



**Letter to shareholders  
following Novartis AGM 2017**

Basel, March 7<sup>th</sup>, 2017

Dear shareholder,

You have entrusted us with your capital. As a Board, we have a responsibility to deploy that capital in the best long-term interests of Novartis and all of its stakeholders. While opinions may not always coincide, the views of shareholders are always respected at Novartis. This is at the core of our shareholder engagement.

Over the past number of years, we have made significant progress in strengthening our corporate culture and governance framework; enhancing our compensation system; and, increasing transparency and disclosures. We recognize this is a constantly evolving process. As such, we continue to critically review our corporate governance practices, compensation system and overall disclosures.

As a global company, we need to remain attractive for the most talented people worldwide but face the challenge that views on executive pay vary across geographies. In designing our compensation system, we strive to balance these views while remaining globally competitive, with compensation in line with our industry peers. Set against our commitment to best-practice, this proves to be increasingly difficult.

Although our shareholder engagement program has, in many instances, aligned our decision making with that of shareholders' views, we recognize that a significant number of shareholders did not support the advisory vote on the 2016 Compensation Report at our recent AGM. Following publication of the 2016 Annual Report and the AGM agenda, consistent with our commitment to engagement, we consulted with shareholders. During that engagement process, shareholders provided feedback on our Compensation Report. The feedback was varied and included, amongst other concerns, the one-off award made to the recently appointed CEO of the Alcon division. Those concerns were reflected in the voting outcome at the AGM. We take this feedback seriously.



In the coming months we will build on past practice and again consult with a broad range of shareholders. We will endeavour to address any issues or suggestions shareholders may have regarding our compensation system – within the framework of what we believe to be the most important drivers of long-term value.

Every decision we make as a Board is intended to protect and enhance our enterprise value and the capital entrusted to us by shareholders. To continue to do so effectively, we encourage shareholders to actively participate in our efforts to engage with you in the months ahead.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Reinhardt', written in a cursive style.

Dr. Joerg Reinhardt  
Chairman

A handwritten signature in black ink, appearing to read 'Enrico Vanni', written in a cursive style.

Dr. Enrico Vanni  
Chair of Compensation Committee