

Novartis

Country	Switzerland
Meeting date	Tuesday, 26 February 2008 at 10:00
Meeting location	St. Jakobshalle, Basel
Meeting type	Annual General Meeting
Securities	ISIN CH0012005267, Telekurs 1200526

General Meeting Highlights

Under ITEM 5, the Board proposes to authorise a new share repurchase programme of CHF 10 billion. This programme, which is the largest ever proposed by the Company since its creation, will allow to return to shareholders the excess of cash arising from the divestments made in 2007 (approx. CHF 6 billion) and from the high level of free cash flow. Ethos votes FOR.

Under ITEM 7.1.b, the Board proposes to re-elect Prof. Dr. Ulrich Lehner (member of the Remuneration Committee) for another three-year term. Ethos has repeatedly expressed major concerns regarding Novartis' executive remuneration policy. Prof. Dr. Lehner is directly involved in the establishment of Novartis' executive remuneration policy in his quality of member of the Remuneration Committee. Given that Ethos has serious concerns about Novartis' executive remuneration policy and that the Company refuses to give the shareholders an advisory vote on remuneration, Ethos has no other alternative than to oppose the re-election of the members of the Remuneration Committee. Therefore, in accordance with point 2.1.f of its voting guidelines, Ethos votes AGAINST the re-election of Prof. Dr. Lehner.

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1. Voting Positions
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1. Voting Positions

Item	Proposal	Ethos' position	Board's position
1	Approve Annual Report (including Remuneration 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	Approve New Share Repurchase Programme	FOR	FOR
6	Amendments to the Articles of Association		
6.1	Amend Article 19: Special Quorum	FOR	FOR
6.2	Delete Article 33: Contributions in Kind	FOR	FOR
7	Elections to the Board of Directors		
7.1	Re-elect Board Members		
7.1.a	Re-elect Prof. Dr. Peter Burckhardt	FOR	FOR
7.1.b	Re-elect Prof. Dr. Ulrich Lehner	AGAINST	FOR
7.1.c	Re-elect Mr. Alexandre F. Jetzer	FOR	FOR
7.1.d	Re-elect Mr. Pierre Landolt	FOR	FOR
7.2	Elect Ms. Ann Fudge	FOR	FOR
8	Ratify Auditors	FOR	FOR

2. Proxy Analysis

1	Approve Annual Report (including Remuneration Report), Financial Statements and Accounts	FOR
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The Board of Directors requests shareholder approval of the Company's annual report (including the remuneration report) and of the annual and consolidated accounts for the fiscal year 2007.

According to the new Appendix 1 of the Swiss Code of Best Practice in Corporate Governance, Swiss listed companies have to prepare a report on executive remuneration as an integrated part of the annual report. Then, companies can choose between discussing the remuneration report under the item involving approval of the annual report or discharge (option 1), or to put it to an advisory vote of the shareholders (option 2).

The first option does not allow in practice the shareholders to express their concerns through a negative vote of the annual report. Indeed, in Switzerland, the approval of the annual report is generally bundled with the approval of the accounts, and a refusal of the accounts by the General Meeting prevents the Company from paying a dividend to shareholders.

Ethos contacted Novartis as well as all other SMI-listed companies to urge them to choose the second option (advisory vote), in order to give shareholders an effective "say on pay". Ethos regrets the Company's decision to choose the first option and urge it to propose an advisory vote of the remuneration report at next year's AGM.

While Ethos has several concerns about Novartis' executive remuneration policy (see item 7.1.b and the remuneration section of this report), the accuracy of the Company's financial statements and accounts is not challenged. Ethos, in accordance with its voting guidelines, votes FOR.

2	Discharge Board Members and Executive Management	FOR
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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 2007.

Ethos has no reason to oppose the discharge and, in accordance with its voting guidelines, votes FOR.

3	Approve Allocation of Income and Dividend	FOR
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The Board of Directors proposes that the Holding Company's income for the fiscal year 2007 be allocated as follows:

Balance carried forward from previous year	CHF	-
Net income (Holding Company)	CHF	9'347'882'830
At the disposal of the AGM	CHF	9'347'882'830
Payment of dividend	CHF	- 3'929'967'974
Allocation to reserves	CHF	- 5'417'914'856
Carry forward	CHF	-

For the fiscal year under review, the Board proposes to pay a dividend of CHF 1.60 per share (up from CHF 1.35 last year). This corresponds to a payout ratio of 50% on the consolidated net income from continuing operations (down from 57% last year).

In 2007, the Group's continuing total revenues grew by 10.7% from USD 34.4 billion to USD 38.1 billion (corresponding to +6% in local currencies). However, the continuing net income decreased by 4.2% from USD 6.8 billion to USD 6.5 billion. This decrease was due to one-off charges for environmental provision increase (USD 590 million) and for restructuring costs (USD 444 million). 2007 was marked by the divestments of the businesses "Medical Nutrition" and "Gerber", which were the final steps to complete the Company's strategy to focus on healthcare.

Given the Company's results, Ethos, in accordance with its voting guidelines, votes FOR.

4	Reduce Share Capital via Cancellation of Shares	FOR
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The Board of Directors proposes to reduce the Company's share capital by CHF 42'674'000 nominal via the cancellation of 85'348'000 registered shares with a nominal value of CHF 0.50. This corresponds to a 3.1% reduction of the issued share capital. The new share capital shall amount to CHF 1'321'811'500 nominal divided into 2'643'623'000 registered shares with a nominal value of CHF 0.50. The legally required auditors' report confirms that all claims on the Company are fully covered.

The shares to be cancelled were repurchased in 2007 in connection with the fourth and fifth share repurchase programmes conducted by the Company. An overall market value of CHF 5.5 billion had been repurchased on a second trading line on virt-x.

Ethos, in accordance with its voting guidelines, votes FOR.

5	Approve New Share Repurchase Programme	FOR
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The Board of Directors proposes to authorise a share repurchase programme of up to CHF 10 billion in market value, corresponding to 5.9% of the share capital based on the share price on 31 December 2007. The authority shall begin immediately after its acceptance by the General Meeting and have no expiry date. Currently, Novartis AG (the Holding entity) holds 9.9% of its own shares, which is just under the 10% limit as stated in the Swiss Company Law.

Since 1999, Novartis has repurchased shares for a total of CHF 19 billion through five share repurchase programmes ranging from CHF 3 billion to CHF 4 billion each, which is far less than the CHF 10 billion proposed at this AGM. The Company argues that it intends to return to shareholders the net proceeds from the divestments made in 2007 (approx. CHF 6 billion) and to use cash reserves for the other CHF 4 billion.

Ethos points out that share repurchase programmes may have a positive short-term impact on earnings per share (EPS), which can be a source of concern when bonuses are based on EPS targets. In the case of Novartis, EPS is one of the financial criteria used for measuring short-term performance. However, in theory, the purpose of share repurchase programmes should be to absorb the excess of cash when there is no valuable opportunity to use these liquidities for launching new projects, increasing R&D investments, financing acquisitions or improving the firm's financial situation by reimbursing debt.

Novartis' balance sheet and cash position are very strong at the end of 2007. Compared to 2006, the equity ratio increased from 61% to 65%, mainly due to the proceeds from divestments. Overall liquidity (cash, cash equivalents and marketable securities including financial derivatives) amounted to USD 13.2 billion, an increase of USD 5.2 billion, also attributable to the divestments. The Group's free cash flow (before dividends) amounted to USD 6.4 billion, up from USD 6.1 billion in 2006.

In a pharmaceutical company, continuous R&D investments are very important to develop new products to be potentially brought to the market in the future. In 2007, Novartis' R&D investments amounted to USD 6.4 billion, representing 16.9% of the Group's total revenues, up from 15.5% in 2006. This level is in line with its peers such as Roche, which invested 18.2% of its total revenues in R&D activities in 2007.

Given Novartis' strong balance sheet and cash position arising from the Group's high level of free cash flow and from divestments made in 2007, Ethos believes that the share repurchase programme will allow the Company to return excess cash to shareholders, while the current cash reserves and future cash generation will be sufficient to finance R&D activities and future potential acquisitions. Therefore, Ethos, in accordance with its voting guidelines, votes FOR.

6	Amendments to the Articles of Association	
6.1	Amend Article 19: Special Quorum	FOR
	<p>The Board of directors proposes that Article 19 of the Company's Articles of Association be amended to reflect recent changes in the Swiss Company Law (CO/OR). Effective as of 1 January 2008, Article 704 para. 1 CO/OR relating to important decisions requiring special quorum of a 2/3 majority has been amended. Until now, only the dissolution of the Company without liquidation required a 2/3 majority of the votes represented at the AGM, meaning that a dissolution with liquidation only required a simple majority (50% approval).</p> <p>With the proposed amendment, the Company complies with the Swiss Company Law which now requires that any dissolution of the Company be approved by a 2/3 majority. Given that the proposed change reflects the new legislation and reinforces minority shareholders' protection, Ethos, in accordance with its voting guidelines, votes FOR.</p>	
6.2	Delete Article 33: Contributions in Kind	FOR
	<p>The Board of Directors proposes to delete Article 33 of the Company's Articles of Association regarding the contributions in kind at the constitution of the Company. The Articles of Association include references to contributions in kind that were made in 1996 as part of the creation of the Company. After more than 10 years, these references are no longer necessary. As a result, the Board of Directors proposes that they be deleted in accordance with Article 628 para. 4 CO/OR.</p> <p>Ethos, in accordance with its voting guidelines, votes FOR.</p>	
7	Elections to the Board of Directors	
7.1	Re-elect Board Members	
	<p>The Board of Directors proposes that Prof. Dr. Peter Burckhardt be re-elected to serve for another one-year term, and that Prof. Dr. Ulrich Lehner, Mr. Alexandre F. Jetzer and Mr. Pierre Landolt be re-elected to serve for another three-year term.</p> <p>The directors will be elected individually which is in line with best practice standards in terms of corporate governance.</p>	
7.1.a	Re-elect Prof. Dr. Peter Burckhardt	FOR
	<p>The Board of Directors proposes that Prof. Dr. Peter Burckhardt (affiliated Director) be re-elected to serve for another one-year term.</p> <p>Prof. Dr. Burckhardt is only proposed for a one-year term given that he will reach the age limit of 70 years old in 2008. Ethos considers Prof. Dr. Burckhardt as affiliated to the Company given that he has served on the Board of Directors for more than ten years. However, given that the Board's overall independence is sufficient (see Board of Directors section) and that there are no other particular concerns regarding the re-election of Prof. Dr. Burckhardt, Ethos, in accordance with its voting guidelines, votes FOR.</p>	
7.1.b	Re-elect Prof. Dr. Ulrich Lehner	AGAINST
	<p>The Board of Directors proposes that Prof. Dr. Ulrich Lehner (independent Director) be re-elected to serve for another three-year term.</p> <p>Ethos has major concerns regarding Novartis' executive remuneration policy. Prof. Dr. Lehner is directly involved in the establishment of Novartis' executive remuneration policy in his quality of member of the Remuneration Committee since February 2006.</p> <p>In the past few years, Ethos conveyed its concerns regarding executive remuneration to Novartis at several occasions. Moreover, Ethos took the floor at the 2006 and 2007 general meetings asking for better disclosure on the remuneration policy and its components, compliance with best practice rules regarding the structure and levels of remuneration, and requesting that shareholders be given the right to cast an advisory vote on the remuneration policy.</p> <p>Nevertheless, the following elements regarding the remuneration policy still remain below international best practice standards for companies such as Novartis:</p>	

Disclosure

The Company provides no information as to the key performance parameters triggering awards and the corresponding outcomes. It is fundamental that investors be informed about the levels of on target and maximum short-term incentives in percentage of the base salary, on the related performance targets to achieve, as well as about vesting scales and targeted amounts for long-term incentives. Furthermore, the Company decided to apply the accrual principle for remuneration figures in the Annual Report 2007. However, Ethos strongly regrets that by effecting this change, the Company did not disclose to the shareholders the bonus paid in cash and in shares and the shares granted under long-term or discretionary share schemes to executives for the 2006 performance period, as well as the fair value of options granted in January 2008 for the 2007 performance period (only a tax value was disclosed).

Given the very high level of remuneration provided by Novartis, shareholders are entitled to much better disclosure in order to evaluate the costs of awards compared to the incentives to create long term shareholder value. Likewise, OECD-Principles on Corporate Governance recommend providing sufficient information enabling shareholders to appreciate performance versus remuneration.

Level of pay

Ethos considers the level of total executive remuneration at Novartis to be excessive, especially in light of the average performance recorded in 2007. For example, the remuneration of the ten members of executive management (including the Chairman/CEO) exceeds CHF 81 million for 2007 (all elements were calculated at their fair value).

Discretionary awards

Novartis runs a share scheme whereby share awards are at the full discretion of the Board. Variable remuneration without pre-determined pools of awards or pre-established and disclosed performance criteria clearly is not best practice.

Severance payments

In 2007, Novartis adopted a principle that new employment contracts should not contain severance payments or change of control clauses. However, Novartis has still three employment agreements with current members of the senior management (expiring in 2009) that provide for a severance payment of 36 months, two of which (including the Chairman/CEO Dr. Vasella) are further extended by 24 months in case of a change of control of the Company. The resulting golden parachutes are not acceptable as they do not comply with internationally accepted recommendations.

The severance payment to Dr. Vasella amounts to USD 53 million based on an annual remuneration of CHF 20 million (agreed with Dr. Vasella). This is not consistent with the payment in case of change of control of USD 132 million which corresponds to more than 7 times an annual salary of CHF 20 million, instead of 5 times (36 months plus 24 months). Ethos contacted Novartis which stated that the change of control payment of USD 132 million was not subject to an agreement with Dr. Vasella given that probability of a change of control was very low. Ethos is highly concerned over the Company's inability to explain how the Chairman/CEO's golden parachute was determined.

Possibility for shareholders to have a "say on pay"

Novartis refused to introduce an advisory shareholder vote on the remuneration policy, which is one of the alternatives brought forward by the new Appendix to the Swiss Code of Best Practice. Yet, shareholders' say on executive pay is practiced in several markets and is also recommended by the OECD-Principles on Corporate Governance.

Given the abovementioned concerns regarding remuneration and the fact that shareholders are not allowed to vote on the remuneration policy, Ethos, in accordance with point 2.1.f of its voting guidelines, cannot approve the re-election of Prof. Dr. Lehner, member of the remuneration committee and votes AGAINST.

7.1.c

Re-elect Mr. Alexandre F. Jetzer

FOR

The Board of Directors proposes that Mr. Alexandre F. Jetzer (affiliated Director) be re-elected to serve for another three-year term.

The Company and Ethos consider Mr. Jetzer as affiliated given that he has a consultancy agreement with Novartis International. However, given that the Board's overall independence is sufficient (see Board of Directors section) and that there are no other particular concerns regarding the re-election of Mr. Jetzer, Ethos, in accordance with its voting guidelines, votes FOR.

7.1.d	Re-elect Mr. Pierre Landolt	FOR
	<p>The Board of Directors proposes that Mr. Pierre Landolt (affiliated Director) be re-elected to serve for another three-year term.</p> <p>Ethos considers Mr. Landolt as affiliated to the Company given that he represents the interests of Emasan AG, important shareholder. However, given that the Board's overall independence is sufficient (see Board of Directors section) and that there are no other particular concerns regarding the re-election of Mr. Landolt, Ethos, in accordance with its voting guidelines, votes FOR.</p>	
7.2	Elect Ms. Ann Fudge	FOR
	<p>The Board of Directors proposes to newly elect Ms. Ann Fudge (independent nominee) to the Board for a three-year term.</p> <p>From 2003 to 2006, Ms. Ann Fudge was Chairwoman and CEO of Young & Rubicam Brands, a marketing communications company. Before that, she served as President of the Beverages, Desserts & Post division of Kraft Foods (USA).</p> <p>Ethos welcomes the nomination of a new independent Director with extensive marketing expertise and, in accordance with its voting guidelines, votes FOR.</p>	
8	Ratify Auditors	FOR
	<p>The Board of Directors recommends that shareholders ratify the re-appointment of PricewaterhouseCoopers as the Company's and Group's external auditors for a further one-year term.</p> <p>As disclosed in the Company Information section of this report, the fees paid by the Company for audit services in 2007 represented 94% of the total fees paid to the external auditor during the year.</p> <p>Ethos, in accordance with its voting guidelines, votes FOR.</p>	

3. Company Information

Before the General Meeting of 26 February 2008

3.1 General Information

Headquarters	Basel (BS), Switzerland
Activities	Novartis is a world leader in the research and development of products to protect and improve health and well-being. Operating through 360 independent affiliates in 140 countries, Novartis offers its products and services through its four divisions Pharmaceuticals, Vaccines and Diagnostics, Sandoz and Consumer Health. Furthermore, Novartis holds a 33% stake in Roche, valued at CHF 11.4 billion at the end of 2007. In 2007, the Group pursued its strategy to focus on healthcare through the divestments of its businesses "Medical Nutrition" and "Gerber".
Employees	Total number on 31.12.2007: 98200 of which 11700 in Switzerland
Chairman	Dr. med. Daniel L. Vasella (since 1999), Swiss, aged 55
CEO	Dr. med. Daniel L. Vasella (since 1996), Swiss, aged 55
Listing	SWX Swiss Exchange (Virt-X) New York Stock Exchange (ADS)

3.2 Capital

Structure	In CHF	Number	Nominal Value	Capital
Registered shares		2'728'971'000	0.50	1'364'485'500
Total Capital				1'364'485'500

At the forthcoming AGM, the share capital will be reduced by 3.1 % via the cancellation of 85'348'000 previously repurchased registered shares (item 4).

Conditions to file a shareholder resolution	Date	31.12.2007	In CHF	Nominal value required	1'000'000
				Market value required	124'200'000
				% of voting share capital	0.07 %

Following the share capital reduction proposed at this AGM, the threshold will increase to 0.08% of the share capital.

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

JP Morgan Chase Bank, as depository of the shares represented by ADS, is registered with 12.4% of the share capital at year-end 2007.

Important shareholders:

- Novartis Foundation for Employee Participation: 3.6% with full voting rights
- Emasan AG: 3.2% with full voting rights
- JPMorgan Chase Bank (USA): 12.4% as depository of ADS listed on the NYSE
- JPMorgan Chase Bank (USA): 7.6% as nominee
- Nortrust Nominees (UK): 2.4% as nominee
- Mellon Bank (USA): 2.3% as nominee

Holders of American Depositary Shares (ADS) may vote by instructing JPMorgan Chase Bank to exercise the voting rights attached to the registered shares underlying the ADS. JPMorgan Chase Bank, as depository, may exercise the voting rights for deposited shares represented by ADS at its discretion to the extent the holders of the ADS have not given instructions as to how such underlying shares should be voted.

3.3 Financials and Key Figures

Year end 31. December
 Reporting standard IFRS

Key figure		2007	2006	2005
Total revenues	USD	38'072.0 million	34'393.0 million	31'005.0 million
EBIT	USD	6'781.0 million	7'642.0 million	6'802.0 million
Net income	USD	6'540.0 million	6'825.0 million	6'141.0 million
Market capitalisation at year-end	USD	123'889.0 million	135'105.0 million	122'887.0 million
Earnings per registered share (diluted)	USD	2.8	2.9	2.6
Dividend per registered share	CHF	1.6	1.4	1.1
Payout ratio (on group net income)		50.2 %	38.1 %	33.7 %
Market value per registered share at year end	CHF	62.1	70.3	69.1

Comments The 2006 and 2007 figures are presented on a continuing basis, without the contributions of the Medical Nutrition division and Gerber which were divested in 2007, generating net gains of USD 5.2 billion in 2007. Therefore, the total net income attributable to Novartis' shareholders in 2007 amounts to CHF 11.9 billion.

3.4 External Auditor

Auditor PricewaterhouseCoopers, since 1996

Fees	In USD	2007	2006	2005
Audit fees		21'245'000	19'785'000	20'129'000
Audit related fees		904'000	1'356'000	490'000
Non-audit fees		553'000	673'000	822'000
Total		22'702'000	21'814'000	21'441'000

Comments The lead auditors, Mr. Robert Muir and Mr. Daniel Suter, have been in charge since 2005 and 2003 respectively.

Audit related fees include fees for services such as acquisition due diligence, audits of pension and benefit plans, contractual audits of third-party arrangements, assurance services on corporate citizenship reporting.

2007: of the non-audit fees, USD 222'000 were paid for tax services and USD 331'000 for other services.

4. Remuneration Report

4.1 Global Remuneration Figures

A Executive Board Members and Executive Management

	2007 Number	2007 CHF	2006 Number	2006 CHF	Var.
Cash		11'832'918		11'621'845	
Shares	678'290	43'444'474	1'014'572	72'338'986	
Options	2'375'609	20'786'580	659'124	9'168'415	
Other		4'997'456		1'432'699	
Total		81'061'428		94'561'945	
Highest paid executive		29'970'580		44'199'715	NA
Average other executives		5'838'954		7'194'605	NA

B Non-Executive Board Members

	2007 Number	2007 CHF	2006 Number	2006 CHF	Var.
Cash		2'875'253		3'849'929	
Shares	38'311	2'790'956	32'246	2'299'139	
Options	0	0	0	0	
Other		0		0	
Total		5'666'209		6'149'068	
Highest paid non-executive		1'050'004		1'050'040	0.0%
Average other non-executives		512'912		509'903	0.6%

Comments

Other remuneration includes pension fund contributions. The 2007 remuneration of the executive management includes the variable remuneration related to the 2007 performance (Accrual Principle), while the 2006 remuneration included the variable remuneration related to the 2005 performance (Cash-Flow Principle). Therefore, remuneration figures are not comparable ("NA").

Shares granted to executive Board members and executive management were evaluated by the Company at CHF 64.05 each (CHF 72.85 each for non-executive Board members). The fair value of options was estimated at CHF 8.75 (Ethos' estimate).

4.2 Individual Remuneration Figures

Individual figures for 2007 (CHF)

A Executive Board Members and Executive Management

Name	Function	Cash	Shares	Options	Other	Total
D. Vasella	CEO	3'000'000	15'359'959	11'293'021	317'600	29'970'580
R. Breu	CFO	1'098'504	2'739'482	3'690'733	98'361	7'627'080
A. Rummelt	Divisional	906'674	5'244'991	0	179'809	6'331'474
J. Jimenez	Divisional	834'253	783'780	1'376'078	542'133	3'536'244
J. Rheinhardt	Divisional	915'004	6'973'572	0	195'728	8'084'304
M. Fishman	Divisional	1'128'364	4'458'136	1'617'613	320'759	7'524'872
T. Ebeling	Divisional	1'570'804	1'921'564	921'681	251'454	4'665'503
J. Brokatzky-Geiger	OE	630'920	1'446'825	953'890	198'451	3'230'086
T. Wellauer	OE	616'670	1'415'889	933'564	176'744	3'142'867
P. Choffat	Ex-Mbr	571'725	916'363	0	2'655'125	4'143'213
U. Baerlocher	Ex-Mbr	560'000	2'183'913	0	61'292	2'805'205
Total						81'061'428

B Non-Executive Board Members

Name	Function	Cash	Shares	Options	Other	Total
H. Rudloff	VCh	789'890	0	0	0	789'890
U. Lehner	VCh, LD	656'250	393'754	0	0	1'050'004
P. Burckhardt	Mbr	16'875	450'067	0	0	466'942
S. Datar	Mbr	264'375	185'695	0	0	450'070
W. George	Mbr	150'050	449'994	0	0	600'044
A. Jetzer	Mbr	10'396	350'044	0	0	360'440
P. Landolt	Mbr	128'401	294'023	0	0	422'424
A. von Planta	Mbr	323'045	150'071	0	0	473'116
W. Wiedeking	Mbr	112'493	257'306	0	0	369'799
R. Zinkernagel	Mbr	423'478	260'002	0	0	683'480
Total						5'666'209

Comments

Mr. Choffat retired on 11 May 2007. Mr. Baerlocher retired on 31 August 2007. Mr. Jimenez joined Novartis on 16 April 2007.

For tax reasons, 7 members of the executive management and 4 non-executive Board members chose to voluntarily block their shares for a period between 3 and 10 years. Ethos valued the shares at their market value at date of grant.

In addition, Mr. Jetzer invoiced CHF 300'000 to Novartis International for consulting services.

4.3 Best Practice Checklist

A Executive Board Members and Executive Management

Best practice	<ul style="list-style-type: none"> - All elements of each director's remuneration are disclosed - A fully disclosed peer group used for pay benchmarking - Notice periods of one year or less, without any change of control clauses 	
Company practice	Remuneration figures disclosed separately for each member	Yes
	Separate disclosure of all pay elements (salary, bonus, incentive plans, pension contributions)	Yes
	Peer group used for pay benchmarking	Yes
	Peer group's companies disclosed	No
	Notice period of 1 year or less (base salary and target bonus) for Highest paid executive	No
	Notice period of 1 year or less (base salary and target bonus) for other executives	No
	Additional clauses in case of change of control	Yes
Comments	<p>Peer group's disclosure: only the peer group for specific pharmaceutical positions is disclosed.</p> <p>Severance payments: in 2007, Novartis adopted a principle that new employment contracts should not contain severance payments or change of control clauses. However, Novartis has still three employment agreements with current members of the senior management (expiring in 2009) that provide for a severance payment of 36 months, two of which are further extended by 24 months in case of a change of control (including for the Chairman/CEO Dr. Vasella). The severance payment to Dr. Vasella amounts to USD 53 million while the payment in case of a change of control amounts to USD 132 million.</p>	

B Non-Executive Board Members

Best practice	<ul style="list-style-type: none"> - Non-executives should not receive variable remuneration or stock options - Part of the fees should be paid in shares 	
Company practice	Non-executive Board members receive variable remuneration	No
	Options granted to non-executive Board members	No
	Part of the fees paid in shares	Yes

4.4 Remuneration Structure (Executives)

A Remuneration Breakdown

Breakdown	Base salary	Short-term incentives	Long-term incentives	Pensions / Others
Of highest paid executive	10.0%	79.2%	9.7%	1.1%
Of other executives	15.4%	67.5%	8.0%	9.2%

B Short-term Incentives

Short-term incentives in % of base salary	On target	Maximum	Actual
Of highest paid executive	NA	NA	792.4%
Of other executives	NA	NA	439.2%

Performance criteria mentioned:

Only the performance criteria for the Chairman/CEO's short-term incentives are disclosed: they include net sales, operating income, net income, earnings per share and market share.

Short-term incentives include the annual bonus and the "Select" equity plan, which consists of shares blocked between 2 and 10 years and options blocked 2 years and with a maturity of 10 years.

Approximately 25 top executives may invest their annual bonus in a "Leveraged Share Savings Plan", whereby they convert part or all their cash bonus into shares at market value. If beneficiaries immediately decide to block the shares for at least five years, these shares will be automatically matched with 1 additional share at the end of the blocking period.

C Long-term Incentives

Incentive	Plan 1	Plan 2	Plan 3
Type of awards	Shares	-	-
Fair value at grant date disclosed	Yes		
Blocking period	None		
Performance period	3 years		
Sale restriction after performance period	0-10 years		
Absolute performance criteria for vesting	Yes		
Relative performance criteria for vesting	No		
Minimum final grant (in % of initial grant)	0%		
Maximum final grant (in % of initial grant)	Not disclosed		

Comments

Under the Company's "Long-term Performance Plan" described above, the vesting of shares is conditional upon achievement of divisional EVA (Economic Value Added) targets.

4.5 Remuneration and Financial Performance

A Change in Remuneration 2006-2007

Highest paid executive	NA
Average other executives	NA
Highest paid non-executive	0.0%
Average other non-executives	0.6%

B Change in Financial Performance 2006-2007

Sales	10.7%
Operating income	-11.3%
Net income	-4.2%
Total shareholder return	-9.7%

4.6 Share and Option Holdings

A Executive Board Members and Executive Management

Name	Function	Exec. since	31.12.2007	31.12.2007	31.12.2006	31.12.2006
			Shares	Options	Shares	Options
D. Vasella	CEO	1996	2'020'319	3'585'084	1'466'129	NA
R. Breu	CFO	1996	386'527	2'139'331	313'020	NA
A. Rummelt	Divisional	2006	233'257	0	151'563	NA
J. Jimenez	Divisional	2007	13'164	157'266	NA	NA
J. Rheinhardt	Divisional	2007	355'965	313'407	NA	NA
M. Fishman	Divisional	2002	232'640	971'809	148'550	NA
T. Ebeling	Divisional	1998	277'843	422'864	173'205	NA
J. Brokatzky-Geiger	OE	2005	89'488	255'452	52'333	NA
T. Wellauer	OE	2007	33'252	106'693	NA	NA
P. Choffat	Ex-Mbr	2002	NA	NA	61'757	NA
U. Baerlocher	Ex-Mbr	1999	NA	NA	265'939	NA
Total			3'642'455	7'951'906	2'632'496	

B Non-Executive Board Members

Name	Function	Non-exec. since	31.12.2007	31.12.2007	31.12.2006	31.12.2006
			Shares	Options	Shares	Options
H. Rudloff	VCh	1996	109'791	24'570	109'791	NA
U. Lehner	VCh, LD	2002	22'193	0	16'788	NA
P. Burckhardt	Mbr	1996	19'052	0	19'472	NA
S. Datar	Mbr	2003	11'952	10'000	9'403	NA
W. George	Mbr	1999	125'042	44'835	118'865	NA
A. Jetzer	Mbr	1996	75'335	32'214	65'530	NA
P. Landolt	Mbr	1996	19'709	24'191	15'670	NA
A. von Planta	Mbr	2006	104'238	0	2'178	NA
W. Wiedeking	Mbr	2003	19'118	0	15'586	NA
R. Zinkernagel	Mbr	1999	22'800	23'597	19'231	NA
Total			529'230	159'407	392'514	

5. Board of Directors

After the General Meeting of 26 February 2008

	Executive	Affiliated non-executive	Independent non-executive	Total
Board of Directors	1	4	8	13
Audit Committee	0	2	3	5
Remuneration Committee	0	1	2	3
Nomination Committee	0	1	3	4

Statutory mandate duration 3 years

Election procedure Individual

In 2007, the Board of Directors held 10 meetings with an average duration of 6 hours each. All Directors attended all meetings, except Dr. Wiedeking who attended 8 meetings. In addition, the remuneration committee met 6 times (100% attendance rate), the audit committee 7 times (91% attendance rate), the nomination committee 3 times (100% attendance rate) while the chairman's committee met 9 times (97% attendance rate).

The Corporate Governance Committee corresponds to the "Nomination Committee - NC". Its duties also include the regular review of the composition and size of the Board and its committees and an annual evaluation of the Board as a whole. Furthermore, the Board has established a Chairman's Committee ("CC") which deals with business matters falling within the authority of the Board that may arise in between meetings of the Board.

Dr. med. Daniel L. Vasella

Executive Chairman, Chief Executive Officer

Nationality	Swiss
Age	55
Director since / term ends	1996 / 2010
Committee memberships	CC (Ch)
Affiliation	– Board membership exceeding time limit for independence
Main activity	Novartis, CEO
Directorships	– PepsiCo (USA), Member – INSEAD, Member – Harvard Business School (USA), Board of Dean's Advisors, Member
Other relevant mandates	– Aldava Foundation, Member – Forum of Young Global Leaders, Vice Chairman – Foundation for the Swiss Guards of the Pope in the Vatican, Member – International Business Leaders Advisory council for the Mayor of Shanghai, Member – Kinder in Not, Chairman – Peres Center for Peace (Israel), International Board of Governors, Member

Prof. h.c. Dr. rer. pol. Ulrich Lehner

Independent VCh and LD

Nationality	German
Age	62
Director since / term ends	2002 / 2011
Committee memberships	CC, AC (Ch), NC, RC
Main activity	Henkel (Germany), CEO
Directorships	– E.ON (Germany), Member – Porsche Automobil Holding (Germany), Member – ThyssenKrupp (Germany), Member – HSBC Trinkhaus & Burkhardt (Germany), Member
Comments	CFO of Henkel (1995-2000). Honorary Professor at the University of Munster (Germany). Certified accountant.

Hans-Jörg Rudloff

Affiliated Vice Chairman

Nationality	German
Age	68
Director since / term ends	1996 / 2010
Committee memberships	CC, AC, RC (Ch)
Affiliation	– Board membership exceeding time limit for independence
Main activity	none
Directorships	<ul style="list-style-type: none"> – Barclays Capital (UK), Chairman – Marcuard Heritage AG, Chairman – Bluebay Asset Management Ltd., Chairman – New World Resources (Netherlands), Member – Thyssen-Bornemisza Group (Monaco), Member – Rosneft (Russia), Member – RBC (Russia), Member – Escada AG (Germany), Advisory Board, Member
Other relevant mandates	<ul style="list-style-type: none"> – Centre international d'études monétaires et bancaires, Member – Energie Baden-Württemberg (Germany), Advisory Board, Member – International Capital Markets Association, Chairman – Landeskreditbank Baden-Württemberg (Germany), Advisory Board, Member
Comments	Chairman and CEO of Credit Suisse First Boston (1989-1990) and member of the Executive Board of Credit Suisse Group (1986-1990).

Prof. Dr. med. Peter Burckhardt

Affiliated Member

Nationality	Swiss
Age	69
Director since / term ends	1996 / 2009
Committee memberships	AC
Affiliation	– Board membership exceeding time limit for independence
Main activity	Scientific review "Osteology", Chief Editor
Other relevant mandates	<ul style="list-style-type: none"> – Foundation for the Research on Bone Disease, Chairman – Foundation Sicpa, Member
Comments	Former head of department of internal medicine of the University of Lausanne and former professor for internal medicine. Former President of the Swiss Society of Internal Medicine and member of the appeal committee of the national agency for drug controls.

Prof. Dr. oec. Srikant Datar

Independent

Member

Nationality	US Citizen
Age	55
Director since / term ends	2003 / 2009
Committee memberships	AC
Main activity	Harvard Business School, Senior Associate Dean and Professor BA
Directorships	<ul style="list-style-type: none"> – ICF International (USA), Member – KPIT-Cummins Infosystem (India), Member
Comments	Dr. Datar has 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. Chartered Accountant.

Ann M. Fudge

Independent

Member

Nationality	US Citizen
Age	57
Director since / term ends	2008 / 2011
Committee memberships	none
Main activity	none
Directorships	<ul style="list-style-type: none"> – General Electric (USA), Member
Other relevant mandates	<ul style="list-style-type: none"> – Gates Foundation, U.S. Programs Advisory Panel, Chairwoman – Harvard University (USA), Board of Overseers, Member – Morehouse College, Member – Rockefeller Foundation, Member
Comments	Chairwoman and CEO of Young & Rubicam Brands (USA) (2003-2006). President of the Beverages, Desserts & Post Division of Kraft Foods (USA) (2000-2003).

William W. George

Independent

Member

Nationality	US Citizen
Age	66
Director since / term ends	1999 / 2009
Committee memberships	CC, NC (Ch), RC
Main activity	Harvard Business School, Professor
Directorships	<ul style="list-style-type: none"> – Goldman Sachs (USA), Member – Exxon Mobil (USA), Member
Other relevant mandates	<ul style="list-style-type: none"> – Carnegie Endowment for International Peace (USA), Member – World Economic Forum USA, Member
Comments	CEO of Medtronic (1996-2002).

Alexandre F. Jetzer

Affiliated Member

Nationality	Swiss
Age	67
Director since / term ends	1996 / 2011
Committee memberships	none
Affiliation	<ul style="list-style-type: none"> – Business relationship – Board membership exceeding time limit for independence <p>In 2007, Mr. Jetzer invoiced CHF 300'000 to Novartis International for consulting services, whilst in 2006 he was paid CHF 300 722.</p>
Main activity	none
Directorships	– Compagnie Financière Michelin, Supervisory Board, Member
Other relevant mandates	<ul style="list-style-type: none"> – Lucerne Festival Foundation, Member – Novartis Foundation for Human Being and Environment, Member – Novartis Foundation for Sustainable Development, Member
Comments	Head of International Coordination, Legal & Taxes department and member of the executive committee of Novartis until 1999.

Pierre Landolt

Affiliated Member

Nationality	Swiss
Age	61
Director since / term ends	1996 / 2011
Committee memberships	NC
Affiliation	<ul style="list-style-type: none"> – Important shareholder or its representative – Board membership exceeding time limit for independence <p>Representative of Emasan AG, an important shareholder of the company.</p>
Main activity	Banque Landolt & Cie, Associate Partner
Directorships	<ul style="list-style-type: none"> – Syngenta, Member – AxialPar Ltda (Brazil), Chairman – Emasan AG, Chairman – Vaucher Manufacture Fleurier SA, Chairman – Ecocarbon LLC (Russia), Chairman – Moco Agropecuaria Ltda (Brazil), Chairman – Parmigiani SA, Vice Chairman
Other relevant mandates	<ul style="list-style-type: none"> – Instituto Estrela de Fomento ao Microcrédito (Brazil), Chairman – Montreux Jazz Festival Foundation, Vice Chairman – Sandoz Family Foundation, Chairman – Syngenta Foundation for Sustainable Agriculture, Member

Dr. iur. Andreas von Planta

Independent

Member

Nationality	Swiss
Age	53
Director since / term ends	2006 / 2009
Committee memberships	AC
Main activity	Lenz & Staehelin law firm, Partner
Directorships	<ul style="list-style-type: none"> – Holcim, Vice Chairman – Nationale Suisse Assurances, Vice Chairman – JP Morgan (Suisse) SA, Chairman – Maersk Switzerland SA, Vice Chairman – Moller A.P. Finance SA, Vice Chairman – Compex SA, Vice Chairman – APM Genève SA, Vice Chairman – Burberry (Suisse) SA, Member – CSSA Chartering and Shipping Services SA, Member – Settlements SA, Member – Total Trading Entreprise SA, Member – Raymond Weil SA, Member
Other relevant mandates	<ul style="list-style-type: none"> – Almea Foundation, Member – Foundation "Société de lecture" Geneva, Chairman

Dr. ing. Wendelin Wiedeking

Independent

Member

Nationality	German
Age	56
Director since / term ends	2003 / 2009
Committee memberships	none
Main activity	Porsche Automobil Holding (Germany), CEO

Marjorie M. Yang

Independent

Member

Nationality	Chinese
Age	56
Director since / term ends	2007 / 2010
Committee memberships	none
Main activity	Esquel Group (Hong Kong), Chairwoman and CEO
Directorships	<ul style="list-style-type: none"> – Swire Pacific (Hong-Kong), Member – The Hongkong and Shanghai Banking Corporation Limited, Member – MTI Corporation, Member
Other relevant mandates	<ul style="list-style-type: none"> – Asia Business Council, Member – China Association of Enterprises with Foreign Investment, Vice Chairwoman – Chinese People's Political Consultative Conference, National Committee, Member – Harvard Business School (USA), Dean's Advisory Board, Member – Textile and Clothing Sector Committee, Chairwoman

Prof. Dr. med. Rolf M. Zinkernagel

Independent

Member

Nationality	Swiss
Age	64
Director since / term ends	1999 / 2009
Committee memberships	NC
Main activity	Institute of Experimental Immunology at the University of Zurich, Professor and Director
Directorships	– International Union of Immunological Societies, President General Director
Other relevant mandates	<ul style="list-style-type: none"> – American Associations of Immunologists and of Pathologists, Member – Aravis General Partner Ltd. (Cayman Islands), Scientific Advisory Board, Member – Bio-Alliance AG (Germany), Scientific Advisory Board, Member – Bioxel (Italy), Scientific Advisory Board, Member – BMS Singapour, Advisory Council, Member – Cancevir, Scientific Advisory Board, Member – ENI European Network of Immunological Institutions, Member – Esbatech, Scientific Advisory Board, Member – Esperanza Medicines Foundation, Member – Euronco Foundation, Vice Chairman – Foundation for the Development of Internal Medicine in Europe, Member – ImVision, Scientific Advisory Board, Member – Laboratoire Koch, Scientific Advisory Board, Member – MannKind (USA), Scientific Advisory Board, Member – Novimmune, Scientific Advisory Board, Member – Roche Research Foundation, Member – Swiss Society of Allergy and Immunology, Member – Synos-Foundation for orthopedic surgery, Member – xbiotech (Canada), Scientific Advisory Board, Member
Comments	Scientific advisor/consultant to several companies in Switzerland and abroad. Nobel Prize for medicine (immunology) in 1996.

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Lionel Ebener

About Ethos

Ethos, Swiss Foundation for Sustainable Development, aims to promote the consideration of sustainable development principles and corporate governance best practice in investment activities. Its fully owned subsidiary Ethos Services is an acknowledged provider of consulting services comprising socially responsible investment funds (SRI), shareholder meetings analyses and an investor engagement and dialogue programme. Please visit our webpage for more information.

Frequently used abbreviations

AGM	Annual General Meeting
EGM	Extraordinary General Meeting
NA	Not available
Ch	Chairman
VCh	Vice Chairman
LD	Lead Director
Exec.	Executive Member
Affil.	Affiliated Member
Indep.	Independent Member
AC	Audit Committee
NC	Nomination Committee
RC	Remuneration Committee
NR	Nomination and Remuneration Committee
CC	Chairman's Committee
OC	Other Committee(s)
(Ch)	Chairman of the Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
OE	Other Executive Function
Ex-	Former



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