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ESG Update Q3 2022

for investors and analysts



Dear investors and analysts

In our Q3 ESG Update, we highlight the strategy, focus and priorities of the new Novartis as we continue our transformation into a pure-play Innovative Medicines company. As with each newsletter, the feedback and questions we received during this quarter are reflected in the Q&A on pages 6-8.

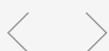
Thank you again for your interest in Novartis.

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Our strategy

At our recent Meet Novartis Management (MNM) event, we provided an update of our strategy to deliver high-value medicines that alleviate society’s greatest disease burdens through technology leadership in R&D and novel access approaches.



Our focus

5 core Therapeutic Areas¹

Cardiovascular, Immunology, Neuroscience, Solid Tumors, Hematology



2 + 3 technology platforms

Chemistry, Biotherapeutics
xRNA, Radioligand,
Gene & Cell Therapy



4 priority geographies

US, China, Germany, Japan



Our priorities

Accelerate growth

Deliver **high-value medicines** (including launch excellence)



Deliver returns

Embed **operational excellence**



Strengthen foundations

Unleash the power of our **people**



Scale **data science and technology**

Build trust with **society**

1. Other TAs opportunistically

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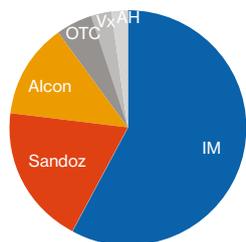
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Intention to spin off Sandoz to maximize shareholder value

On August 25, we announced our intention to separate the Sandoz business to create a standalone company by a way of a 100% spin-off, to drive value for our shareholders.

In simplifying the business over the past two decades, we have learned that innovation is a key driver of the success of our access strategy. The separation from Sandoz marks the last step towards our goal of becoming a pure-play Innovative Medicines company.

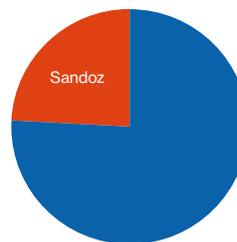
2014
Pre-portfolio transformation



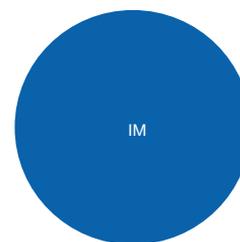
2017
Pre-Alcon spin-off



2019
Post-Alcon spin-off



2023
Post-Sandoz spin-off



The separation will allow us to continue to deliver on our access programs and ESG ambitions. The overall benefits to the business and to our shareholders of the spin-off are set out below:

 **NOVARTIS** (New Novartis)

Clear investment thesis as an Innovative Medicines business

- Exclusive focus and investment in Innovative Medicines
- Strong position in 5 core TAs, leadership in technology platforms
- Enhanced execution of the pipeline and commercialization
- Improved financial profile and return on capital
- Organizational and operational simplification
- Capital allocation based on its business needs

SANDOZ (Standalone)

Clear investment thesis as a Generics and Biosimilars business

- #1 European Generics company¹ and a global leader in Biosimilars
- More effective business strategy for the Gx market
- Greater freedom to operate
- Capital allocation based on its business needs
- Culture fit for the Gx industry, with focus on faster/leaner decision-making and more efficient use of cost base

Limited synergies between Innovative Medicines and Generics; at opposite ends of the biopharma value chain with significant differences in business dynamics

1. Based on IQVIA MAT 03/2022, gross sales for combined Generics and Biosimilars market.

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Sandoz spin-off does not change our ESG strategy

Our existing access targets are already focused on Innovative Medicines (including our Sustainability-Linked Bond targets), with a limited role of generics. Although it may be necessary to restate the baseline metrics of some targets to reflect the new organizational structure, we do not expect the spin-off to have a significant impact on the achievement of these targets. Our level of ambition to improve access for patients remains unchanged. Sandoz will also continue access to affordable healthcare.

Novartis will continue to focus on applying our Access Principles to our innovative medicines portfolio. All current ESG targets will be maintained.

Material ESG factors	Access	Innovation	Other priority areas
<ol style="list-style-type: none"> 1 Patient health & safety 2 Access to healthcare 3 Innovation 4 Ethical business practices 	<p>100% of launches with access strategy</p> <p>Sustainability-Linked Bond targets on track (LMICs):</p> <ul style="list-style-type: none"> • 3x patient reach¹ with strategic innovative therapies • 1.5x patient reach¹ through flagship programs 	<p>Innovative therapies reaching more LMIC patients faster</p> <p>R&D for neglected tropical diseases</p> <p>Clinical trial diversity</p>	<p>Human capital diversity targets</p> <p>Net zero carbon emissions by 2040</p> <p>High ethical standards</p> <p>Leading position in third-party ESG ratings</p>

Sandoz will continue access to affordable healthcare.

Broad global patient reach of ~500m patients	Focus on underserved populations for both developing and developed markets, particularly for biosimilars	AMR program: Support leading position in Gx antibiotics
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1. Results in improved population health and substantial social impact. LMICs, 2025 AMR – Antimicrobial resistance

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ESG ratings and reporting

Agency	Rating	Score: Current	Score: Previous	Industry perspective ⁹
 1	Score	▲ 4.18	3.2	2 / 20
 2	Climate score	▼ B	A-	Management band B/B- ¹⁰
	Water score	▼ A-	A	Leadership band A/A- ⁹
 3	ESG score	▶ B	B	2 / 491
 5	ESG score ⁵	▲ AA	A	Best rated peers: AAA (3 PharmaCos) AA (10 PharmaCos)
	MSCI Global Compact ⁶	▲ Pass	Watchlist	
	Controversy ^{6,7}	▲ 3	1	
 2,4	ESG score	▲ 84	73	5 / 91 in Pharmaceuticals (97 th percentile)
 3	Risk score	▶ 16.9 ⁸	16.9	1 / 456 in Pharmaceutical subindustry group ¹¹

Novartis remains Sustainalytics' top-ranked pharmaceuticals company

Novartis ranked first in the global pharmaceuticals [sub]industry category and among peers with a similar market cap in Sustainalytics' ratings, and remains 'Low Risk' with a score of 16.9.

Reuters Responsible Business Awards

Novartis was the winner of the Transparency and Reporting category of the Reuters  **Responsible Business Awards**. Our focus on impact valuation and measurement, and clear, holistic reporting was recognized by Reuters who noted that our Integrated Reporting set an "encouraging standard for future reporting practices for all business, markets and policy makers" on how sustainable measures can be integrated into financial analysis.

ESG Investing Magazine Sustainability Reporting Awards

Our commitment to external disclosure was recognized by ESG Investing Magazine, who awarded us the  **Best Sustainability Reporting: Healthcare** award for the second year running.

Upcoming events

Early November | Governance Roadshow

We will hold our annual roadshows, comprised of a series of investor meetings to gather shareholder feedback and in preparation for our AGM. Our objective is to facilitate an open discussion between shareholders, the Board, and the senior management team, to foster engagement around emerging issues and welcome all feedback.

29 November | Shared Value Initiative Speaker Series

As part of the SVI 2002 Speaker Series, our CEO, Vas Narasimhan, will participate in a virtual fireside chat moderated by Alyson Shontell, Editor-in-Chief of Fortune. Alyson and Vas will discuss strategy, innovation, impact, equity and leadership.

 **Novartis: Leadership and a Reimagined Approach to Equity - Shared Value Initiative**

30 November | Investor Update on Access & Sustainability

We will host a virtual event, to provide investors with an overview of our ESG strategy and ambitions. Ronald Cohen, author of the book "Impact investing" will join us. For registration and more details, please follow this  **link**.

1. Published every 2nd year. Result shown shows 2020/2018 scores. 2. 2021/2020 scores. 3. 2022/2021. Updated October 2022. 4. Updated March 2022. Novartis has been a DJSI World member since 2002. 5. Updated June 2022. 6. Updated December 2021 7.0-10 scale, 0 being most severe controversy. 8. Updated October 2022. 9. Leadership as defined by rating agencies. 10. Climate: Novartis received a B (Management band), same as the Biotech & pharma sector average, Water: Novartis received a A-(Leadership band), higher than the Biotech & pharma sector average. 11. Pharmaceuticals subindustry group: traditional Pharma, excl. Biotech.

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Top 10 questions from our investors

Question

Response

1
What is the impact of Sandoz separation on your programs (Access, Anti-Microbial Resistance)?

- We believe that the planned separation of Sandoz will deliver benefits
 - with a clear investment thesis for Novartis focusing on being an Innovative Medicines Business and Sandoz standalone potentially to become the #1 European Gx company and global leader in biosimilars.
- We expect improvements in driving access for patients for both companies:
 - The Novartis Access Principles will continue to focus on innovative therapies and impact. We will continue to progress on our commitment that 100% of launches will have an access strategy, and Sustainability Linked-Bond patient access targets across LMICs will remain unchanged.
 - Sandoz will continue to focus their access strategy on affordable healthcare and support its leading position in supplying high-quality Gx antibiotics to help tackle AMR.
 - Overall, we don't expect our ESG focus areas and commitments to change. Material ESG factors (patient health & safety, access, innovation, ethical business practices) will remain unchanged for both the New Novartis and Sandoz.

2
Can you talk about the new organizational structure. What impact are you seeing on employee motivation/culture/engagement scores/innovation?

- We are implementing a new, more agile and simpler operating model that will reshape the way we operate and enable us to accelerate our growth and productivity, and improve the quality of our pipeline.
- We recognize that these changes have created considerable uncertainty for many of our employees, as reflected in the decrease in the employee engagement scores in H2 2022, an anticipated outcome following the announcement.
- As we navigate the changes to implement this new structure as soon as possible, we want to ensure that we are taking the most appropriate steps in a compassionate way for our people.
- The new organizational model will not only enable us to reduce our costs but create a simpler, agile organization, capable of effectively delivering on our plans to drive growth and returns, particularly by unlocking the benefits of innovation in driving overall performance.

3
How are you addressing the cost of living crisis to fairly balance the needs of your stakeholders while mitigating business risks associated with economic challenges?

- We acknowledge the current economic challenges (e.g. inflation), and we try to balance the needs of different stakeholders.
- We aim to be as fair as possible across our stakeholders:
 - **Employees:** In markets experiencing extreme hyperinflation, we have already made a number of interventions with the support of each of the local work councils. We also recognize that inflation continues to be increasing in many other markets and we are regularly monitoring these developments. As we approach our year-end compensation cycle, we will consider several factors in line with our principle of fairness (including market rates, affordability, long-term sustainability for the company, criticality of talent, our EPIC¹ and Living Wage commitments) when determining any appropriate compensation adjustments.
 - **Suppliers:** Constantly monitoring our supply markets to ensure supply and price stability, then leverage contractual provisions and supplier collaboration to mitigate effects.
 - **Customers:** We are monitoring price increases closely (e.g. In the US, we will continue to cap our price increases based on our commitments. In Europe, we acknowledge that healthcare containment measures are increasing).
 - **Mitigating business risks:** We expect increased inflationary pressures to be mitigated by productivity measures including the recently announced new organizational model.

1. Equal Pay International Coalition

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Question

Response

4

Scope 3 challenge: How are you managing/mitigating the risks of the tail-end/smaller suppliers?

- We follow a risk-based approach. We have too many suppliers and our efforts are focused on consolidating our supplier base. In the interim, we are focusing on the larger strategic suppliers who are responsible for more than 95% of our carbon footprint.
- Key supplier contracts will include sustainability criteria.
- We continue to leverage our industry partnerships to support suppliers e.g. Novartis is a founding member of ENERGIZE program that aims to support suppliers in adoption of renewable electricity.

5

What are the potential financial implications of your net zero goals?

- We are committed to our net zero target and are currently defining our near-term and net zero targets in line with the science-based targets (SBT) net zero standard.
- Our investments for ESG commitments, short-mid and long-term, are always part of our integrated financial and business plans and included in our financial guidance and objectives.

6

Can you talk about your efforts on clinical trial diversity? How do you currently monitor racial diversity in clinical trials?

- Diverse, inclusive trials are critical to ensuring that we understand how those patients who are most likely to be treated for a disease or condition will respond to a medicine.
- Most clinical trial diversity programs focus on the recruitment of diverse patients as trial subjects. However, we have learnt that: a) these efforts need to focus on building trust with the underserved communities; b) the lack of diverse clinical trial investigators constitutes a barrier to diverse patient recruitment. More specifically, our efforts include:
 1. **Working with historically black medical schools** over an initial period of 10 years to help build their clinical trial capabilities and establish, or further strengthen, their positioning as **clinical trial centers** of excellence (**\$30m** commitment).
 2. **Supporting up to 1,200 Black and African American students** to become the next generation of leaders in health, science, technology and business through scholarships, mentorship, fellowship programs (**\$20m** commitment).
 3. **Shifting the focus of the Novartis US foundation** to becoming fully dedicated to **engaging with community organizations** and funding other programs that address health inequities, with a focus on diversity in clinical trials.
 4. **Setting clinical trial diversity targets** by evaluating D&I principles for 100% of Ph3 studies with US participation starting in H2 2021.
 5. **Monitoring clinical trial diversity:** Disease prevalence is loaded into our enrolment projection system to allow transparency throughout the trial, enabling real-time monitoring. We also developed a Clinical Innovation Technology Platform (CLIP) that helps identify base population for selected indications (based on epidemiology, real-world data) and support demographic analysis to establish trial representation goals.

7

Can you tell us what you have achieved so far and what you would highlight from the Beacon of Hope initiative?

- In Q2 2022, we provided an update on the Beacon of Hope initiative (clinical trial diversity efforts) since its launch one year ago:
 - Morehouse School of Medicine's Clinical Trial Center of Excellence is now operational.
 - Three additional medical colleges/universities joined to create Clinical Trial Centers of Excellence to conduct studies by investigators and trial managers of color among participants from underrepresented populations.
 - Two other pharma companies joined the initiative, including conducting clinical trials through Historically Black Medical School clinical trial centers.
 - Rolled out specific programs to empower African American students, including mentorships, scholarships, grants.

[Link for more details on Beacon of Hope](#)

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Can you explain the importance of the company's access to medicine/healthcare initiatives in the overall business strategy of the company?

Response

- Improving access to medicines is where the healthcare industry can drive the largest impact on society. It is one of the greatest unmet health needs worldwide, with nearly 2 billion people lacking access to medicines according to the World Health Organization. Access also featured in the Novartis materiality assessment in 2021, with internal and external stakeholders ranking it alongside innovation, ethical business practices, and patient health & safety as the key priorities for Novartis.
- Access is a global issue, and central to the Novartis strategy globally. We are firmly committed to ensuring our innovative medicines reach everyone who needs them, regardless of where they live or their economic status. In 2017, we established the Access Principles to guide how we integrate access strategies in how we research, develop and deliver all our new medicines, globally. And in 2020, we issued a sustainability-linked bond that is explicitly tied to how we're increasing access to our therapies. Most recently, Novartis reinforced its access commitment to investors during the 2022 Meet the Management event.
- Novartis will continue to integrate access to medicines in our overall business operations, with our goal to incorporate global access strategies in 100% of our launches.

9

Can you provide color on the governance on the ESG strategy, including decision-making process and oversight?

- ESG has become embedded across all levels of our organization, supported by a clear governance structure at the leadership level.
- The **Board of Directors**, particularly through the Governance, Sustainability and Nomination Committee, is responsible for the oversight of the Group's ESG strategy, and to provide guidance on how ESG is incorporated into Novartis long-term strategy and risk management.
- The **Trust and Reputation Committee, a sub-committee of the Executive Committee of Novartis**, is responsible for the overall ESG steer and decision-making, and is supported by the Sustainability & ESG Office, ESG Council and the ESG Topic Leads, in particular for the delivery and implementation of the various ESG initiatives.

10

Biodiversity – we would like to understand how you are progressing on identifying transition risks associated with biodiversity and the impact of climate change, and how you are assessing this in your supply chain.

- Biodiversity loss has been recognized as a risk and accordingly has been included in our enterprise risk management program.
- Our current approach to reducing our impact on biodiversity is applied through addressing our targets on carbon reduction, water quality and elimination of plastic.
- Additional strategic levers will be evaluated in the future.