

Q3 2020 ESG update for investors and analysts

October 28, 2020

Dear investors and analysts,

I hope you and your families are healthy in these challenging times.

In this Q3 ESG update, we summarize progress made on ESG topics, including the adoption of ambitious ESG targets, issuance of the healthcare industry’s first sustainability-linked bond and continued improvement on our third party ESG scores. We also reflect on our recently launched Code of Ethics and our annual ESG Investor Day hosted by our CEO, Vas Narasimhan.

We are grateful for your continued thoughtful engagement and discussion on all things ESG related. Below, we include your ‘Top 10 ESG Questions’ from the quarter with our corresponding responses.

We hope this update is of interest and value your feedback.

Thank you.

Novartis ESG commitment

During our ESG investor day (September 1, 2020) Vas Narasimhan, said:

“As a company dedicated to reimagining medicine for patients around the world, our ESG efforts are a top priority for us as an executive committee, our Board of Directors and for all of our 108,000 associates. We’re really pleased to be able to provide you an update today, both on the progress we’re making and some new commitments we’re making as well as we continue to endeavor to be a leader in our sector and hopefully, across sectors over time as a trusted partner to society.”

ESG, a key strategic priority for the Novartis Board of Directors and Executive Committee, is integrated across Novartis operations. Novartis focuses on four strategic ESG pillars defined as material by stakeholders: Ethical Standards, Pricing and Access, Global Health Challenges and Corporate Citizenship. In each of these areas, the company has developed ambitious and challenging targets. As shown in Figure 1, we have clear plans to address access and global health challenges, which are areas with the highest unmet need worldwide and where Novartis can have the greatest material ESG impact. Novartis is also reinforcing its ambition to be a healthcare industry leader in environmental sustainability, further strengthening its already ambitious target for carbon neutrality to include its entire supply chain by 2030.

FIGURE 1

2020 targets		Mid to long-term targets
Implement 100 Emerging Market Brands (EMBs)(+8% vs 2019) 100% of launches with access plans in place +20% in patients reached in LMICs with EMBs (vs 2019)	▶	+200% in patients reached in Low and Middle Income countries (LMICs) with strategic innovative therapies in 2025
Expand hydroxyurea rollout to 5 countries in Africa 40% recruitment for Chagas PARACHUTE-HF trial Progress development of new malaria compounds (KAF156, KAE609)	▶	+50% in patients reached through flagship programs by 2025
-8% Carbon footprint (vs 2019) -8% Waste sent for disposal (vs 2019) -8% Water for own consumption (vs 2019)	▶	Full Carbon, Plastic and Water Neutrality by 2030

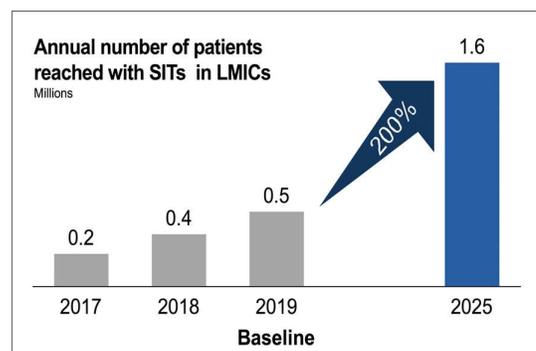
Commitment to patient access through our Sustainability-linked bond

- On 16 September, we issued our EUR 1.85 billion sustainability-linked bond (SLB), reinforcing our commitment to ESG principles and the 2025 Patient Access Targets.
- Novartis is taking bold steps to increase patient access in Low and Middle Income countries (LMICs), with its strategic innovative therapies by at least 200% by 2025. See figure 2 below.
- We are also taking steps to increase patient reach in our global health flagship programs (Leprosy, Malaria, Chagas disease and Sickle Cell disease) by at least 50% over the same period. We estimate that these efforts will result in a potential reach of over 24 million patients in these therapy areas.
- The new bond is the first of its kind in the healthcare industry and the first SLB incorporating social targets, with bondholders entitled to receive a higher amount of interest if Novartis fails to meet its targets for expanding access to its innovative medicines and addressing key global health challenges.
- The SLB is part of our commitment to embed ESG into the core of Novartis' business operations and communicate progress in a consistent and transparent way.
- To ensure transparency and accountability to investors, Novartis has worked with the Access to Medicine Foundation and Sustainalytics, which have provided second party opinions that validate the robustness and relevance of our KPIs and targets. Going forward, Novartis will provide annual progress on our performance against the SLB's key performance indicators, including limited assurance reports by an external verifier.
- We hope that our confidence in our SLB and its ambitious commitments encourages more sustainable and innovative products in the healthcare industry to expand access to medicines and address global health challenges.

An increase of at least 200% in the number of patients reached with Strategic Innovative Therapies (SITs) is an ambitious target, but is considered achievable thanks to multiple access strategies and initiatives:

- Holistic approach to market access in LMICs
- Developing effective affordability strategies
- Expanding use of emerging market brands
- Lowering distribution costs
- Strengthening health systems

FIGURE 2



Third party ESG ratings upgrade for Novartis (including MSCI)

We were encouraged by the engagement of third party rating agencies, including MSCI, and their willingness to engage on various methodology issues relating to topics in their reports. The significant steps taken by Novartis to strengthen ESG have culminated in a series of upgrades as summarised in Figure 3 below. Specifically, MSCI has upgraded Novartis ESG ratings to A, from BBB and also resulted in the removal of the red flag for ESG controversies. This change resulted in the improvement of our weighted-average key issue score from 4.3 to 4.9.

Source: [MSCI ESG Report September 24, 2020](#) and [MSCI Controversies Report September 24, 2020](#)

Summary of ESG rating performance of Novartis

Agency	Score	Score		Sector Ranking ¹		Score change drivers
		Current	Previous	Current	Previous	
 SUSTAINALYTICS ^{2,7}	Risk score	▲ 21	30	▲ 3 / 392	14 / 165	Strong management of material ESG issues
	Controversy level	▲ 3	5			Strong corporate governance, positive on settlement of legacy issues
FTSE4Good  ²	ESG score	▲ 4.7	4.1	▲ 1 / 6	6 / 6	Improvement across each pillar
MSCI  ^{2,8}	WAKI	▲ 4.7	4.3	▲ 2-4 / 6	8 / 11	Recent settlements, ethics policies, employee engagement strategy. R&D, product portfolio address access in underserved markets and robust vs. industry peers
	ESG score	▲ A	BBB			
	MSCI Global Compact	▲ Watchlist	Fail			
access to medicine index  ³	Ranking	▲ 3.2	2.9	▲ 2 / 20	3 / 20	Industry leader in access to medicine management (Access Principles)
ISS ESG  ^{2,8}	ESG score	▶ B-	B-	▶ 4 / 395	3 / 233	Outperforming on access, ethics. Recent update on US generics industry controversy
CDP  ⁴	Climate Water	▶ A- ▲ A	A- B	▲ 3 / 15 ⁵	4-9 / 15	Leadership level: Strong water policies, governance, environmental strategy
S&P Global  ⁴ Now a Part of S&P Global	ESG score	▼ 74	77	▼ 8 / 61	4 / 50	US generics industry controversy; Novartis remains member of DJSI World and EU index ⁶

Weighted-average key issue score 1. Peer group as defined by each ESG rating agency 2. 2020 / 2019 scores 3. Published every 2nd year. Result shown shows 2018 / 2016 scores 4. 2019 / 2018 scores 5. Based on Novartis official peer group 6. Novartis has been a member of the DJSI World and EU index since 2002 7. Updated October 15, 2020 8. Updated September 25, 2020

Novartis continuing response on COVID-19

The COVID-19 situation continues to evolve. Our primary concerns remain the health and safety of our associates. Additionally, we continue to demonstrate leadership through strong actions to help address the pandemic.

- To support the global public health response and develop a collective leadership in the life sciences industry, Novartis committed to expanded global access for COVID-19 diagnostics, therapeutics and vaccines in partnership with 16 life science companies and the Bill & Melinda Gates Foundation. This commitment is the most expansive and ambitious pandemic R&D response effort in history. As part of our goals, Novartis will develop innovations for patients worldwide, strive for timely availability, enable affordability for lower income countries, maintain public confidence in our innovations and support effective and equitable distribution of innovations globally. [Click here](#) for more information.
- In September, we announced a collaboration with the African Union to facilitate the supply of COVID-19 related medicines. This portfolio of 15 Novartis generic and over-the-counter medicines will be sold at zero-profit to 55 African and 15 Caribbean Community Member countries (CARICOM).
- The COVID-19 pandemic has highlighted the lack of diversity in clinical trials, which is the significant contributing factor to disparities in care among minority groups. The Novartis US Foundation announced a total commitment of USD 25 million to develop partnerships and fund community organizations and programs that address health inequality, with a focus on diversity in clinical trials in the United States. Our efforts reinforce the Novartis US Foundation's mission to improve health in underserved communities in the United States by creating innovative solutions to expand access to healthcare.
- During the third quarter, Novartis continued to deliver solid performance with another quarter of double-digit increases in core operating income and growing margins. COVID-19 had an impact on some of our therapeutic areas, particularly in demand-driven dermatology, ophthalmology and Sandoz retail. Our operations remain stable and cash operations continue to be according to our normal trade terms with sales outstanding at normal levels. Novartis continues to be well positioned to meet its ongoing financial obligations and has sufficient liquidity to support our business activities. Our digital technologies allow us to proactively manage our clinical trials portfolio and rapidly mitigate any disruptions. Additionally, we continue to advance the COVID-19 Ph3 trials (ruxolitinib and canakinumab) and provide ongoing support to a range of investigator initiated trials.

Additional ESG progress during Q3

New Code of Ethics: On 1 September, Novartis launched a new Code of Ethics, to elevate principle-based decision making and reinforce our commitment to ethics across all business interactions. More than 3,000 Novartis associates engaged in the development of the new code, reflecting the diversity of our business. The Code is accompanied by a decision-making framework that helps associates challenge their intuition by surfacing biases and encouraging reflection on the potential impacts of decisions. As of 22 October, the Code of Ethics platform had 32,000 users.

Annual ESG Investor Day: On 1 September, Novartis held its annual ESG Investor Day, which attracted investor interest of +104% year on year. At the event, our CEO, Vas Narasimhan announced ambitious and challenging targets which include targets for full carbon neutrality across our entire supply chain (Scope 1, 2, 3) by 2030.

[Click here](#) for more information.

Expansion of Investor Relations ESG Team:

We have recently expanded our team to include two IR ESG Directors, in response to the increasing importance of ESG as a strategic priority at Novartis and to meet growing investor demand for further engagement. Maria Victoria Cuevas recently moved roles within the IR team to focus fully on ESG. Maria has been with the IR team at Novartis since June 2017 and previously held positions at Unilever and Nestle. Madeleine Szeluch has recently joined us in September from the UK Government, where she focused on ESG and Sustainability investment and regulation themes since 2015.

Planning for 2021

We are continuing to develop our ESG reporting with ambitious plans for 2021. Novartis will publish our 2020 corporate reports on 26 January 2021. Our reporting suite will consist of:

- **Novartis Annual Report / 20-F:** Our regulatory filing documents for the Swiss Stock Exchange and US Securities & Exchange Commission, respectively
- **Novartis Annual Review:** A high-level overview of our business strategy and progress in 2020. It will be published in both print and online versions, complementing information found on our website.
- **Novartis in Society ESG Report:** Our sustainability report. The 2020 edition will include our first qualitative TCFD disclosure on climate risks and opportunities, as well as continued disclosure against standards such as GRI, SASB, UNGC principles, and SDGs.
- **Novartis ESG Index:** which shows where key Novartis ESG disclosures can be found across our publications and channels, will become a web-based supplementary document to improve searchability. [Click here](#) for the ESG Index.

We hope this update is useful and value your feedback.

Samir Shah

Global Head of Investor Relations

Novartis

Top 10 ESG related questions from shareholders and our responses

Key questions on general ESG issues

Question	Response
1 Can you share more detail on your Sustainability-linked bond. Why did you choose this?	<ul style="list-style-type: none"> • Aligned our Sustainability-linked bond (SLB) with the International Capital Market Association's (ICMA) Sustainability-linked Bond Principles. • We chose the relevant KPIs because they are of core importance to Novartis, with the 2025 Patient access targets serving as ambitious and material milestones. • Patient access and global health targets chosen in preference to others (e.g. carbon) as this is area where healthcare company like Novartis has potentially greatest impact to society. • The bond will feature a coupon step-up of 25 basis points, which will be payable to investors commencing with the first interest payment date after 31 December 2025 in case Novartis fails to reach one or both of the Group's 2025 Patient Access Targets. • The bond proceeds will be used for general corporate purposes, which may include the refinancing of existing indebtedness.
2 Why did you link the bond to 'Social' and not 'Environmental' factors and what do you aim to achieve?	<ul style="list-style-type: none"> • We take our environmental commitments seriously. In structuring the SLB, we had to focus on 1 – 2 KPIs that can result in the most significant impact. Novartis feels strongly that access and global health is where we can differentiate ourselves and have the greatest impact on society. • We have set ourselves an ambitious 2025 Patient Access target, where we aim to increase by at least 200% the number of patients reached with Strategic Innovative Therapies in Low and Middle Income countries (LMICs) by the end of fiscal year 2025. • Patients in LMICs often do not have early and/or affordable access to innovative therapies. • Novartis uses the number of patients reached with the Novartis Flagship Programs to monitor its progress in helping address the malaria, leprosy, sickle cell disease and Chagas challenges • Our efforts will help to strengthen health systems, lower distribution costs and help develop effective affordability strategies.
3 On Legacy controversies, is there a risk that such events may happen again?	<p>Our company is now significantly different, with robust ethics and compliance processes in place. We have established:</p> <ul style="list-style-type: none"> • Ethics and Compliance as a strategic objective, endorsed and tracked by the Board and Executive Committee (2018). • Changes to variable incentives to ensure appropriate behaviours across the organization and zero-tolerance for any misdeeds. • Leadership accountability - country business reviews with senior management include ethics, risk and compliance reporting. • Our 'Speak Up Office' as our whistleblowing mechanism to empower our employees to speak up if they witness anything inappropriate. • Our new Code of Ethics, integrated enterprise risk management and third party risk management covering all risk workstreams and human rights.
4 What is your access strategy for underserved populations in the United States?	<p>In the United States, Novartis is:</p> <ul style="list-style-type: none"> • Expanding the impact of the Novartis Patient Assistance Foundation: The Novartis Patient Assistance Foundation Inc. (NPAF) provides medicines at no cost to eligible US patients who are experiencing financial hardship and have limited or no prescription drug coverage. In 2019, NPAF provided nearly USD 2.7 billion in free medicines to more than 87 000 patients in the US, covering more than 75 medicines from our portfolio. Over the past five years, medication valued at roughly USD 7.9 billion has been made available at no charge to nearly 300 000 patients. • Improving affordability for patients with commercial insurance: Every year, Novartis helps thousands of patients with commercial insurance access our medicines at reduced cost to them. Through our co-pay assistance programs in the US, eligible patients pay no more than USD 30 for a 30-day prescription (USD 1 per day) for the vast majority of our branded and biosimilar products, including our cancer portfolio.
5 How is Novartis responding to racial inequality issues?	<p>To date, we have:</p> <ul style="list-style-type: none"> • Novartis US Foundation announced a total commitment of USD 25 million to develop partnerships and fund community organizations and programs that address health inequality, with a focus on diversity in clinical trials in the United States • Hosted an interactive webcast "Juneteenth: Generational Trauma & Mental Health in the African American Community", with over 4,800 participants.

	<ul style="list-style-type: none"> • Donated to NAACP Empowerment Program to support health equity work; committed to 2:1 matching gift for employee contributions that fight racial injustice and/or healthcare disparity inequality. • Implemented new hiring guidelines to help increase the gender and racial/ethnic diversity in leadership and across the organisation. • We have created a dedicated Diversity Hiring team in US. • Developed a Diverse Supplier Protocol to empower business decision-makers to identify and engage with approved female, minority, LGBTQI+ and veteran-owned suppliers.
6 Can you share more information on your Trust & Reputation Committee?	<ul style="list-style-type: none"> • In March 2019, Novartis established an internal Trust & Reputation (T&R) Committee as a sub-committee of the Executive Committee (ECN). The T&R Committee elevates, consolidates, and prioritizes the topics that were previously overseen by other Board-level committees, such as the Access to Medicines Committee and the Go Africa Steering Committee. • Chaired by our CEO and with participation from at least five other ECN members and other senior leaders, the T&R Committee oversees our strategy and progress in each of the key areas underpinning our strategic pillar on Building Trust with Society: Ethical Standards, Pricing & Access, Global Health Challenges, Corporate Citizenship and Stakeholder Engagement.
7 How are ESG targets incorporated into the ECN Compensation?	<ul style="list-style-type: none"> • The Annual Incentive of the CEO is based on a balanced scorecard with 60% weighting on financial metrics and 40% weighting on strategic objectives. We have 5 strategic objectives, weighted equally (innovation, operational excellence, people & culture, data & digital, building trust with society – the last 2 relate to ESG priorities). • The Executive Committee's Compensation Balanced Scorecard (basis of annual incentive) includes ESG objectives. The Novartis Values and Behaviours remain an integral part of our compensation and underpin the assessment of overall performance for short-term incentives. See page 137 of the 2019 Annual Report for more information.
8 Can you comment on Pricing in the United States?	<ul style="list-style-type: none"> • We believe that pharmaceutical innovation needs to continue to create value. To maintain this progress, we need to ensure that pricing and access to innovation are designed in a way that is sustainable for health systems. To support this, we are committed to transparency on our pricing, which we publish annually in our 'Novartis in US Society Report'. • Novartis has a value based pricing approach, where we look at societal value, clinical value, systems value and patient value. • We aim to limit our price increases to be in line with medical inflation on a net basis, to ensure that we are doing our part in supporting a system that is sustainable for patient affordability. • For 2020 in US, we expect the average net price of our medicines to decrease by 2.5% across our product portfolio, and from 2016-2019 the net price decreases of our products in the U.S. ranged from 2% to 2.6%. For comparison, CMS predicts national health spending to grow at an average annual rate of 5.4% through 2028.
9 What is the importance of Sandoz to your access strategy?	<ul style="list-style-type: none"> • The Sandoz division drives access through the provision of quality generic medicines - making available the most competitive generic alternative or by offering a novel and more affordable alternative to existing therapies • In 2019, we announced a new approach to reach more patients in Sub-Saharan Africa across our portfolio. As part of this strategy, we established a single organizational unit, bringing together the expertise of our Sandoz and Innovative Medicines divisions. • Other examples: Co-led industry in supplying essential medicines during COVID-19. Leading role in combatting AMR (as #1 global supplier of Gx antibiotics).
10 What COVID -19 support have you provided to your work-force?	<p>Novartis is showing leadership in its global response to overcoming this crisis and taking care of our associates, and ensuring resilience for the long-term. Some of our support measures have been:</p> <ul style="list-style-type: none"> • Commitment to no COVID-19 related job losses • 12 days paid leave for our associates and childcare assistance • On line training tools / wellbeing initiatives for our associates, which have also been extended to family members (Coursera, Khan Academy) • CHOICE: a new flexibility policy to all office-based staff effective July 15, 2020

The Novartis Investor Relations ESG team welcomes your feedback.

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