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Transforming Equity Compliance for Mobile Employees

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Novartis equity programs

32,000 global equity participants (3,500 cross-border awards in 2018), covering:

- Restricted Stock Units
- Restricted Stock
- Stock Options
- Executive Performance Share Plans
- Country tax-qualified Plans

Novartis mobility programs

- Long and short-term expatriate assignments
- International Local Hires and International Transfers
- Commuters, including frontier workers

Issues sound familiar?

Which of the following have you experienced:

1. Participants surprised by trailing tax obligations at the time of vest, exercise or tax filing
2. Payrolls struggle with, misinterpret or ignore instructions
3. Business units do not expect charges for costs related to trailing obligations
4. All of the above

Our approach

To move from a simplistic, transactional approach to a holistic, impactful approach that supports all stakeholders through the entire mobility lifecycle.

Three core principles:

1. Commitment to compliance
2. Seamless experience for our associates
3. Technology is an enabler

Our approach

To be successful, we had to:

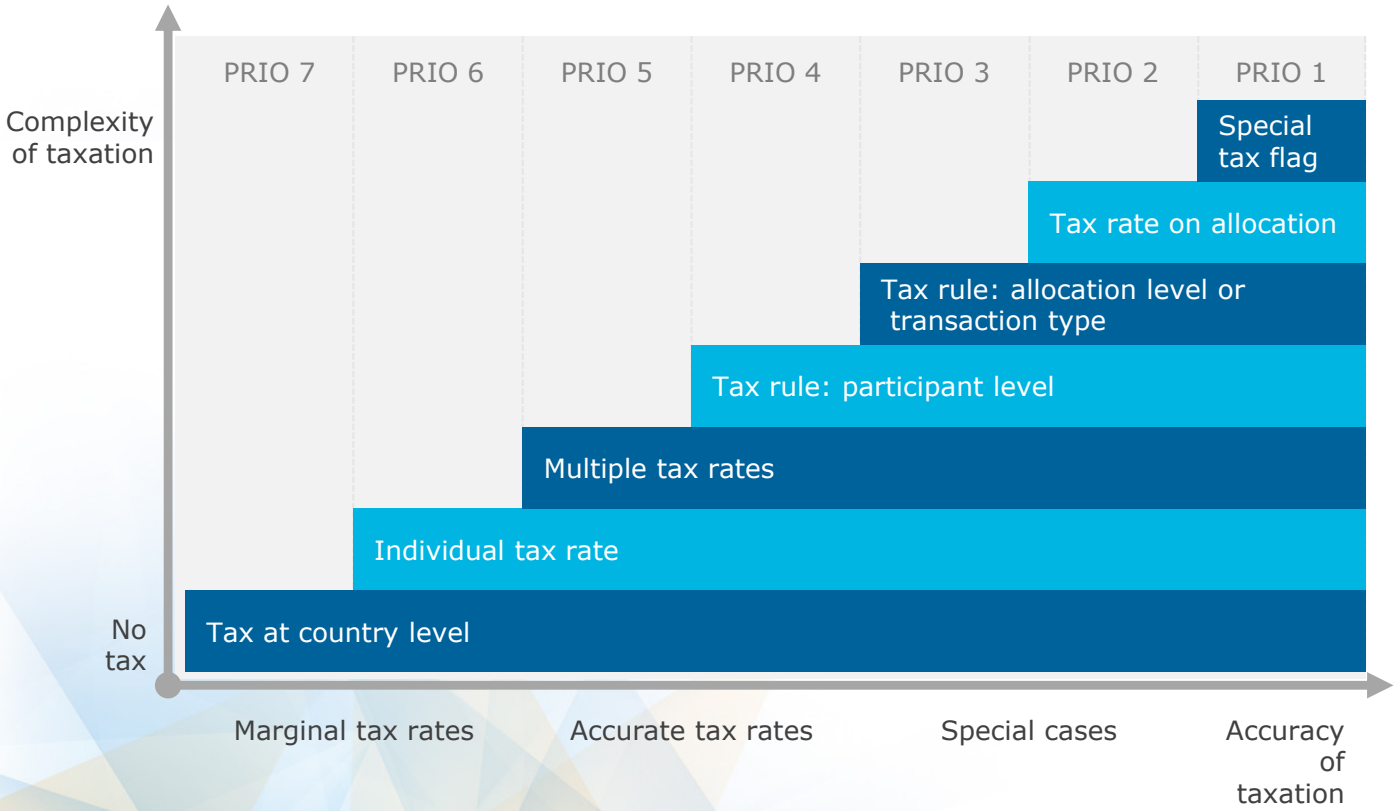
- Engage and understand all stakeholders' pain points
- Continual improvement
- Commit to automation

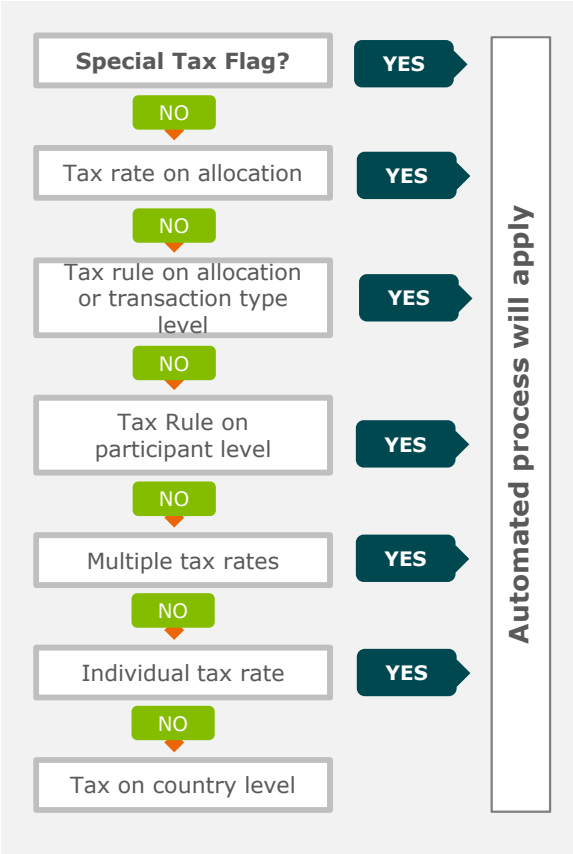
Our approach

How we achieved this:

- Complete, accurate data at source (HR Core)
- Interfaces for automated data exchanges
- True partnership with providers

Taxation module hierarchy





Identification of mobile associates

A special tax treatment for international assignees allows to manually enter the required tax amounts for a transaction based on the mobility tracking data, or **to automate this process via interface to the tax provider (fully automated solution)**.

The special tax handling feature allows companies to **flag participants** entirely (e.g. International Assignees) **or only some of their allocations** (grant tranches) for special tax treatment.

OPTION 1

Manual flagging

1

Company identifies and maintains participants or allocations for special tax via front end screens or participant CDI

OPTION 2

Rule based flagging

2

Rule based flagging of special tax participants or allocations based on pre-configured company rules

Mobility lifecycle

Pre-assignment:

Pre-move modelling for associate

Determine accrual for business

Annually on assignment:

Consolidated award summary

Accrual adjustment

Pre-vest:

Estimated tax summary per award

Shortly after vest:

Final tax summary

Payroll instruction

Payroll reconciliation

Annually after assignment (trailing liabilities):

Consolidated award summary

Accrual adjustment

Associate experience

Support for other stakeholders

Business Unit X	Expected tax reimbursement charges on LTV overdue by year			
Country	2018	2019	2020	2021
Country A	12,782			24,428
Country B	194,246	112,939	216,920	67,991
Country C	99,279		1,310	
Country D	546,990	526,199	499,628	249,314
Country E	340,872	202,948	110,412	45,281
Country F	17,428			
Country G	10,284	2,834	1,291	
Country H	12,189		5,428	
Country I	966,327	340,818	901,838	256,082
Country J	35,890	42,819	126,940	112,388
Country K		24,304	9,498	
Country L	289,289	197,180	283,183	94,809
Country M	1,240,930	779,831	822,698	294,291
Country N			3,781	9,940
Country O	132,699	17,198	17,091	
Country P	4,940,840	2,261,838	2,980,980	961,973

Tax withholding process

Employees with tax requirements which override the standard tax rules setup in the system, are flagged with the special tax flag at participant or allocation level.

The **taxation** can then be calculated and applied **ad-hoc for each transaction** when it occurs.

OPTION 1

Manual tax processing

1

Company tax administrator and/ or tax provider process pending special tax transactions

OPTION 2

Automated tax processing

2

Interface between automatically processes special tax transactions and exchanges tax information

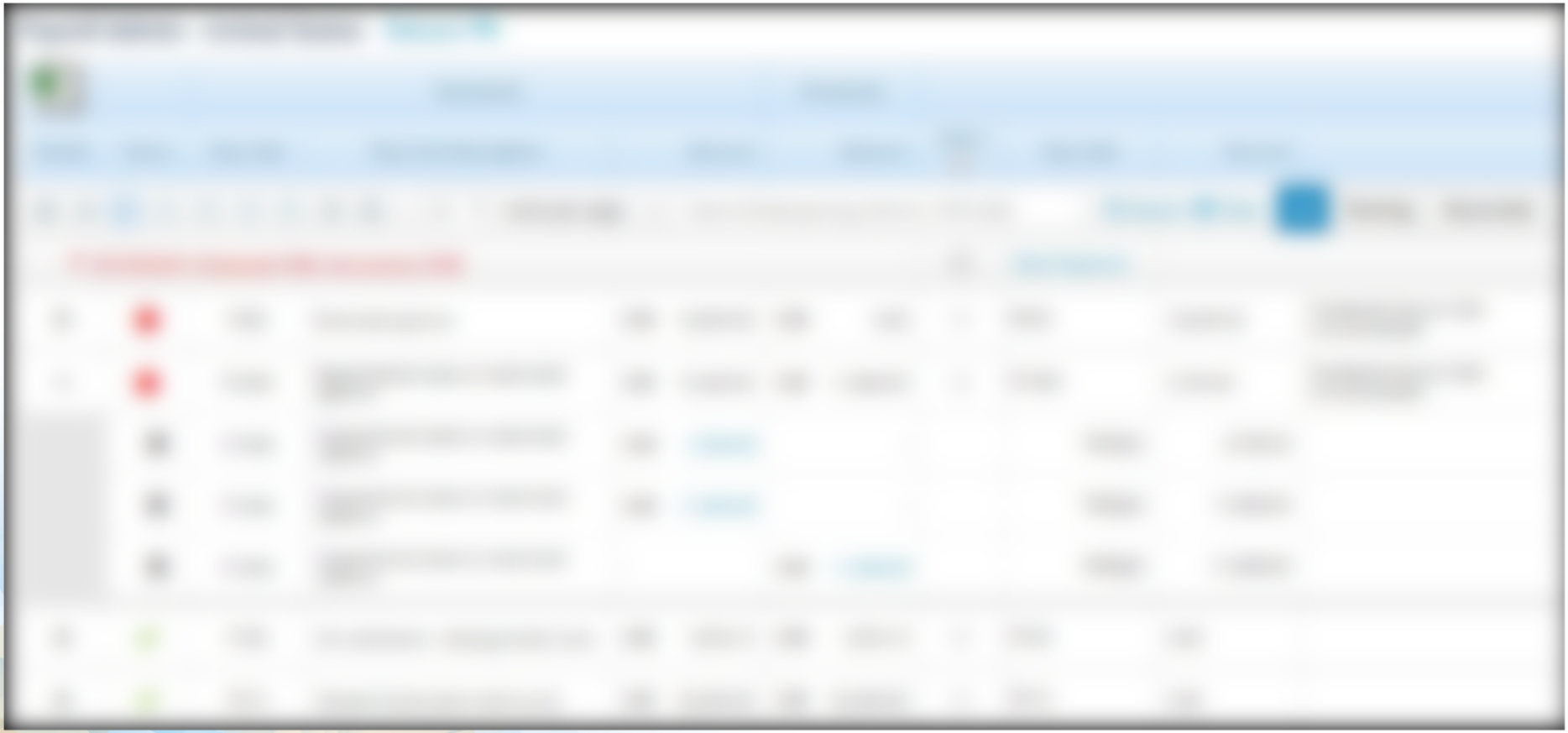
Tax withholding process

OPTION 2

Interface between **share plan administrator** and **tax provider.**

- **Award details** for flagged participant transactions are **sent to the tax provider**
- **The tax provider** uploads tax rates based on pre-vest calculations
- **The share plan administrator** performs the vesting with the defined FMV and the provided tax rates
- **The tax provider** calculates applicable **withholding tax** amounts (multiple payrolls possible) and sends to the share plan administrator
- Transaction is finalized in the plan administration system and **proceeds** are sent to **participants** and **tax** amounts to the respective **payroll** accounts
- **Reports** for payrolls/ **Order confirmations** for participants are available in the plan administration system
- **The tax provider** provides payroll instructions and employee statements with the details of calculations
- Also supports **hypothetical tax/ tax equalization**

Ensure compliance



How far do you go?

Which, if any of the following do you provide?

1. Automated identification of mobile employees
2. Annual summaries provided to employees
3. Support for other stakeholders – how is this managed?
4. Validation of payroll execution
5. Others

What’s on the horizon?

Key lessons

1. Compliance is not optional
2. Data is the key
3. Don’t think transactionally, think holistically about all stakeholders and customers
4. Technology is an enabler

Thank You

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Thank You

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