
Audit-related fees	Honorare für revisionsnahe Dienstleistungen	Honoraires pour les services liés à la révision
Autorised capital	Genehmigtes Kapital	Capital autorisé
Average	Mittelwert	Moyenne
<b>B</b>		
Base salary	Grundgehalt	Salaire de base
Bearer share	Inhaberaktie	Action au porteur
Board meeting	Verwaltungsratssitzung	Séance du conseil d'administration
Board members	Verwaltungsratsmitglieder	Membres du conseil d'administration
Board of directors	Verwaltungsrat	Conseil d'administration
Breakdown	Detaillierte Offenlegung	Répartition détaillée
<b>C</b>		
Capital	Kapital	Capital
Capital contribution reserves	Reserven aus Kapitaleinlagen	Réserves issues d'apports en capital
CEO (Chief Executive Officer)	Geschäftsleiter	Président de la direction générale
Chairman	Verwaltungsratspräsident	Président du conseil d'administration
Chairman's committee	Ausschuss des Verwaltungsratspräsidenten	Comité du président du conseil d'administration
Comments	Kommentare	Commentaires
Committee meeting	Ausschusssitzung	Séance du comité
Conditional capital	Bedingtes Kapital	Capital conditionnel
Corporate governance committee	Ausschuss für Corporate Governance	Comité de gouvernance d'entreprise
<b>D</b>		
Dividend	Dividende	Dividende
Dividend rights certificates	Partizipationsscheine	Bons de participation
<b>E</b>		
Earnings per share	Gewinn pro Aktie	Bénéfice par action

English	Deutsch	Français
<b>E</b>		
EGM (Extraordinary General Meeting)	Ausserordentliche Generalversammlung	Assemblée générale extraordinaire
Election	Neuwahl	Election
Election procedure for directors	Wahlverfahren für Verwaltungsräte	Procédure d'élection des administrateurs
Employees	Personalbestand	Employés
Executive management	Geschäftsleitung	Direction générale
External auditor	Externe Revisionsstelle	Auditeur externe
<b>F</b>		
Fair value	Beizulegender Zeitwert	Juste valeur
Fees	Gebühren	Honoraires
Financial performance	Finanzergebnis	Performance financière
Financial reporting	Finanzberichterstattung	Information financière
Financials	Finanzergebnis	Données financières
<b>G</b>		
General information	Allgemeine Informationen	Informations générales
Global remuneration figures	Allgemeine Vergütungsangaben	Rémunérations agrégées
<b>H</b>		
Headquarters	Hauptsitz	Siège social
Highest paid executive	Höchstbezahltes Mitglied der Konzernleitung	Membre le mieux rémunéré de la direction générale
<b>I</b>		
Important shareholders	Bedeutende Aktionäre	Actionnaires importants
Independent	Unabhängig	Indépendant
Individual remuneration figures	Individuelle Vergütungsangaben	Rémunérations individuelles
Internal Control	Internes Kontrollsystem	Contrôle interne
<b>K</b>		
Key figures	Kennzahlen	Chiffres clés
<b>L</b>		
Listing	Kotierung	Cotation
LTIP (Long-term incentive plan)	Langfristige Beteiligungspläne	Plan de participation à long terme
<b>M</b>		
Mandate duration	Mandatsdauer	Durée du mandat
Mandatory age limit	Obligatorische Altersgrenze	Limite d'âge statutaire
Market capitalisation	Marktkapitalisierung	Capitalisation boursière
Market value	Marktwert	Valeur boursière
<b>N</b>		
NA (Not available)	Nicht verfügbar	Pas disponible
ND (Not disclosed)	Nicht offengelegt	Pas publié
Net income	Reingewinn	Bénéfice net

English	Deutsch	Français
<b>N</b>		
Net revenues	Nettoerträge	Revenus nets
New nominee	Neuer Kandidat / Neue Kandidatin	Nouveau candidat
Nomination and remuneration committee	Nominations- und Vergütungsausschuss	Comité de nomination et de rémunération
Nomination committee	Nominationsausschuss	Comité de nomination
Non-audit fees	Honorare für nicht revisionsbezogene Dienstleistungen	Honoraires non liés à la révision
Non-voting equity securities	Genussscheine	Bons de jouissance
Notice period	Kündigungsfrist	Délai de préavis
NR (Not relevant)	Irrelevant	Pas pertinent
<b>O</b>		
Operating income	Betriebsergebnis	Résultat d'exploitation
Operating margin	Operative Marge	Marge opérationnelle
<b>P</b>		
Payout ratio	Gewinnausschüttungsquote	Taux de distribution du bénéfice
Peer group	Vergleichsgruppe	Groupe de référence
Pensions	Altersvorsorge	Contributions de retraite
Performance criteria	Leistungskriterien	Critères de performance
<b>R</b>		
Re-election	Wiederwahl	Réélection
Registered share	Namensaktie	Action nominative
Remuneration	Vergütung	Rémunération
Remuneration committee	Vergütungsausschuss	Comité de rémunération
Reporting standard	Rechnungslegungsstandard	Norme comptable
Restriction on registration of shares or voting rights	Beschränkungen der Übertragbarkeit der Aktien und des Stimmrechts	Restrictions relatives à l'inscription des actions ou aux droits de vote
Return on equity	Eigenkapitalrendite	Rendement des capitaux propres
Risk committee	Risiko-Ausschuss	Comité des risques
<b>S</b>		
Share and option holdings	Aktien- und Optionenbesitz	Détention d'actions et d'options
Share capital	Aktienkapital	Capital-actions
Shareholder resolution	Aktionärsantrag	Résolution d'actionnaire
Shareholders' equity	Eigenkapital	Capitaux propres
Short-term incentives	Kurzfristige variable Vergütung	Rémunération à court-terme
Stock ownership requirements	Aktienbesitz Anforderungen	Exigences en matière de détention d'actions
Strategy committee	Strategie-Ausschuss	Comité de stratégie
Structure	Struktur	Structure
Sustainability committee	Ausschuss für Nachhaltigkeit	Comité de développement durable

English	Deutsch	Français
<b>T</b>		
Total revenues	Betriebsertrag	Revenus totaux
Total shareholder return	Gesamte Aktienrendite	Rentabilité de l'action
<b>U</b>		
Up for re-election	Zur Wiederwahl	A réélection
<b>Y</b>		
Year end	Jahresende	Fin de l'année

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Fanny Ebener

**About Ethos**

The Ethos Foundation aims at promoting socially responsible investment as well as a stable and prosperous socio-economic environment. Ethos is composed of more than 220 Swiss pension funds and other tax-exempt institutions. Its subsidiary Ethos Services is an acknowledged provider of consulting services comprising socially responsible investment (SRI) funds, shareholder meeting analyses and an investor engagement and dialogue programme.

For further information: [www.ethosfund.ch](http://www.ethosfund.ch).

**Frequently used abbreviations**

AGM	Annual General Meeting
EGM	Extraordinary General Meeting
NA	Not available
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
OE	Other Executive Function
Ex-	Former



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