1- Macroeconomic Scenario

Global economy is recovering. USA activity continues to improve with tight labor market. Chinese growth is starting to stabilize. In Europe, monetary incentives continue amid some moderation of business confidence. And Latin American economies have a weak performance in general.

The U.S. economy improved in 2Q14, expanding 4.0%, and recent indicators suggest that the country might finally sustain a strong pace in 2H14. It is expected a GDP growth of 2.0% in 2014 and 3.0% in 2015. With better growth, the unemployment rate should continue to decline faster than envisioned by the Fed, the U.S. central bank, and inflation to converge gradually toward to the target. In response, the central-bank rhetoric is likely to move toward preparing markets for the first interest-rate hike in mid-2015.

China surprised with a growth of 8.2% in 2Q14. The improvement relied heavily on the government stimuli announced since April, as shown by stronger infrastructure investment, government expenditure and credit growth in the quarter. With this, GDP forecast was increased from 7.2% to 7.4% in 2014, while for 2015 remains at 7.0%.

In Europe, activity data indicate a weaker economy in 2Q14, with a GDP pace in the 0.1 to 0.2% range, below expectations. In the country level, activity indicators suggest that the slowdown in Germany, after a strong first quarter, was more pronounced than expected. In the periphery, Spain's GDP posted a solid 0.6% quarter-over-quarter gain, but Italy disappointed and contracted 0.2%.

In Latin America, economic performance has been mixed. Mexico's economy is on a recovery path, while Colombia's data remains strong. On the other hand, Brazil, Chile and Peru are growing significantly below expectations.

Moving to the domestic context, the main event was the death of Eduardo Campos, former governor of Pernambuco and presidential candidate, in a plane crash, which changed the election scenario. With respect to the economy, financial market reduced the GDP growth estimate for 2014. Food prices bring some relief to inflation. BRL tends to depreciate ahead due to international and domestic factors. Unemployment is likely to rise slightly.

Datafolha poll shows Marina Silva ahead of president Dilma Rousseff in the 2nd round – The first poll published after the death of Eduardo Campos showed that the presidential race has changed. Marina Silva, who replaced Campos, is practically tied in second place with Aécio Neves in the 1st round and slightly ahead of Dilma in a possible 2nd round.

1st round: % of voting intentions

	03-Apr	08-May	05-Jun	02-Jul	16-Jul	15-Aug
Dilma Rousseff (PT)	38	37	34	38	36	36
Aécio Neves (PSDB)	16	20	19	20	20	20
Eduardo Campos (PSB)	10	11	7	9	8	
Marina Silva (PSB)						21
Other candidates	6	7	9	9	8	5
Abstain	20	16	17	13	13	8
Did not answer	9	8	13	11	14	9
2nd Round						
Rousseff x Neves	50 x 31	47 x 36	46 x 38	46 x 39	44 x 40	47 x 39
Rousseff x Campos	51 x 27	49 x 32	47 x 32	48 x 35	45 x 38	
Rousseff x Marina						43 x 47

Source: Datafolha

Marina appears to have the potential to get more votes than Campos, which also reduces the likelihood of president Dilma being reelected. The poll shows Dilma with 36% of voting intentions, while Marina would be in second place with 21%, followed by Aécio with 20%. In the previous poll, Dilma and Aécio had these same percentages, while Campos had 8%. Hence, the increase in Marina's percentage in comparison to Campos is due to the reduction of blanks votes, nulls, and voters who had not decided yet. Those three groups had totaled 27% in the previous poll and now they have been reduced to 17%. The major surprise is the result of the 2nd round simulation, in which Marina appears to lead with 4% above Dilma.

Economic activity: financial market reduces the estimated GDP growth for 2014 and 2015 - The Focus report published on August 18 by the Central Bank shows that the expected GDP growth was reduced to 0.79% in 2014 and 1.20% in 2015. The Brazilian economy decelerated sharply in June, partly due to the reduction of working days during the Football World Cup. Core retail sales fell 0.7% in June compared to May, while broad retail sales (including vehicles and construction material), decreased 3.6%. Industrial production also declined 1.4% in June, by the fourth consecutive month.

Unemployment remains low but is likely to increase moderately – As in the two previous months, the national statistical agency IBGE released information for only four out of six metropolitan regions, without national figures. According to these data, the unemployment rate increased in July, considering the aggregate of these four regions, as the working population declined more sharply than the labor force. Still, unemployment remains at historically-low levels. As economic activity cools down, it is expected a moderate pace of increase in unemployment in the next months. The real wage bill was stable in July, as the average real wage increased and the working population shrank.

Food prices bring some relief to inflation – The consumer price index IPCA rose 0.01% in July, below market expectations. In the last 12 months, the rate fell to 6.50%, returning to the target ceiling. Market-set prices fell 0.10% in July, while the year-over-year rate slowed to 7.1%. Regulated prices climbed 0.39%, while the year-over-year rate advanced to 4.6%. Agricultural prices have contributed to decelerate the pace of inflation. With the prospect of a more benign scenario for food prices in the second half, we expect an IPCA reduction in 2014 to 6.25%.

Central Bank signals flat interest rate and announces stimulus to credit – The Brazilian Central Bank's monetary policy committee (Copom) left the benchmark Selic interest rate unchanged at 11.0% p.a. at its July meeting, in line with expectations. In the minutes, the Copom stated that, "if monetary conditions are maintained, inflation tends to converge toward the target in the final quarters of 2016". The Copom was even more explicit, indicating that its strategy does not consider a reduction in the monetary policy instrument. The Central Bank also announced changes in the rules for reserve requirements and capital requirements, providing stimulus to the credit market.

External scenario will likely put pressure on BRL until year-end - Geopolitical factors and stronger signs of recovery in the U.S. economy put pressure on BRL and other emerging-market currencies in recent days and will likely to continue to drive the currency downward until year-end. In the short term, however, it is expected the Central Bank to continue to adjust its swap rollover program so as to avoid sudden moves in the currency market.

External accounts showed better results in June - The current account deficit narrowed to USD 3.3 billion, versus USD 6.6 billion in May. The stronger reading was driven by a significant surplus in the trade balance, along with lower deficits in the service and income accounts. The reduction in the service deficit was due to temporary effects of the Football World Cup, mainly higher revenues from spending by foreign tourists. In terms of financing, foreign direct investment inflows declined to USD 3.9 billion in June, versus USD 6.0 billion in May.

Primary surplus continues to decline - The consolidated public sector recorded a primary deficit of BRL 2.1 billion in June. Over 12 months, the primary surplus fell from 1.5% to 1.4% of GDP. The reduction has been driven by the impact of deteriorating economic activity on tax revenues, coupled with expenditures increasing in line with expectations. In general, the numbers point to reduced chances of achieving this year's fiscal target of 1.9% of GDP.

Key Macroeconomic Indicators

	2009	2010	2011	2012	2013	2014(f)	2015(f)
GDP							
Real GDP growth	-0,3%	7,5%	2,7%	1,0%	2,3%	0,8%	1,2%
Per capita GDP (USD)	8.469	11.084	12.532	11.279	11.153	10.910	10.751
Labor market							
Unemployment rate (IBGE) -avg	8,1%	6,7%	6,0%	5,5%	5,4%	5,2%	5,7%
Inflation							
IPCA (IBGE)	4,3%	5,9%	6,5%	5,8%	5,9%	6,25%	6,25%
Interest rates							
Selic (end of period)	8,75%	10,75%	11,00%	7,25%	10,0%	11,00%	11,75%
Real interest rate	5,4%	3,7%	4,8%	2,4%	2,2%	4,4%	5,1%
Exchange rate							
BRL/USD (year end)	1,74	1,67	1,88	2,04	2,35	2,35	2,50
BRL/USD (year avg.)	2,00	1,76	1,67	1,95	2,16	2,29	2,44
External sector							
Trade Balance (USD bn)	25,4	20,3	29,8	19,5	2,6	2,0	8,0
- Exports (USD bn)	153,0	201,9	256,0	242,6	242,2	244,0	260,0
- Imports (USD bn)	127,6	181,6	226,2	223,1	239,6	242,0	252,0
Current account (USD bn)	-24,3	-47,5	-52,5	-54,2	-81,4	-82,0	-76,0
Foreign direct investment (USD bn)	25,9	48,5	66,7	65,3	64,0	60,0	56,0
International reserves (USD bn)	239,1	288,6	352,0	379,0	375,8	380,0	380,0
External debt (USD bn)	202,3	255,7	261,5	313,0	323,0	319,0	312,0
Sovereign rating (S&P)	BBB-	BBB-	BBB	BBB	BBB	BBB-	BBB-
Fiscal accounts							
Primary fiscal result (%GDP)	2,1%	2,8%	3,1%	2,4%	1,9%	1,5%	2,0%
Net public sector debt (%GDP)	42,9%	40,4%	36,5%	35,1%	33,8%	34,9%	35,0%

Sources: Itaú, Bradesco, HSBC, Citibank, Datafolha, Focus Survey (Central Bank)

2- Monthly Financial Indicators

Indice	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
CDI (interbank deposit)	0,84%	0,78%	0,76%	0,81%	0,86%	0,82%	0,94%						5,96%	9,91%	17,86%	30,01%
IMA-Geral ex-C*	-0,79%	2,64%	0,69%	1,60%	2,51%	0,58%	1,09%						8,57%	8,79%	14,09%	35,95%
Ibovespa	-7,51%	-1,14%	7,05%	2,40%	-0,75%	3,76%	5,00%						8,38%	15,72%	-0,50%	-5,12%
IBrX **	-8,15%	-0,32%	6,89%	2,71%	-1,12%	3,62%	4,46%						7,58%	15,11%	12,13%	16,23%
Saving Accounts	0,61%	0,55%	0,53%	0,55%	0,56%	0,55%	0,61%						4,02%	6,83%	13,42%	21,38%
USD	3,57%	-3,83%	-3,02%	-1,19%	0,13%	-1,63%	2,95%						-3,21%	-1,01%	10,60%	45,67%
CPI (IPCA)	0,55%	0,69%	0,92%	0,67%	0,46%	0,40%	0,01%						3,76%	6,50%	13,18%	19,06%
IGP-DI (FGV)	0,40%	0,85%	1,48%	0,45%	-0,45%	-0,63%	-0,55%						1,54%	5,06%	10,15%	18,21%
Actuarial Target***	0,73%	1,18%	1,81%	0,78%	-0,12%	-0,30%	-0,22%						3,89%	9,26%	19,61%	34,79%

* Previ Novartis benchmark for fixed income
** Previ Novartis benchmark for equities
*** IGP-DI + 4% p.a.

3- Investments

Investments

Asset Manager	Fixed Income		Equities		Total	
	BRL mio	%	BRL mio	%	BRL mio	%
Bradesco	268,2	33,9%	44,1	5,6%	312,3	39,5%
Itaú Unibanco	158,3	20,0%	34,7	4,4%	193,0	24,4%
Western	236,6	29,9%	48,8	6,2%	285,4	36,1%
Total	**663,1**	**83,9%**	**127,6**	**16,1%**	**790,7**	**100,0%**

Allocation in Equities

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Previ Novartis	17%	17%	18%	17%	17%	17%	17%	18%	17%	16%	16%	16%
Market*	16%	18%	18%	18%	17%	16%	17%	17%	16%	15%	16%	ND

* Source: Club of Investments Tow ers Watson (median)

4- Performance

Portfolio Previ Novartis - performance by type of investment

Segment	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Fixed Income	-0,90%	2,74%	0,65%	1,63%	2,62%	0,57%	1,16%						8,73%	8,75%	13,74%	36,33%
Equities	-8,19%	-0,46%	6,00%	2,86%	-0,88%	3,83%	4,20%						6,85%	14,20%	13,30%	16,17%
Total	**-2,16%**	**2,20%**	**1,58%**	**1,84%**	**2,05%**	**1,08%**	**1,64%**						**8,45%**	**9,81%**	**13,73%**	**31,86%**

Quota Previ Novartis - net performance

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Profitability %	**-2,17%**	**2,18%**	**1,55%**	**1,83%**	**2,05%**	**1,08%**	**1,64%**						**8,38%**	**9,69%**	**13,53%**	**31,61%**

For the sixth consecutive month, Previ Novartis achieved a great performance. The profitability in July reached 1.64% and year-to-date 8.45%, above inflation of 3.76% and actuarial target of 3.89%.

Due to the presidential election approaching, it is expected a lot of volatility in the coming months, which could impact both stock market and fixed income.

5- Fixed Income

Asset Manager	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Bradesco	-0,76%	2,56%	0,62%	1,55%	2,48%	0,53%	1,06%						8,28%	8,25%	13,26%	35,61%
Itaú Unibanco	-0,80%	2,66%	0,71%	1,69%	2,63%	0,60%	1,19%						8,96%	9,21%	14,67%	36,64%
Western	-1,12%	2,99%	0,63%	1,68%	2,76%	0,60%	1,25%						9,06%	9,12%	13,72%	36,98%
Benchmark IMA-Geral ex-C	-0,79%	2,64%	0,69%	1,60%	2,51%	0,58%	1,09%						8,57%	8,79%	14,09%	35,95%

Despite the apparent tranquility, considering that fixed income benchmarks were profitable against the CDI, July was quite volatile. The expectation for the Central Bank's Monetary Policy Committee (Copom) meeting held on 15 and 16/07 was that it would be a "non-event", since the Central Bank had already paralyzed the cycle of interest rate increases. However, after the "statement" (brief comment published shortly after the meeting), the market priced-in an increased chance of a rate cut later this year. As economic activity data released throughout the month highlighted the backdrop of weak activity, many asset managers set up large positions, especially in shorter yields. The next week, the disclosure of the Copom's minutes signaled that interest rate should be kept flat in the short term and, as a consequence, there was a strong asset price movement driven by stop losses.

Only Bradesco did not beat the benchmark in July, as well as in the year-to-date.

According to the Net Quant investment's club, of Towers Watson, the performance of Previ Novartis fixed income portfolio in the period Jan-June 2014 was placed in the 7th position among 33 funds with the same benchmark. Analyzing longer periods, the performance of Previ Novartis was excellent compared to other funds: in the last 3 years, in 4th position among 22 funds and, in the last 5 years, 3rd position among 20 funds.

6- Equities

Asset Manager	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Bradesco	-8,15%	-0,50%	5,95%	2,77%	-0,58%	4,05%	3,99%						7,05%	13,83%	13,94%	19,51%
Itaú Unibanco	-8,26%	-0,29%	6,25%	2,83%	-0,98%	4,14%	4,26%						7,45%	15,07%	13,21%	19,53%
Western	-8,17%	-0,54%	5,88%	2,97%	-1,07%	3,42%	4,34%						6,30%	13,79%	12,55%	10,71%
Benchmark IBrX	-8,15%	-0,32%	6,89%	2,71%	-1,12%	3,62%	4,46%						7,58%	15,11%	12,13%	16,23%

In July, the stock market was strongly influenced by a large inflow of foreign capital (BRL 3.5 billion in the month and BRL 15.7 billion in the year) into the Bovespa, despite reports of a selective default in Argentina, the crisis of Bank Espirito Santo and signs that the Federal Reserve (Fed) may increase interest rates earlier than expected. The IBrX index rose 4.5% in July and 7.6% in 2014; in the US, the S&P 500 fell 1.5%, reducing the gains in 2014 to 4.5%.

Around the globe the trend is maintenance of monetary stimulus. In the US, Fed members made explicit the main points of the exit strategy from expansionary monetary policy course, with asset purchases being concluded next October. In Europe, monetary incentives continue amid some slowing of business confidence. In China, data from June and credit activity surprised positively, increasing the likelihood of achieving the growth goal (7.5%) this year. In Brazil, the Central Bank's Monetary Policy Committee (Copom) kept the interest rate unchanged at 11% p.a. Finally, in the electoral race for president, the result of the latest research brought more optimism for the financial market.

This month, the sectors of *mining* (Vale + 11.3%), helped by improved economic activity in China, *oil* (Petrobrás + 10.5%), reflecting the electoral polls, and *steel* (CSN +21.8), with CSN announcing the repurchase of shares, outperformed. On the other hand, the negatives were the sectors of *Agribusiness* (Cosan -7.3%) and *Construction* (Rossi -17.9%), on the prospect of weaker results in the Q2, and *Telecommunications* (Oi -24 6%), due to the problems between Portugal Telecom and Banco Espírito Santo.

The main risks to the stock market are the timing of the interest rates increase in the US, a possible slowdown in Chinese economic growth and potential geopolitical crises. Domestically, the deterioration of important macroeconomic variables and the election race for President are points of attention.

In July, the three asset managers did not beat the benchmark, a result of the challenging domestic and external scenarios. Analyzing longer periods, all asset managers performed above the benchmark over the past 24 months. Considering the last 36 months, only Western performed below the benchmark.

According to Net Quant investment club, of Towers Watson, the performance of Previ Novartis equity portfolio was placed in 18th position among 44 funds with the same benchmark, in the period of 12 months (Jul13 – Jun14). In the last 3 years, in 14th position among 33 funds and, in the latest 5 years, in 8th position among 28 funds.

7- Global Performance per Asset Manager

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Bradesco																
Profitability	-1,98%	2,00%	1,59%	1,75%	2,03%	1,00%	1,46%						8,05%	8,83%	13,17%	31,73%
Equity allocation*	16,1%	18,2%	19,0%	15,4%	13,4%	13,8%	14,1%						15,7%	15,0%	17,4%	18,2%
Itau Unibanco																
Profitability	-2,11%	2,17%	1,61%	1,88%	2,00%	1,20%	1,73%						8,72%	10,74%	14,58%	33,01%
Equity allocation*	16,7%	16,3%	17,2%	17,5%	17,1%	17,7%	18,0%						17,2%	18,2%	20,2%	20,6%
Western																
Profitability	-2,38%	2,39%	1,49%	1,90%	2,10%	1,07%	1,77%						8,56%	10,06%	13,52%	30,96%
Equity allocation*	16,8%	16,3%	17,0%	17,2%	16,7%	17,0%	17,1%						16,9%	17,6%	19,6%	20,5%

* The asset manager is free to decide the allocation in equities within the limits between 10-25%, according to the current investment policy

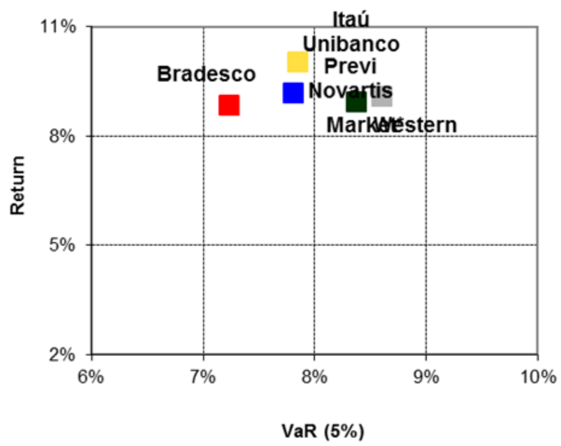
Itaú remains as the best asset manager of Previ Novartis: in the year-to-date and in the last 12, 24 and 36 months.

8- Risk Analysis

VaR (5%) - 12 months (Ago/13 to Jul/14)

Asset Manager	Fixed Income	Equities	Global
Bradesco	7,05%	24,28%	7,23%
Itaú Unibanco	7,40%	25,73%	7,85%
Western	8,06%	26,61%	8,37%
Previ Novartis	7,49%	25,53%	7,81%
Market*	6,90%	25,15%	8,60%

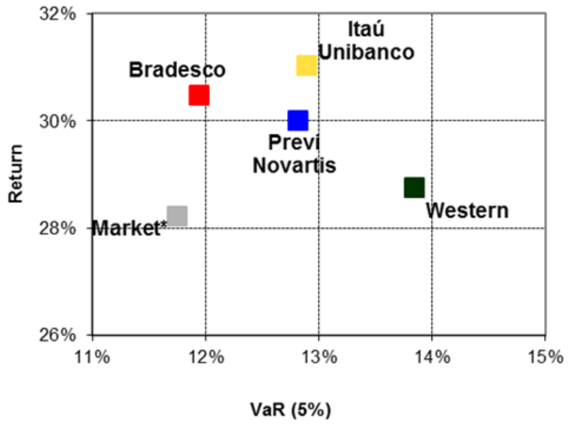
* Source: Club of Investments Towers Watson



VaR (5%) - 36 months (Ago/11 to Jul/14)

Asset Manager	Fixed Income	Equities	Global
Bradesco	8,80%	48,20%	11,94%
Itaú Unibanco	9,01%	49,24%	12,89%
Western	9,43%	53,23%	13,84%
Previ Novartis	8,94%	50,39%	12,81%
Market*	8,33%	49,69%	11,74%

* Source: Club of Investments Towers Watson



Fixed Income exposure

Pre-Fixed	62%
Post-Fixed	0%
GMPI (IGP-M)	2%
CPI (IPCA)	36%

Credit risk in fixed income

Government	59%
Private	36%
Oper. Comprom. + BMF	5%

9- Information about participants

Sponsors and participants

Sponsors	Active Members	Vesting	Retired members	Total
Novartis Biociências	2.034	433	447	**2.914**
Sandoz	439	121	10	**570**
Saúde Animal	125	24	18	**167**
Gerber*	0	4	0	**4**
Previ Novartis	1	0	1	**2**
Total	**2.599**	**582**	**476**	**3.657**

Active members distribution

Plan of benefits	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Plan A	15%	15%	15%	15%	16%	16%	16%	16%	15%	15%	15%	15%
Plan D	85%	85%	85%	85%	84%	84%	84%	84%	85%	85%	85%	85%

Retired members by type of benefits

Payment options	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Lifetime annuity	74%	74%	74%	74%	75%	74%	75%	68%	75%	62%	62%	77%
Financial income	26%	26%	26%	26%	25%	26%	25%	32%	25%	38%	38%	23%

10- Implementation of ALM (Asset Liability Management) & Investment Profiles

The project implementation follows in its final stage and will go live on September 1st. Following, there is a description of the reasons why we are implementing these projects.

Reasons for implementing ALM:

- Historically, real interest rates in Brazil have been consistently high and above actuarial target. However, our economy is becoming more stable and long term interest rates should decrease significantly in the future. Therefore, the challenges of maintaining the plan's surplus are increasing
- Because the DB (defined benefit) portion of the plan needs to manage the assets relative to the liabilities (the value of future lifetime payments to retirees), it is advisable to "immunize" the portfolio
- Through the ALM and Cash Flow Matching study, a portfolio of inflation-linked bonds is selected, such that its price behavior is closest to that of actuarial cash flows
- The strategy enables the plan to: reduce the inflation risk; protect it against fluctuations in the real yield curve; minimize reinvestment risk; reduce the volatility; reduce asset management fees (passive mandates cost less than active ones)

The purpose is to segregate assets related to the DB portion and implement ALM (Asset Liability Management), with the objective of minimizing risks by using matching assets instead of return seeking assets

Reasons for implementing Investment Profiles:

- Offer to the participant the opportunity to choose the level of risk they want to take
- Participants have different characteristics (age, relative importance of supplementary pension in total income, tolerance for losses within a given period, etc)
- In a DC (defined contribution) plan, the risk is taken by the participants, since their individual account balance determines the value of future benefit
- Investment choices create the opportunity for the participants to accumulate as per their needs
- Allowing the participants to choice their investments, the benefit offered by the company is improved from the perspective of its employees
- Increase corporate governance and avoid eventual complaints

The objective is to implement a multi-strategy portfolio, offering to the participants the opportunity to choose their investments, for the portion of assets where the risk is with employees