

Novartis
Attn.: Samir Shah
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Date 22 januari 2016

Re: Questions for the 2016 AGM and request for a meeting

Dear Mr. Shah,

We have included Novartis in our investment universe as we consider your company, and the pharmaceutical sector in general, an important contributor to ensuring access to health. This is an important element in the sustainable society that ASN Bank (and the ASN Investment funds) has strived for since our foundation in 1960. We are a Netherlands-based ethical commercial bank, using social and environmental selection criteria in addition to financial selection criteria. ASN Bank is the largest Dutch ethical bank, with more than EUR 12 billion of assets under management and more than 600,000 clients.

To date, the pharmaceutical sector has been an important part of our investments. And although many pharmaceutical companies have stringent policies in place, we are confronted with ongoing ethical controversies relating to their day-to-day practices. This indicates that a commitment to ethical principles does not always correlate with good business conduct. As a shareholder, we have followed the controversies that your company has faced in recent years with great concern. Unethical behaviour by company's representatives and employees not only affects your company's reputation, but also leads to financial risks, such as costly fines, legal proceedings and settlements, and dissatisfied investors. More importantly, unethical behaviour negatively impacts the health of individuals.

We aim to promote better business conduct and consumer protection, which also positively impacts the risk profile and reputation of pharmaceutical companies. And we want to do that in partnership with you and other pharmaceutical companies. Therefore, in the years ahead, ASN Bank has decided to treat consumer protection and the ethical performance of the pharmaceutical industry as a top priority in our engagement strategy. Our engagement will focus on the enforcement procedures of business conduct policies which can lead to better consumer protection.

From Policy to Practice

We will initiate our engagement with a report on the issues that we see in the pharmaceutical industry. This research was conducted for us by Sustainalytics. Sustainalytics is a reputable and responsible investment research firm. We would like to invite you to review the report and Novartis' scorecard.

The research shows that Novartis proves to be a true leader with its global Pharmacovigilance (PhV) system. We applaud your web-based reporting mechanism for doctors and/or patients to report product safety concerns. We also have some areas of concern and plan to attend

this year's AGM to raise the questions set out below. We would very much appreciate the opportunity to discuss these questions with you ahead of the AGM.

Implementation of procedures for ethical conduct

In our view, a company's implementation of anti-bribery and corruption policies can demonstrate how well it is mitigating risks related to unethical conduct. Effective ethical conduct management entails strong management of ethical issues, in particular corruption, fraud, and conflict of interest. Such management should go, where necessary, beyond what is required by regulatory standards, and apply to all operations worldwide. The most significant effect of unethical conduct is that it compromises the integrity and dependability of health systems, while eroding trust in the industry. Novartis is still being plagued by controversies, as evidenced by recent news articles about the settlement of bribery and kickback allegations. In particular the kickbacks paid to specialty pharmacies, Bioscrip and Accredo Health, come to mind.

Question 1: In our research we found that Novartis has third party external insurance in place to assist in oversight of business conduct, but it does not provide further details, such as the composition of this third party, its name and whether it concerns a legal requirement. Furthermore, Novartis stipulates some requirements for its third parties in its code of conduct, regarding e.g. ethical business practices, labour and health and safety, but does not provide further details on these requirements. Also, it does not mention whether third parties are expected to abide by all the requirements stipulated in its code of conduct.

Could you give us more information on what the name and composition of the third party is and would you also explain whether and how third parties must comply with your code of conduct and which rules they have to follow?

Implementation of ethical marketing procedures

The marketing of pharmaceutical products crucially impacts on consumer health. Improper marketing practices can be harmful to society and patients in several ways, such as: prescription of products for which the health risks outweigh the benefits; prescription of products that are not suitable for certain diseases or patient groups; provision of biased and unreliable information to patients; and insufficient patient awareness of potential health risks, including side-effects.

Question 2: We understand from our research that Novartis is in the process of developing risk assessments and establishing its own compliance monitoring through regular internal and external audits beyond what is legally required. Could you inform us when we can expect the implementation of these measures?

Question 3: Novartis is legally obliged to disclose payments made to healthcare professionals in the US. To further promote ethical marketing of medicine we would like to see Novartis disclose all payments made to healthcare professionals, but we did not find evidence of this in our research. Is Novartis developing procedures to increase disclosure in this way? And if not, would you be willing to do so?

Implementation of ethical sales incentives & remuneration

In recent years, most major pharmaceutical companies have faced public scrutiny and prosecution over improper and illegal sales. A key driver of improper sales practices is pressure on sales representatives to meet demanding sales targets. This can promote medicine use that is not approved by authorities, which in turn can – and indeed, did – negatively affect the health of consumers.

Question 4: We welcome the fact that Novartis has a base level of pay for all its employees. However, salary growth depends on individual performance. As we understand that the sales staff remuneration strategy is still based on volume-based targets, we would encourage you to introduce sales targets linked to different metrics in order to promote ethical conduct by sales personnel. Are there plans to do so? And if not, would you be willing to do so?

We look forward to hearing from you. Please do not hesitate to contact us if you have any queries in the meantime.

Yours sincerely,
ASN Bank

A handwritten signature in black ink that reads "Piet Sprengers". The signature is written in a cursive style with a large, stylized 'P' and 'S'.

Piet Sprengers

Head Sustainability Division