

Q4 2020 ESG Update for investors and analysts

January 27, 2021

Dear investors and analysts,

I hope you and your families have had a safe and restful winter break.

In our Q4 ESG update, we reflect on Q4 progress and highlight recent developments related to corporate governance. We also discuss the recently published Novartis in Society ESG Report alongside a broader suite of published materials and re-affirm our steadfast commitment to climate action by 2030. We are also pleased to highlight Novartis strong performance in the 2020 Access to Medicine Index.

We include the 'Top 10 ESG Questions and Answers' from the quarter, asked by investors and analysts.

We hope this update is useful on our ESG efforts and look forward to engaging with you in 2021.

Thank you.

Reflections on Q4

Changes to Novartis Board and Committee Composition

The Novartis Board of Directors has approved the following changes, effective after the 2021 Annual General Meeting (AGM). This is subject to these individuals being (re-) elected as members of the Board and Compensation Committee (CC), where applicable:

- Andreas von Planta – discontinue as member of the Audit & Compliance Committee (ACC)
- Bridgette Heller – appointment as member of the ACC
- Frans van Houten – appointment as member of the ACC
- Enrico Vanni – discontinue as chairperson of the CC, re-election as member of the CC
- Simon Moroney – appointment as chairperson of the CC, election as member of the CC

In addition, the Board appointed Enrico Vanni as Vice Chairman and Lead Independent Director (combined role) effective as of January 1, 2021.

Following his appointment as dean of the Harvard Business School as of January 1, 2021, Srikant Datar has decided not to seek another term of office at the 2021 AGM. Due to this change, Ton Buechner will be appointed as chairperson of the Risk Committee effective after the 2021 AGM. More information on our corporate governance can be found in our 2020 Annual Report (see page 125).

Key updates on corporate governance

New Lead Independent Director role introduced as of January 2021 – This role was created to support adequate control mechanisms from a board perspective and to ensure clarity that in the event that sessions with the independent directors were required, including in a case of crisis or matter requiring separate consideration or decision, it was clear that these sessions would be chaired by the Lead Independent Director.

New 12-year term limits for Board Members – At the 2021 AGM, the Board will propose to shareholders this limit as part of our commitment to renew the Board on an ongoing basis, and it also follows international best practice, which increasingly asks for an overall tenure of not more than 12 years. The Board may recommend to shareholders exceptions under certain circumstances and if deemed to be in the best interests of the company.

Audit Tender Process – Following a fair, transparent and balanced tender process, the ACC plans to propose to the shareholders at the 2022 AGM the election of KPMG AG as the external auditor commencing for the 2022 financial year.

For the 2021 financial year, the ACC will propose to the shareholders at the 2021 AGM the re-election of PwC.

Novartis retains #2 ranking in the Access to Medicine Index

We are pleased to share that Novartis ranked #2 in the most influential access-related rating, the Access to Medicine Index (ATMI), published on 26 January 2021 by the Access to Medicine Foundation (ATMF).

The ATMI, which assesses the access to medicine performance of the top 20 research-based pharmaceutical companies, is published every two years by the ATMF. The aim of the Index is to stimulate positive change by publicly encouraging pharmaceutical companies to address access to medicines.

With a score of 4.18 out of 5, Novartis retained its 2018 position at #2 and was referred to as a “leading company” by the ATMF. ATMI commended Novartis across all of its three technical areas, with scores of 4.39/5 on Governance of Access, 3.26/5 on R&D and leads with 4.53/5 on Product Delivery.

The ATMI scorecard reported strong performance by Novartis:

Governance of Access: Ranked #2

Key highlights:

- Access embedded into the Novartis corporate strategy under the Access Principles
- Access-related incentives for the CEO
- robust compliance controls

R&D: Ranked #3

Key highlights:

- Comprehensive access plans in place for two thirds of late-stage priority R&D projects
- Novartis is only company that considers post trial access and affordability

Product Delivery: Ranked #1

Key highlights:

- Novartis leads in equitable access strategies and sharing IP assets
 - Strong performance in capacity building and implementing scalable innovative business models
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Co-creating Impact Summit

On 9 December 2020, Novartis held its third annual Co-Creating Impact Summit, chaired by John Elkington. The event brought together internal and external thought leaders in the areas of ESG, sustainability and impact valuation to discuss how Novartis can continue to deliver impact.

Over 1,100 registered to participate and for those who were not able to participate, recordings of the event sessions can be found [here](#), while the virtual exhibition which showcases best practices in the areas of impact valuation and materiality can be found [here](#). These recordings will be available until March 2021.

Governance and Compensation Roadshow

During November/December 2020, to garner shareholder feedback and in preparation of the AGM, Novartis held a series of investor meetings as part of its annual Governance and Compensation roadshow, which included participation of an Executive Committee member as well as the Chairman or Vice Chairman of the Board. We value the engagement, dialogue and continued feedback. We have listed below the top 10 questions from investors during those meetings.

Novartis in Society ESG Report

Novartis in Society 2020: We published our annual ESG report on 26 January 2021, which reflects our disclosure against GRI, SASB and SDGs and demonstrates our progress on ESG priorities over the past year. The report can be found [here](#).

To create long-term value, we have identified four focus areas to build trust with society and have introduced new management targets across these areas:

ESG management targets

Holding ourselves to high ethical standards

Conduct risk assessments for all new eligible suppliers

Complete risk assessments of existing suppliers by 2022

Fully integrate human rights into third party risk assessments in scope

Enhance external reporting on anti-bribery by 2022

Post all clinical trial results on clinicaltrials.gov or novartisclinicaltrials.com within one year of completion

Being part of the solution on pricing and access to medicines

Implement an access strategy for all new products launched

Increase by 200% patients reached with strategic innovative therapies in low- and middle-income countries by 2025

Implement tiered pricing for launches in Pharmaceuticals and Oncology based on national income levels and value-based

Achieve a twofold increase in the number of patients reached in sub-Saharan Africa by 2022, and a fivefold increase by 2025

Addressing global health challenges

Increase by 50% patients reached by the global health flagship programs by 2025

Advance clinical development program in patients with Chagas-related heart failure

Advance clinical development program for our next-generation antimalarials

Expand Africa sickle cell disease program to 10 countries by 2022

Being a responsible citizen

Be carbon neutral in own operations (Scope 1 & 2) by 2025 and across the value chain (Scope 1, 2, 3) by 2030. Include environmental criteria in all supplier contracts by 2025

Reduce water consumption in our operations by half by 2025 (vs. 2016), with no water quality impacts from the manufacturing of our products

Be water neutral in all areas of our operations by 2030 while enhancing water quality wherever we operate. Eliminate polyvinyl chloride in packaging by 2025

Reduce the amount of waste sent for disposal by half by 2025 (vs. 2016). Be plastic neutral by 2030, with all new products meeting sustainable design principles

Achieve gender balance in management by 2023. Close the gender pay gap by 2023. Invest USD 100 million in learning over five years from 2019

Important Dates in Q1 2021

Novartis Annual Review 2020	We published our annual review on 26 January 2021, which provides a high-level overview of our business strategy and progress in 2020. The review can be found here .
Novartis ESG Index	We have also published our ESG Index on 26 January 2021, which signposts where our key disclosures and KPIs can be found across our publications and channels. See here for more information.
Novartis Annual Report / 20-F	We filed our regulatory documents for the Swiss Stock Exchange and US Securities & Exchange Commission, respectively on 26 January 2021. These documents can be found here .
Annual General Meeting	Novartis will hold its 2021 AGM on 2 March 2021 without shareholders being physically present, due to the ongoing COVID-19 pandemic and to safeguard the health and safety of all parties. Accordingly, shareholders can only exercise their shareholder rights via the Independent Proxy. The event can be watched via webcast here .
Materiality Assessment	Novartis will commence its 4 th global materiality assessment in February to identify its impact on society and our key dependencies. For more details, you can join the webinar on 8 Feb here .

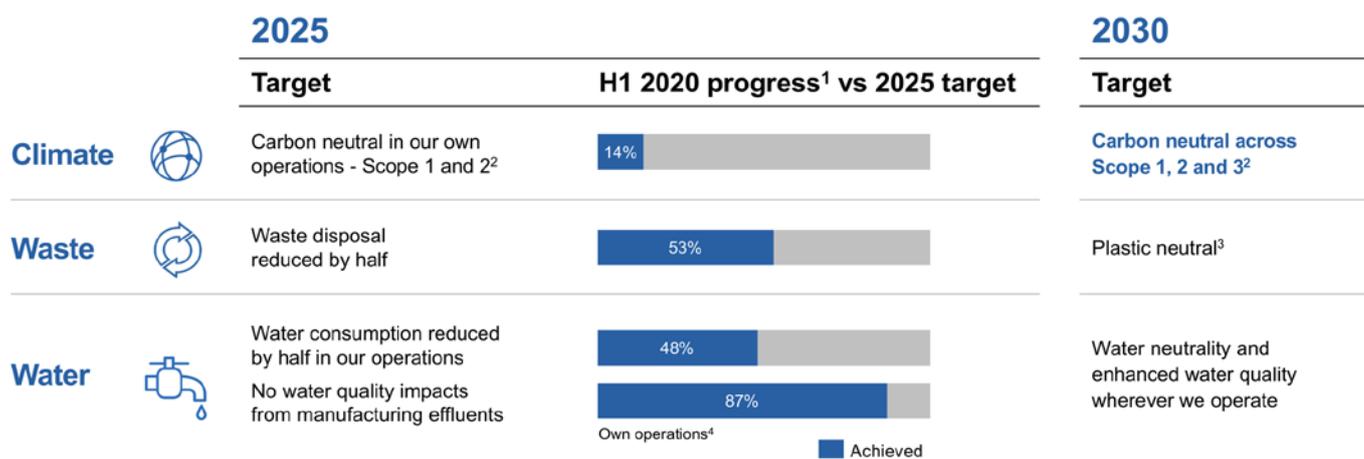
Novartis commitment to carbon neutrality by 2030

Novartis has set ambitious targets in 2020, as part of our commitment to use resources efficiently and reduce greenhouse gas emissions, which affect the environment. Our ambition is to make Novartis energy and climate resilient.

Our goals include full carbon, plastic and water neutrality by 2030. As a stepping-stone to achieve our ambition, we have a science-based target, which commits us to a 35% reduction in absolute emissions in our value chain by 2030.

In October 2020, we committed to fully support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which aims to develop voluntary climate-related financial risk disclosures across industries. Our first qualitative TCFD disclosure can be found in our Novartis in Society 2020 Report.

We have increased our ambition on environmental impact: Our goal is to achieve full carbon neutrality by 2030



1. Vs. 2016 baseline. 2. Scope 1 are emissions from sources that are owned or controlled by Novartis, Scope 2 are emissions from the consumption of purchased energy (e.g. electricity) and Scope 3 are emissions that are a consequence of Novartis operations (e.g. supply chain, business travel). This commitment goes beyond our existing approved Science Based Targets (March 2019). 3. Weight of plastic packaging entering the environment for disposal is approximately the same as the weight being recovered for recycling. 4. Assessment ongoing on key suppliers.

Update on COVID-19 efforts

The COVID-19 situation continues to evolve and is taking differing courses across the multitude of geographies in which Novartis operates. We continue to take strong actions to help address the pandemic. Our primary concerns remain the health and safety of our associates and patients.

To support flexible and innovative working, we have announced a permanent shift in our flexibility policy to one that is 'associate-led, manager-enabled and team-aligned' within a given country. Associates can decide when, how and where to work to achieve maximum impact in their roles, taking responsibility for their deliverables, now and in the post-pandemic future. We continue to explore ways that we can offer greater flexibility to site-specific roles in labs and production facilities.

We continue to work closely with third parties to fight the COVID-19 pandemic. Novartis is investigating two potential medicines, DFV890 and MAS825, in early stage development focused on the immune response. In October 2020, Novartis announced a collaboration with Molecular Partners to develop, manufacture and commercialize Molecular Partners' anti-COVID-19 DARPin[®] program, for the prevention and treatment of COVID-19.

The Group has not experienced liquidity or cash flow disruptions during 2020 due to the COVID-19 pandemic. We are confident that Novartis is well positioned to meet its ongoing financial obligations and has sufficient liquidity to support our normal business activities.

As always, we value your feedback on our ESG efforts and look forward to responding to any questions you may have.



Samir Shah
Global Head of Investor Relations, Novartis

Top 10 ESG-related questions from shareholders and our responses

Question	Response
1 What has the impact of COVID-19 been on your supply chain and will you make any changes to incentive awards?	<ul style="list-style-type: none"> ▪ Our supply chain operations have remained stable with robust service levels throughout the COVID-19 pandemic. We have continually learned and improved on how to navigate the current global setup of globalized supply chains with appropriate redundancy, in order to create resilience and mitigate risk. ▪ We have learnt on the importance of having appropriate inventory and safety stock, particularly for critical medicines as the pandemic continues. We have shared our COVID-19 Good Practice Guidance with Suppliers and continued to implement our Third Party Risk Management. ▪ Novartis has been able to navigate the COVID-19 pandemic well. We have focused on our associates' health and well-being by implementing a number of support programs including additional paid leave and childcare assistance. The CC has reflected on Novartis' resilience and decided that the targets set at the beginning of 2020 remain appropriate. As such, no retrospective adjustments have been made to variable incentives targets to reflect the impact of the pandemic.
2 How do you assess performance on parameters such as culture and ethical behavior?	<ul style="list-style-type: none"> ▪ As of January 2021, we have launched Evolve, our new approach to performance management. We have replaced performance ratings with a new approach to help our associates develop, grow and drive our business. ▪ Our new Values & Behaviors (V&B) of Inspired, Curious, Unbossed and Integrity are an integral part of our performance structure and support our culture aspirations and business performance. The V&B reward our associates for the impact that they create and how our culture aspirations are integrated into deliverables. ▪ Ethical standards are embedded in the incentives of the Executive Committee and all Novartis associates must meet the minimum thresholds of our Values and Behaviours.
3 Do you foresee any changes at board-level in 2021?	<ul style="list-style-type: none"> ▪ Our Governance, Nomination and Corporate Responsibilities Committee (GNCRC) regularly reviews the composition and size of the Board and its committees. The Board has recently approved changes to the composition of Board committees (see summary at the beginning of this Q4 newsletter). The changes primarily affect the Audit & Compliance (ACC) and the Compensation Committees (CC), subject to shareholder approval. ▪ Our long-standing board member Srikant Datar decided to not seek another term of office at the 2021 AGM. ▪ The Board further appointed Enrico Vanni as Vice Chairman and Lead Independent Director (combined role) effective as of January 1, 2021.
4 What is Novartis' diversity profile at board-level?	<ul style="list-style-type: none"> ▪ We consider diversity to be a key factor to success and board effectiveness, and are continually looking for opportunities to improve our Board diversity, including on gender and ethnic diversity. ▪ Last year, we disclosed our aspiration to find female candidates for two of the next three nominations. At the 2020 AGM, our Board welcomed its fourth female member, Bridgette Heller. Compared to last year, the female representation on our Board rose to 29% from 25%. ▪ The Board currently has 14 directors, including 4 women and 3 directors who are non-white, of which 2 are African-American.
5 Can you share more detail on your Auditor rotation plans?	<p>Auditor Tender Process:</p> <ul style="list-style-type: none"> ▪ In April 2020, the ACC decided to invite several audit firms, including PwC, to participate in a tender process that would lead to the selection of an external audit firm to be proposed for election at the 2022 AGM. ▪ Key criteria in identifying potential participant firms included their expertise, experience and footprint to audit a company with our global scale and complexity of operations. The ACC determined that PwC, KPMG, Deloitte, and Ernst & Young met these criteria and invited them to participate in the tender process. The audit tender was conducted through a fair, transparent and balanced process according to defined selection criteria under a strong governance structure, ensuring that all audit firms had equal access to management and information. ▪ In the first phase of the tender process, the firms had an introductory meeting with the CFO and the Head of Group FRA, were granted access to a data room containing both financial and organizational information, and met with select members of Group management. In the second phase, the firms submitted written proposals and made presentations to select members of Group management, including the CEO, the CFO and the Chief Legal Officer, and met with the Chair of the ACC. In the third phase, the entire ACC evaluated management's assessment of the four firms against the selection criteria and shortlisted two firms to present to the entire ACC, the Chairman, the CEO, the CFO, the Chief Legal Officer and the Head of Group FRA. ▪ Based on the assessment of the two shortlisted firms against the selection criteria, the ACC plans to propose to the shareholders at the 2022 AGM the election of KPMG AG as the external auditor commencing for the 2022 financial year.

	<ul style="list-style-type: none"> For the 2021 financial year, the ACC will propose to the shareholders at the 2021 AGM the re-election of PwC. <p>Rotation System for Auditor Partners</p> <ul style="list-style-type: none"> The ACC together with the external auditor ensure that the auditor partner in charge of group audit as well as the global relationship partner are rotated at least every five years. <p>Independence of the External Auditor</p> <ul style="list-style-type: none"> The independence of the external auditor is regularly reviewed by the ACC. Further details can be found on p. 158 of the Annual Review.
<p>6</p> <p>Why have you chosen term limits of 12 years for Board Members?</p>	<ul style="list-style-type: none"> At the 2021 AGM, the Board will propose to shareholders an amendment to the Articles of Incorporation that for future re-elections would replace the current age limit of 70 years with a term limit of 12 years. The Board may recommend to shareholders exceptions under certain circumstances and if deemed to be in the best interests of the Company. The proposed term limit supports our commitment to renew the Board on an ongoing basis. It also follows international best practice, which increasingly asks for an overall tenure of no more than 12 years. We believe age is still a relevant factor in Board composition, and the GNCRC will consider this and other factors – including gender and ethnicity – when evaluating candidates and exploring ways to improve Board diversity.
<p>7</p> <p>What is Novartis' approach to the ethical use of AI?</p>	<ul style="list-style-type: none"> Novartis aspires to become an industry leader in applying Artificial Intelligence (AI) and other technologies to the challenge of discovering new medicines. We use AI in three areas: <ul style="list-style-type: none"> a) the development of novel therapies and drugs b) the optimization of business processes and operations c) engagement with patients, healthcare professional and partners We recognize the importance of ethical considerations in implementing AI systems. At Novartis, we have developed an inventory of our current practices in AI and designed eight strategic principles, which are in line with our corporate Code of Ethics. We continually strive to create transparency around the design and use of AI systems at Novartis and will publish our position on the 'ethical and responsible use of Artificial Intelligence systems' in early 2021.
<p>8</p> <p>What impact do you expect on pricing in the US?</p>	<ul style="list-style-type: none"> Novartis is interested in working with policymakers to make healthcare affordable and more patient-focused. People want quality, affordable health coverage that works when they need it and lower out-of-pocket costs for medicines. We remain committed to doing our part to support the US healthcare systems, addressing access to medicines challenges globally and patient affordability. Novartis strives to engage in constructive dialogue with policymakers and other external stakeholders, with the intent to represent the perspective of Novartis in the policymaking process and we look forward to working with the incoming Administration to support the healthcare needs of Americans.
<p>9</p> <p>Will you be adopting the TCFD recommendations?</p>	<ul style="list-style-type: none"> Yes, we support the recommendations of the Task Force on Climate-Related Financial Disclosures. We have published our first qualitative TCFD disclosure in January 2021. We aim to provide quantitative disclosure on climate-related topics in the future as we incorporate the TCFD recommendations. Novartis is committed to using resources efficiently and reducing greenhouse gas (GHG) emissions, which affect the climate. Our ambition is to make the company both energy and climate resilient. More detail on our climate-related ambitions and efforts can be found here
<p>10</p> <p>What are some environmental sustainability initiatives that you have embarked on?</p>	<ul style="list-style-type: none"> To support our climate-related targets and achieve our 2030 goals, we have developed our long-term strategy, which includes commitments to renewables, energy efficiency and carbon offsetting. We already have virtual Power Purchase Agreement (vPPA 120 windturbines) (Invenergy) in Texas operating since July 2019 (saving 222,000 metric tons of carbon dioxide per year which is the equivalent of 48,000 cars off the road). This PPA is offsetting all our Scope 2 carbon emissions in US & Canada. Starting in Q1 2022 – Q1 2023, we will have 6 wind and solar parks in Spain to offset our Scope 2 carbon emissions in Europe. We are in the process of switching to biomass-fired boilers and exploring how we can obtain green gas via anaerobic digestion or as a byproduct of waste treatment technologies.

The Novartis Investor Relations ESG team welcomes your feedback.

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