

OBERMATT BONUS INDEX

Company	Novartis Group
Assessment Period	FY2009
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EXECUTIVE SUMMARY

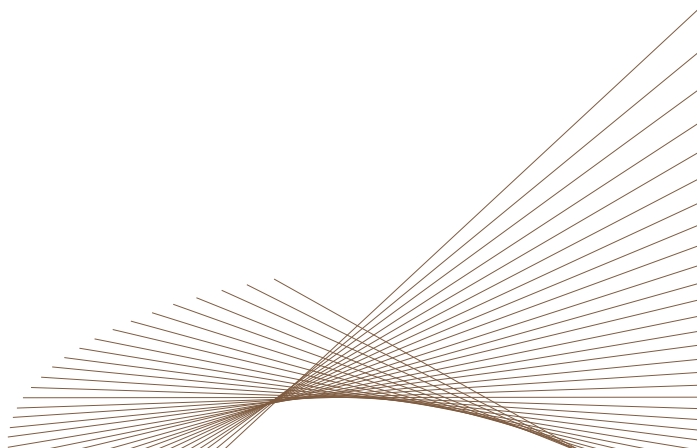
Obermatt recommends **0.5** times target bonus pay out for **the Novartis group**, **0.7** times target bonus pay out for **Novartis Pharmaceuticals division**, **0.2** times target bonus pay out for **Novartis Sandoz division** and **0.1** times target bonus pay out for **Novartis Consumer Health division**.

PURPOSE

This performance assessment establishes recommended bonus levels for **Novartis**, based on the Obermatt Bonus Index methodology (see <http://www.obermatt.com/bonus-index/method>).

The Obermatt Bonus Index bases its bonus recommendation on the percentage of peers a company outperforms. The more peers a company outperforms, the higher the Obermatt Bonus Index bonus recommendation (see <http://www.obermatt.com/bonus-multiplier>).

Fair for both executives and shareholders, this assessment is provided by Obermatt as an independent third party working under the Obermatt declaration of independence (see <http://www.obermatt.com/independence>).



NOVARTIS PHARMACEUTICALS

1 Relevant Financial Metrics

Financial metric used for performance assessment of the company **EBITDA**
Scaling Value used for scaling peer performance data to company **Sales**

To measure company performance, the difference of the financial metric from the current period versus the previous period is divided by the scaling value of the previous period.

Previous period	2008
Financial metric value	8'959 USD mio.
Scaling value	26'331 USD mio.
Current period	2009
Financial metric value	9'410 USD mio.
Delta financial metric value	451 USD mio.
Obermatt Bonus Index metric value	1.7%

2 Relevant Peer Universe

Peer universe used for assessing performance **Pharma Large**
Number of companies in peer universe **91**

For peers with no current period financial metric value, the value of the previous quarter or previous half year is used and compared to the same period of the previous period.

Median Bonus Index metric value of peers (Operating Index)	3.7%
Difference of company to median of peers (Operating Alpha)	-17.5%
Percentile rank of company to peers (Operating Rank)	32.5%

3 Bonus Recommendation

The bonus multiplier in the Obermatt Bonus Index is Obermatt's recommended bonus pay out and is based on:

- no bonus pay out if there is no outperformance of peers
- target bonus pay out if there is outperformance of 50% of peers
- double bonus if there is outperformance of all peers

The bonus multiplier is two times the percentile rank or Operating Rank of the company. The corresponding bonus formula is called the bonus multiplier.
(see: <http://www.obermatt.com/bonus-multiplier>)

Recommended bonus multiplier for the division **0.7x**

NOVARTIS SANDOZ

1 Relevant Financial Metrics

Financial metric used for performance assessment of the company **EBITDA**
Scaling Value used for scaling peer performance data to company **Sales**

To measure company performance, the difference of the financial metric from the current period versus the previous period is divided by the scaling value of the previous period.

Previous period **2008**
Financial metric value **1'671 USD mio.**
Scaling value **7'557 USD mio.**

Current period **2009**
Financial metric value **1'613 USD mio.**
Delta financial metric value **-58 USD mio.**

Obermatt Bonus Index metric value **-0.8%**

2 Relevant Peer Universe

Peer universe used for assessing performance **Generics & OTC**
Number of companies in peer universe **67**

For peers with no current period financial metric value, the value of the previous quarter or previous half year is used and compared to the same period of the previous period.

Median Bonus Index metric value of peers (Operating Index) **4.1%**

Difference of company to median of peers (Operating Alpha) **-40.8%**

Percentile rank of company to peers (Operating Rank) **9.2%**

3 Bonus Recommendation

The bonus multiplier in the Obermatt Bonus Index is Obermatt's recommended bonus pay out and is based on:

- no bonus pay out if there is no outperformance of peers
- target bonus pay out if there is outperformance of 50% of peers
- double bonus if there is outperformance of all peers

The bonus multiplier is two times the percentile rank or Operating Rank of the company. The corresponding bonus formula is called the bonus multiplier.

(see: <http://www.obermatt.com/bonus-multiplier>)

Recommended bonus multiplier for the division **0.2x**

NOVARTIS CONSUMER HEALTH

1 Relevant Financial Metrics

Financial metric used for performance assessment of the company **EBITDA**
Scaling Value used for scaling peer performance data to company **Sales**

To measure company performance, the difference of the financial metric from the current period versus the previous period is divided by the scaling value of the previous period.

Previous period	2008
Financial metric value	1'228 USD mio.
Scaling value	5'812 USD mio.
Current period	2009
Financial metric value	1'217 USD mio.
Delta financial metric value	-11 USD mio.
Obermatt Bonus Index metric value	-0.2%

2 Relevant Peer Universe

Peer universe used for assessing performance **Consumer Health**
Number of companies in peer universe **40**

For peers with no current period financial metric value, the value of the previous quarter or previous half year is used and compared to the same period of the previous period.

Median Bonus Index metric value of peers (Operating Index)	3.6%
Difference of company to median of peers (Operating Alpha)	-43.6%
Percentile rank of company to peers (Operating Rank)	6.4%

3 Bonus Recommendation

The bonus multiplier in the Obermatt Bonus Index is Obermatt's recommended bonus pay out and is based on:

- no bonus pay out if there is no outperformance of peers
- target bonus pay out if there is outperformance of 50% of peers
- double bonus if there is outperformance of all peers

The bonus multiplier is two times the percentile rank or Operating Rank of the company. The corresponding bonus formula is called the bonus multiplier.

(see: <http://www.obermatt.com/bonus-multiplier>)

Recommended bonus multiplier for the division **0.1x**

COMPANY GROUP NAME

The bonus multiplier for the entire group is a weighted result of the divisional bonus multipliers:

	Weight	Operating Rank	Bonus Multiplier
Novartis Pharmaceuticals	71%	32.5%	0.7x
Novartis Sandoz	15%	9.2%	0.2x
Novartis Consumer Health	14%	6.4%	0.1x
Group	100%	25.4%	0.5x

Weighting method: **Rounded Sales and EBITDA average over 5 years**

IMPLEMENTING THE BONUS INDEX

Obermatt delivers the Bonus Index results to its customers on a quarterly basis to set the variable component of executive compensation that is based on financial performance. The component based on personal performance remains unaffected.

The advantage for publicly-listed companies is that the level of the variable executive compensation coincides with the Obermatt Bonus Index used by shareholder proxy advisory groups (e.g., DSW, Manifest).

The advantage for privately-held companies and family firms is that the Bonus Index is independent, cost-efficient and determined by a specialized financial research company specifically for compensation purposes.

Fair for Executives and Fair for Shareholders

Companies implementing the Obermatt Bonus Index benefit from a compensation model that is fair for executives and fair for shareholders. Furthermore, the practical benefits include:

1. Results can be obtained quarterly so that executives know where they stand and accounting can make any necessary accruals.
2. The selection of the relevant financial metric is tailored to the organisation.
3. The definition of the peer universe is based on mutual understanding and agreement.

Last but not least, the Bonus Index encourages companies to look outwards to the markets. It is more motivational to beat the competition rather than the budget. This is simpler to communicate: the more you beat the competition, the higher your bonus.

How Obermatt implements the Bonus Index for customers

The following steps are necessary for implementing the Obermatt Bonus Index:

1. Determine the Peer Universe
2. Define performance measurement and accounting pro forma adjustments
3. Calibrate the bonus plan
4. Formulate and approve the proposed bonus levels
5. Adjust compensation regulations and train executive management

Afterwards, Obermatt delivers financial metrics of peer companies on a quarterly basis and calculates the Bonus Index values for the client and its respective divisions.

For publicly-listed companies, the Obermatt Bonus Index values reflect the internally implemented values so that executive committees, boards of directors and shareholders draw on the same financial performance measurements.

How your Bonus Index would look

As a basis for a first discussion, Obermatt completes a complimentary calculation of your Bonus Index using a draft custom peer universe for the past five to ten years. Contact us to set a time for an appointment at info@obermatt.com or at +41 (43) 344 88 22.