

Q1 2022 ESG Update for investors and analysts

April 27, 2022

Dear investors and analysts,

In our Q1 ESG update, we reflect on our progress and highlight recent updates on our AGM 2022, position on the Ukraine war and takeaways from our recently published Novartis in Society Integrated report.

We share our ESG efforts in Q1, which include our first Anti-Bribery report and our recent work on combatting Anti-microbial resistance.

We appreciate your engagement on all ESG-related topics, particularly in the increase on questions related to social issues this quarter.

Thank you.

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Update on AGM 2022

Our 2022 Annual General Meeting (AGM) was held on 4 March 2022.

Shareholders approved Novartis' 25th consecutive dividend increase to CHF 3.10 (+3.3%) per share for 2021, which represents a 3.9% yield and approximately 57% payout of free cash flow.

Shareholders re-elected Dr. Joerg Reinhardt as Board Chair and all members of the Board who stood for re-election. Ana de Pro Gonzalo and Daniel Hochstrasser are newly elected members to the Board of Directors. Shareholders elected KPMG as statutory auditor and approved all other proposals of the Board of Directors.

In two separate binding votes, shareholders approved the total maximum aggregate amount of compensation for the Board of Directors, covering the period from the 2022 AGM to the 2023 AGM and the total maximum aggregate amount of compensation for the Executive Committee for the financial year 2023. Shareholders also endorsed the 2021 Compensation Report in an advisory vote.

Reduction of Share Capital

In line with the Board's recommendation, shareholders approved the cancellation of 30 699 668 shares repurchased under the authorizations of February 28, 2019 and March 2, 2021 and the reduction of the share capital accordingly by CHF 15.3 million (from CHF 1 217 210 460 to CHF 1 201 860 626).

Pre-AGM engagement with our shareholders

We welcome the dialogue with our investors and continued engagement. We held a series of virtual meetings to hear your feedback on a range of governance and AGM agenda topics, which included board compensation and independence, over-boarding and time commitments of our Board members and introductions of our new Board Members, that we welcomed in 2022.

Board Regulation changes

The Board, upon proposal by the GNCRC decided to rename the GNCRC to 'Governance, Sustainability and Nomination Committee' (GSNC) effective 1 March 2022. The change reflects the company's focus on sustainability and the Committee's role in reviewing the strategy and performance of ESG factors that contribute to long-term value creation.

Novartis position on Ukraine

Novartis condemns the war in Ukraine. This unprovoked act of violence harms innocent people and defies our mission to improving human health globally.

As a medicines company, we have delivered more than **1 million packs** of antibiotics, painkillers, cardiovascular, and oncology treatments which amounts to more than USD 25 million in medical aid to maintain the supply to those who rely on these drugs in Ukraine and in the border areas where people are seeking refuge.

Novartis has also made an **initial USD 3 million donation** to charities supporting refugees and displaced people in Ukraine and bordering countries. We continue to support our employees and their families in Ukraine, and those who have left the country. Novartis will continue to contribute to the humanitarian efforts in and for the people of Ukraine. We remain committed to providing access to medicines to patients in every country where we operate.

At the same time, we are careful to comply with the international sanctions imposed upon Russia. A package of measures has been implemented that includes suspending capital investments, media advertising, and other promotional activities in Russia. In addition, while we remain committed to provide access to our medicine in Russia, we **responsibly pause the initiation of new clinical trials** and the enrollment of new study participants in existing trials. These measures will be kept under review.

Key takeaways from Novartis in Society Integrated Report

We published our first Novartis in Society Integrated Report on 2 February. The report can be found [here](#).

We share below our top 10 takeaways from the Report. We welcome any feedback on our disclosure efforts.

Top 10 takeaways

1. Our purpose

Our purpose is to re-imagine medicine to improve and extend people's lives.

2021 by numbers:

- 766m patients reached, 7% through access-to-medicine approaches
 - 71bn treatments produced through Novartis facilities
 - 1bn antimalarial treatments delivered (since 2000), 90% supplied without profit
 - 40m doses produced of Pfizer-BioNTech vaccine for Covid-19
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2. Materiality assessment

Top 4 topics identified for their potential to deliver value by our stakeholders in 2021 assessment were:

1. Patient Health and Safety
 2. Access to Healthcare
 3. Innovation
 4. Ethical Business Practices
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3. Delivering transformative innovation

We work to discover and develop medicines that reduce the burden of disease for patients and societies around the world.

We currently have **54 ongoing Phase III programs** and 98 assets in developments spanning 50 diseases.

Growth drivers: By 2026, we anticipate potential approval of **20+ pipeline assets** with potential to become blockbuster medicines with significant sales. Around 85% of our treatments in development have the potential to be first in class or first in a specific indication.

4. Delivering sustainable financial growth

In 2021, we delivered a solid financial performance, supported by sales growth in key products and increased margins.

Highlights:

USD 51.6bn in group net sales (+4% cc)

USD 11.7bn in group operating income (+13% cc)

USD 42.0bn Innovative Medicines Division net sales (+6% cc)

5. Transforming our culture

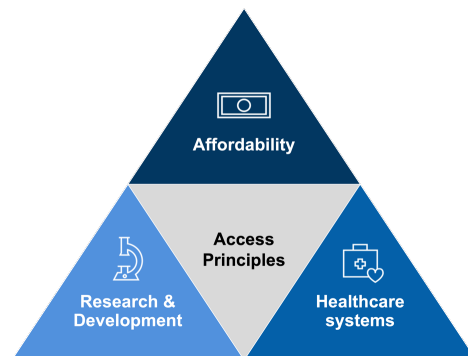
Our associates bring purpose to live. We are on a journey to transform our culture and empower each employee to be inspired, curious and unbossed.

We are the 1st global pharma company to support the United Nations Standards of Conduct for Business, tackling discrimination against LGBTQI+ employees.

Women in management continues to increase and now at 46%.

6.. Delivering access to medicines

Access to innovative medicines remains one of the world's biggest healthcare challenges. Our **Novartis Access Principles** guide us to systematically integrate access strategies into how we research, develop and deliver our medicines. More detail on our efforts to deliver access to medicines can be found [here](#).



7. Reducing our environmental footprint

We are committed to global health and have a responsibility, together with governments and civil society to contribute to addressing climate change. In 2021, we committed to becoming a net-zero company across our value chain by 2040.

Highlights:

34% - reduction in greenhouse gas emissions (vs. 2016 baseline)

40% - reduction in water consumption (vs. 2016 baseline)

56% - reduction in waste sent for disposal (vs. 2016 baseline)

8. Excellence in our operations

We work to improve the efficiency and effectiveness of our operations.

Highlights:

71bn – treatments supplied through Novartis sites

> 12,000 – suppliers' risk-assessed through our third-party risk management framework

99.2% of regulatory inspections of our facilities found to be good or acceptable

9. Data & digital

We use data and digital technology to drive digital health solutions for patients, personalize our engagements with healthcare professionals and accelerate R&D.

Data42

More than 900 Novartis employees are using data42, a data analytics platform that mines data from more than 2,700 clinical trials over two decades to help us understand disease progression, optimize treatments and improve clinical trial design.

10. High standards of ethical behavior

We hold ourselves to follow high standards of ethical behavior. In 2021, we rolled out programs and policies to support our employees, when faced with ethical dilemmas.

Highlights:

98% employees trained on the Novartis Code of Ethics

50,000 responses to our first Annual Global Ethics Survey

Q1 2022 Survey conducted with 47,000 responses

Q1 reflections

Our ESG progress in Q1 covers themes across governance, environment, and social issues:

First anti-bribery report published

We published our first Anti-Bribery report in early 2022, as a step to increase our transparency and efforts to combat bribery and corruption in our operations. This publication followed a collective ESG project initiated by an independent investment bank. More details can be found [here](#).

Our approach covers the following themes:

- Culture
- Risk Management
- Third Parties
- Compliance
- Oversight

2022 Bloomberg GEI Inclusion

Novartis has been included in the **2022 Bloomberg-Gender Equality Index (GEI)** for our commitment to gender equity and inclusion for a third consecutive year. Improving gender equality in the workplace is a priority for us. Women currently make up 50% of our workforces, representing 46% in management and 31% on our Board.

2022 S&P Global Sustainability Award

In February, Novartis received the Bronze medal, in recognition of its ESG efforts at the 2022 S&P Sustainability Award. The Bronze medal is awarded to companies that achieve an ESG score within a range of 5 – 10% of the top-performing companies in their industries and hold a minimum score of 54.

Climate Pledge

Novartis recently joined The Climate Pledge. The Climate Pledge is a call to businesses and organizations to take action and to build a safe and healthy planet for future generations. We have a comprehensive environmental sustainability strategy. Details can be found [here](#).

Novartis Biome Sub-Saharan Africa

We recently launched the Novartis Biome Sub-Saharan Africa, an industry-first in the region and the eleventh global innovation hub to support our mission to become the number one partner in the tech ecosystem. The biome covers 46 countries and focuses on cross-sectoral partnerships in the region to increase affordable access and strengthen healthcare systems.

Our goal is to provide every patient in Sub-Saharan Africa with affordable access to high-quality medicines and to transform healthcare in the region. We aim to double our patient reach in Sub-Saharan Africa by 2022 and increase it five-fold by 2025. More details are [here](#).

MoUs with Sub-Saharan Africa

In February, Novartis SSA signed its fifth Sickle Cell Disease MoU (Memorandum of Understanding) with Zambia, bringing it closer to its commitment to have 10 MoUs signed by 2025. The partnership includes early intervention strategies, research to investigate new treatments, education and advocacy to improve access to existing therapies, with plans to introduce child-friendly formulation of treatments. Other countries with MoUs include Ghana, Kenya, Uganda and Tanzania.

In March, we signed an MoU with the Tanzania Training Centre for International Health. It aims to improve the management of diseases (such as Epilepsy, Sickle Cell, Diabetes, etc.) by training healthcare workers in Tanzania.



Anti-microbial resistance (AMR) efforts

On April 6, Sandoz announced the extension and expansion of its strategic collaboration agreement with Ares Genetics until January 31, 2025. This effort will focus on driving cutting-edge digital solutions in the global fight against AMR.



During the initial stage of collaboration, Ares developed a digital anti-infectives platform, which combined established microbiology laboratory practices with advanced bioinformatics and AI methods to support the identification of effective antimicrobial compounds or compound combinations. In the next phase, both parties will focus on antibiotic stewardship by enabling genomic surveillance for resistant pathogens, using Ares' next-generation sequencing and bioinformatics technologies.

Important dates in Q2

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| Equity in Corporate Purpose event | Patrice Matchaba, (President, Novartis US Foundation), will be speaking at the virtual 2022 Shared Value Initiative on 5 May 10am ET to discuss equity and its role at Novartis. For more details, sign up here . |
| Switzerland Sustainable Finance event | Novartis and the UN Global Compact Network Switzerland & Liechtenstein will be hosting an in-person event at our Novartis Campus Basel on 18 May 9:30 – 12:30pm, focused on Sustainable Finance in Switzerland. If you would like to participate, please email us or sign up here . |
| Upcoming ESG Roadshows | Our Investor Relations team is planning our virtual 2022 ESG Roadshows, planned for June 2022. The ESG roadshows will cover relevant topics for our global stakeholders. If you would like to participate, please email investor.relations@novartis.com |

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Top 10 ESG-related questions from shareholders and our responses

In this quarter, investor questions focused on Social issues, including Access, Diversity and Workforce topics.

Question	Response
1 Novartis mentions that ESG is important to create value. What do you mean by value creation?	<ul style="list-style-type: none"> • We believe that the ultimate aim of ESG is to create positive impact on society, with this impact being intentional and measurable. We also believe that 'impact' is change that goes beyond what would have happened regardless. • Access to innovative therapies and addressing unresolved global health challenges is where the healthcare industry can drive the largest impact to society, as this is the highest unmet need in medicine. • Some of our efforts at Novartis include our 2020 sustainability-linked bond (SLB), our emerging growth brands and our Sub-Saharan strategy which focus on innovation and creating value for different stakeholders, which include healthcare professionals, patients, and our shareholders. These efforts were intentional, created to have measurable KPIs and further access to innovative medicines.
2 Do you foresee any impact of the recently announced Sandoz strategic review to your access efforts?	<ul style="list-style-type: none"> • Novartis commenced a strategic review of Sandoz that is exploring all options, ranging from retaining the business to separation to determine how to best maximize value for our shareholders. No decision has been taken on Sandoz yet. • Our commitment to improving access is focused on innovative medicines. Some examples of this include our Sustainability-linked bond and Global Health Access programs. • Sandoz is the world's leading provider of generic antibiotics, which makes up 80% of the antibiotics market. We are committed to determining how best to enable Sandoz to continue to be the leading generics company in the world. • The cross-divisional Anti-Microbial Resistance (AMR) program continues unchanged. The leading Sandoz portfolio of essential antibiotics plays a key role on access, responsible manufacturing and responsible use.
3 How do you balance achieving profitability and delivering on access in LMICs?	<ul style="list-style-type: none"> • Our approach to access has evolved over the past two decades as we strive for more sustained impact: We have pivoted from donation programs towards full integration in our core business. Our access thinking goes beyond affordability – it includes R&D and health systems strengthening activities to ensure long-term sustainable impact. • Most of our access programs relating to innovative therapies in LMICs are either accretive (resulting in incremental growth) or self-sustaining, and we are progressing in this direction across the diverse markets we operate in. • As an example, in 2019, we announced a new approach to reach more patients in Sub-Saharan Africa (SSA) across our portfolio. As part of this strategy, the regional organization will prioritize driving access to medicines to help reach more patients across different income levels, in addition to traditional business metrics, such as profits and margins. Our SSA sub-unit is delivering a sustainable and profitable model to reach underserved populations. • We maintain a philanthropic Global Health program, which is focused on Leprosy and we have recently renewed our commitment with WHO to extend our multi-drug therapy donation for leprosy until 2025.
4 Can you share progress on gender equality in 2021?	<ul style="list-style-type: none"> • In 2018, we signed the Equal Pay International Coalition (EPIC) pledge to achieve gender balance in management and improve pay equity and transparency processes by 2023. We are on track to deliver on our targets. Our female representation in overall management is currently 46% and we report on our gender representation in our Novartis in Society Integrated report (see pg.66 here) • In 2021, we introduced gender neutral parental leave. All Novartis employees worldwide are eligible for a minimum 14 weeks of paid parental leave on the birth or adoption of a child, effective from their first day of employment. Across 33 countries, over 4600 employees took advantage of this benefit in 2021. This figure was represented by 59% of women and 41% of men.
5 How is the Board planning to increase its diversity profile over the next two years?	<ul style="list-style-type: none"> • Diversity of culture, experience and perspective are key factors to Board effectiveness and risk evaluation. • We are continuously looking for opportunities to increase our Board diversity, including gender, age, nationality, and ethnicity.

	<ul style="list-style-type: none"> The female representation on our Board currently amounts to 31%, and we have recently welcomed Ana de Pro Gonzalo to the Board.
<p>6 What is the latest update on Novartis Workforce Disclosure scores (WDI)?</p>	<ul style="list-style-type: none"> Transparency on our workforce efforts is important to us, as it continually holds us accountable to set ambitious targets and create a productive and positive environment for our associates. Novartis received a special mention as part of the “Workforce Action Award” which was awarded by the Workforce Disclosure Initiative (WDI), following our first submission in 2021. Our disclosure scores are above average overall as well as for the healthcare industry. Novartis is scored at 82% vs the healthcare average at 74% and the Switzerland average at 59%. As background, WDI is now backed by 62 investors and 173 publicly listed companies including 50 FTSE 100 companies which have disclosed data on workforce practices in 2021.
<p>7 What is your intention with the new Sub-Saharan model?</p>	<ul style="list-style-type: none"> To drive access in Sub-Saharan Africa (SSA), we established a dedicated Novartis SSA unit of about 700 employees that aims to expand the availability of our full portfolio of medicines, taking a high-volume lower-price approach, with the aspiration to double patient reach in the region by 2022 and increase it fivefold by 2025. Our goal is to prioritize driving access to innovative medicines and reaching more patients across income levels. For example, we aim to bring affordable cancer treatments to 22 countries in SSA through our Cancer Access Partnership with the Clinton Access Initiative. In 2021, we reached the milestone of 1 billion treatments of our antimalarial medicine, Coartem with more than 90% supplied without profit. More details are here.
<p>8 Are you planning to share your data on employee demographics in US operations?</p>	<ul style="list-style-type: none"> As part of our ongoing commitment to D&I, Novartis is taking the initiative to publicly disclose the consolidated US EEO demographics data that we prepared for the US Equal Employment Opportunity Commission. This is a government-required submission filed by all companies with 50 or more employees in the US that provides demographic information related to gender, race, and ethnicity of a company’s US employee population. Novartis published its US Equal Employment Opportunity report, which provides a summary of the data submitted to the government along with a discussion of our initiatives that further D&I at Novartis and contribute to a positive impact on society. Our goal is to provide transparency and insights into our efforts to support progress on D&I. To meet our EPIC pay equity and transparency commitments, we started sharing with our US associates their pay as compared to external benchmarks, and plan to expand this to internal benchmarks in 2022. Further detail on our 2021 report is here.
<p>9 How do you ensure you provide access to gene therapies in Low-Income and Low-Middle income countries?</p>	<ul style="list-style-type: none"> An example is Novartis’ efforts in providing access for Zolgensma. Through our global Managed Access Program (MAP), we committed in 2020 to provide free access to Zolgensma across 24 regions and countries, including providing the first-ever SMA gene therapy administration in countries such as Chile, Mexico, Tunisia, Belarus, India, Malaysia and Vietnam. We believe that to deliver sustainable and rapid access to Zolgensma requires innovative solutions and partnerships with governments, civil society and public / private payers. One of our approaches is through our Early Access Agreements, which Novartis Gene Therapies can offer. Access options include deferred payments, pay over-time options and outcomes-based agreements, which are in line with our value-based pricing principles.
<p>10 You conducted a pilot on 25k employees on your flexible work scheme. What are lessons learnt?</p>	<ul style="list-style-type: none"> In 2020, we rolled out a new working model for our associates called “Choice with Responsibility”. It offered our associates more flexibility in the workplace, in response to our internal surveys which showed that our associates wanted to continue with hybrid-working models post-pandemic. We conducted a follow up study in 2021 on 25k employees to assess workplace flexibility. Feedback included: <ul style="list-style-type: none"> 60 – 70% of our associates surveyed prefer a hybrid working model Teams that embraced flexibility have been better able to prevent burnout, while improving productivity No one size fits all, as our survey has shown that there is significant variability in preference between countries and business units. We will continue to assess new ways of working, learning and adjust our thinking along the way.