

PROMOTING GROWTH IN ITALY



Summary of the strategic analysis carried out by



Novartis' Values and its Contribution to the Country

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Whether relating to climate change, economic growth, work or wellbeing, the global forecasts for the coming decades paint a worrying picture, both for Italy and for the planet as a whole.

***Italy has some important decisions to make regarding its future**, choices that will affect economic growth, environmental quality and efforts to reduce inequality and increase social welfare – in other words, fair and sustainable development in the country.*

*The United Nations Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs) underpin our move towards **an integrated vision of sustainable development, based on four pillars** (Economy, Society, Environment and Institutions) and guided by the principles of integration, universality and participation.*

The AsviS 2018 report, published by the Italian Alliance for Sustainable Development, describes the actions that need to be taken as part of a modern, integrated vision of sustainable development. These fall into seven areas: climate change and energy; poverty and inequality; circular economy, innovation and labour; human capital, health and education; natural capital and environmental quality; cities, infrastructures and social capital; and, finally, international cooperation. These are concrete proposals, some of which (land use, the right to water, ecosystem protection, etc.) draw on the work carried out in the previous parliament and are therefore attainable within a short time period.

*I was delighted to be asked to contribute to this study, Novartis' Values and its Contribution to the Italian Economic System, produced by The European House - Ambrosetti, which uses **an integrated vision of the four types of capital (economic, human, societal and environmental)** at a major company to measure and promote its impact on the system, specifically focusing on some of the SDGs. The analysis contained in this research **assesses a wide range of impacts** in relation to several **important sustainable development goals**, including good health, high levels of employment and economic growth, a quality education and environmental sustainability.*

It is essential that large multinational companies like Novartis increasingly pursue actions and reporting that supports fair and sustainable development.

Enrico Giovannini

Full Professor of Economic Statistics at the University of Rome Tor Vergata and spokesman for the Italian Alliance for Sustainable Development (ASviS)



**“OUR MISSION IS TO
IMPROVE AND EXTEND
PEOPLE’S LIVES.**

**WE ARE NOVARTIS,
WE ARE REIMAGINING
MEDICINE”.**



Novartis has well-established roots in Italy, with **a history in the country stretching back over 100 years**. Over time this has helped the company to grow, allowing it to accumulate an incredible wealth of knowledge and skills. In short, Italy has given Novartis a lot, and it continues to do so. But we also **'give something back' to Italy**.

To get a snapshot of how we do this, and to what extent, we turned to the renowned researchers at **The European House - Ambrosetti**.

The results can be seen in the pages that follow, which provide a summary of detailed analytical work that offers a reliable overview of **Novartis' impact on Italy**. Although the focus is on the economy, the report also investigates the company's impact on the wellbeing of citizens, their quality of life and human rights, and particularly their right to health; scientific advances and developments in innovation and business; the promotion of skills and a culture of work and inclusivity; and energy and environmental sustainability.

The results of this analysis paint Novartis in a very positive light. The statistics and indicators show us as above average in each area, and confirm **our significant, skilled contribution to Italy's progress**.

However, it is important to note that The European House - Ambrosetti's research does not show us treading water, no matter how positive and, from our point of view, gratifying, the current situation may be. The figures and data collected on these pages present **a group that continues to grow and modernize**: an organization that is not afraid to reinvent itself in pursuit of its ambition to reimagine medicine and its paradigms, following pathways that are yet to be explored, and which show great promise for patients and public health.

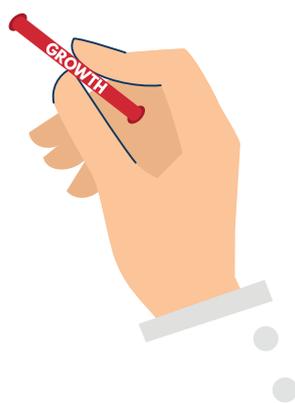
From gene and cell therapy to radiotherapy and digital health, **Novartis is today one of the instigators of the major changes taking place in medicine**, with one of the strongest Research & Development pipelines in the sector. **And Italy's contribution to this evolution is crucial**: in production and research, in the training of technicians and researchers who can deal with the new challenges we face, and in identifying sustainable solutions to guarantee patients receive the innovative treatments to which they are entitled.

I believe that it is this dynamism and vision for the future, incorporating both the company and society as a whole, that is Novartis' most valuable contribution to the country.

Pasquale Frega

Country President, Novartis Italy





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CREATING VALUE: NOVARTIS' DNA



The pharmaceutical industry in Italy has always been **a bastion of excellence**, and has established itself as **the sector with most global reach**, both in terms of driving exports and in its ability to attract foreign investment. This year saw it climb the rankings in terms of its production value, **overtaking Germany into first position**.

And the pharmaceutical industry's contribution to creating value is not limited to macro-economic factors. **The sector offers highly specialized and qualified jobs**, with a good gender balance and a welcoming attitude to young people, and **employs innovative industrial relations models and modern welfare tools**, which aim to ensure an excellent work-life balance, continued professional development and wellbeing for employees and their families. There is significant **willingness to engage in research and experimentation**, the results of which have had a decisive impact on increasing life expectancy and quality of life. In addition, the companies in the sector are often involved in **investment and technological transformation programs**, digitalization and automation, aiming to adopt ever more efficient and sustainable models and processes, including in relation to environmental concerns.

So **how does Novartis fit** into this scenario?

The company, founded in Switzerland, arrived in Italy over a century ago, when it opened its first manufacturing plant in Milan, and it has kept pace with the evolution of medicine and research for over 100 years.

Throughout this long journey, Novartis has changed and transformed many times, eventually becoming what it is today, a large company that aims to push the boundaries of medicine, divided into three different divisions: Innovative Medicines (comprising Novartis Pharmaceuticals and Novartis Oncology), Sandoz and Alcon.

Novartis is well-established in Italy and plays an active role in the country, with a major impact not only on healthcare, but also on economic, societal, human and environmental matters.

Novartis' values and contribution to Italy can be divided into four areas (or the 'Four Capital', as they will be described from now on) – **generating economic value** combined with **conserving the country and the ecosystem, contributing to the world of work** and **improving the population's health**. This is underpinned by a clear and ambitious mission, embedded in the company's DNA: **to improve and extend people's lives**.

ECONOMIC CAPITAL

Turnover

1.64

billion euros

Investment over 5 years

390.8

million euros

Contribution to public finances

446.6

million euros

Direct added value to GDP

360

million euros

Total contribution to GDP

1.1

billion euros



Novartis Italy is certainly no stranger to generating economic value, achieving a **turnover of 1.64 billion euros** in 2017.

Novartis' two Italian production sites, located in Torre Annunziata (province of Naples) and Rovereto (province of Trento), helped cement **Italy's leading position in pharmaceutical manufacturing**. With exports worth 77.4 million euros from Torre Annunziata and 76.8 million euros from Rovereto, Novartis' **total exports amounted to 154 million euros**. Torre Annunziata is where the innovative drug for chronic symptomatic heart failure is produced, which has reached over 534,000 patients worldwide.

Novartis contributed approximately 360 million euros of direct added value to Italian GDP in 2017.

Novartis also helps stimulate numerous other supply chains in Italy: **the purchasing of goods and services by Novartis' Italian offices** alone, from around 2,300 different Italian-based suppliers, **was worth 267 million euros** in 2017. These factors, along

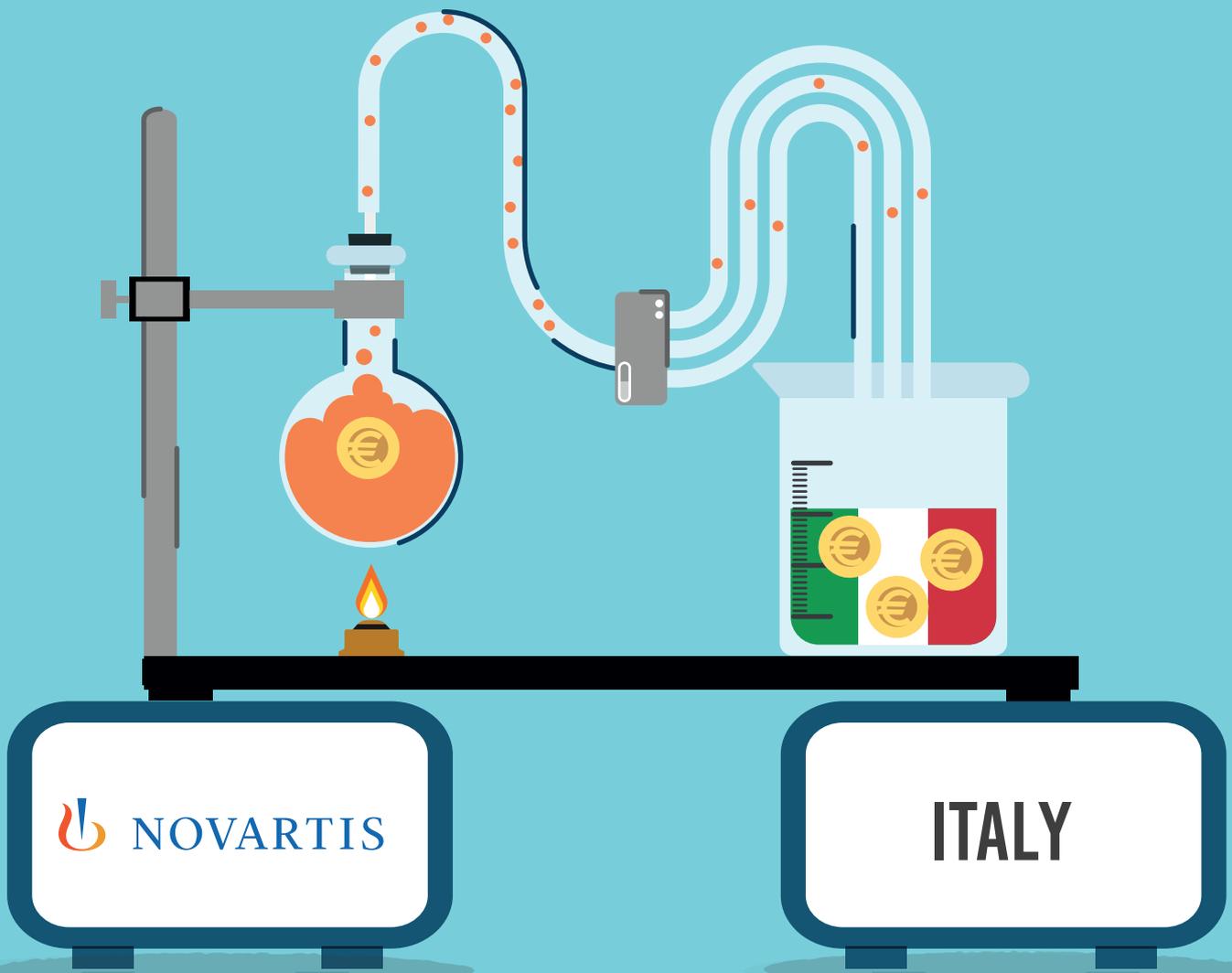
with deliveries to Italy by Novartis' foreign branches, have made a significant **contribution to Italian GDP in terms of added value: the figure is estimated at 1.1 billion euros**.

And the Italian treasury has also benefited. Adding together taxes, pay-back, cost avoidance and reduced spending for the Italian National Health Service thanks to generic drugs and biosimilars, the **gain for the public finances** has been calculated at roughly **447 million euros**.

In 2018, Novartis added two new manufacturing sites in Piedmont and two laboratories, one in Molise and the other in Emilia Romagna, strengthening this contribution still further.

Considering all of Novartis' activities in Italy, from purchasing goods and services from Italian suppliers to the consequences in terms of household spending, the **added value** that the Group brings to the Italian economic system (including direct, indirect and induced effects, and adding together **the foreign and domestic impact**) equates to **3.10 euros of GDP generated for every euro spent**.

VALUE ADDED TO GDP²⁰¹⁷ APPROX. 360 MILLION EUROS



CONTRIBUTION TO **ITALY'S GDP**
1.1 BILLION EUROS, A MULTIPLIER OF **3.1**



CONTRIBUTION TO GDP AND ITALIAN INDUSTRY

In an economy like Italy's, where productivity sees little if any growth and remains stubbornly below the EU average, Novartis has made a significant impact over the years by bolstering this economic indicator, a trend that continues today.

Value added per employee, which measures individual workers' ability to create new finished goods and services, is **almost three times higher** at Novartis than the Italian average. It is also **8.3% above the average for the pharmaceutical sector**, a traditionally high-performing industry by nature. Between 2016 and 2017, Novartis' performance in this area improved further, **jumping from 127,000 euros to 149,000 euros per employee, an increase of 17.3%**.

These are exceptional results, as is the over **390 million euros invested over the last five years, of which 79% was dedicated to R&D**. Investments in R&D per employee are 13% higher than the average for the pharmaceutical sector.

SOCIETAL CAPITAL

Medicines for

13.6

million patients

Social impact

1.5

billion euros

Clinical research

254

studies carried out

10,841

patients involved

1,073

Italian centers involved

In addition to the contribution and benefits that Novartis provides in economic terms, it is important to remember that Novartis is first and foremost a company dedicated to people's health and quality of life, a mission that the Group has pursued with commitment and dedication since its foundation.

A few statistics provide an idea of the scale of this commitment: **13.6 million patients are treated in Italy** with Novartis drugs, there are **254 active clinical trials** (16.5% of new Phase I trials approved by the Italian Medicines Agency, AIFA, are carried out by Novartis); and **10,841 patients and 1,073 centers are involved** in clinical research. In addition, **13% of cancer drugs authorized** by the European Medicines Agency (EMA) in 2017 are produced by Novartis, and around **200 million patients worldwide** have received the medicines produced at the Torre Annunziata and Rovereto plants. In 2017, Novartis obtained **14 new drug registrations and indications**. Put together, these figures confirm the company's leading position in the development of innovative drugs. According to an experimental analysis¹, it is calculated that a basket of 25 medicines generates an **estimated societal impact of around 1.5 billion euros**.

Novartis is also making a significant contribution to scientific research, which it sees as an integral part of its daily work. The company's efforts are published in

scientific papers, which Novartis uses to share the results of its research. The high quality of these publications is proven by the statistics: the impact factor for third-party publications supported by Novartis **stands at 5.8**, compared to the **average impact factor** of 5.4 for research supported by the AIFA.

And there's more. Italy was in the global **top 10** for the number of medical publications produced in 2017, helped in no small part by Novartis, which **published an impressive 137 scientific papers**.

EXTENDING PEOPLE'S LIVES

Improving people's health and quality of life is Novartis' mission, one it has been pursuing for decades. But what precisely is it working on? In 2001, the company opened the way to precision cancer treatment with a medicine developed to treat chronic myeloid leukemia. Today, **this drug means that 9 out of 10 patients have an almost normal life expectancy, with a survival rate at five years that has jumped from 50% to 90%**.

In 2005, in the field of respiratory medicine, an **important monoclonal antibody** was developed **to fight severe persistent allergic asthma, a pioneering step in personalized medicine**.

1. Calculations supplied to Novartis by WifOR in the study entitled The Social Impact of Novartis Innovative Medicines in Italy 2017 - A cross sectional study on the health and socio-economic effects of Novartis, 2018.

2010 saw **the first oral treatment for relapsing-remitting multiple sclerosis**. The first **biological treatment for moderate to severe plaque psoriasis** was authorized in 2015, and the following year the treatment was also authorized for treating **psoriatic arthritis** and **ankylosing spondylitis**.

Finally, in 2018, Novartis reached a key milestone in precision cancer treatment with the first combination therapy approved for patients with an aggressive form of **melanoma**, and it launched the **first cancer cell therapy** in the same year.

SUPPORTING ENTREPRENEURSHIP AND MANAGEMENT DEVELOPMENT

One of the areas of Italian healthcare, both at regional and company level, where major critical issues are often encountered is the **ability to manage** the tools and processes involved in the healthcare performance management cycle **effectively and beneficially**.

Novartis is also working hard in this field, with the aim of **transferring its values to the economic and entrepreneurial fabric of the country** by helping to train a class of

high-profile managers and business leaders. It is doing this through two initiatives: the **Academy of Health Care Management and Economics**, founded in 2010 in **partnership with the SDA Bocconi School of Management**, and **BioUpper**, launched in 2015, the first Italian platform to **support innovative business projects** in the life sciences.

BEYOND PATIENTS

Novartis' commitment not only to patients but also to caregivers is shown by the numerous partnerships enacted with patient associations, which aim to achieve **better treatment outcomes** and a **better quality of life for patients**. Novartis has always based its work on four key areas: understanding and promoting the patient's point of view, **widening access to treatment, encouraging transparency** between all parties involved and carrying out responsible clinical trials, and these continue to underpin its approach.

Novartis supports initiatives in all the areas of treatment it covers. These range from *Love Life*, a public information campaign to improve understanding of heart failure, to numerous cancer-related initiatives and awareness-raising campaigns on psoriasis.



REACH OF NOVARTIS DRUGS

2017
13.6 MILLION
PATIENTS IN ITALY

FIRST BIOLOGICAL TREATMENT
IN DERMATOLOGY TARGETING IL-17A,
A KEY FACTOR IN PSORIASIS
AND IN SPONDYLOARTHRITIS

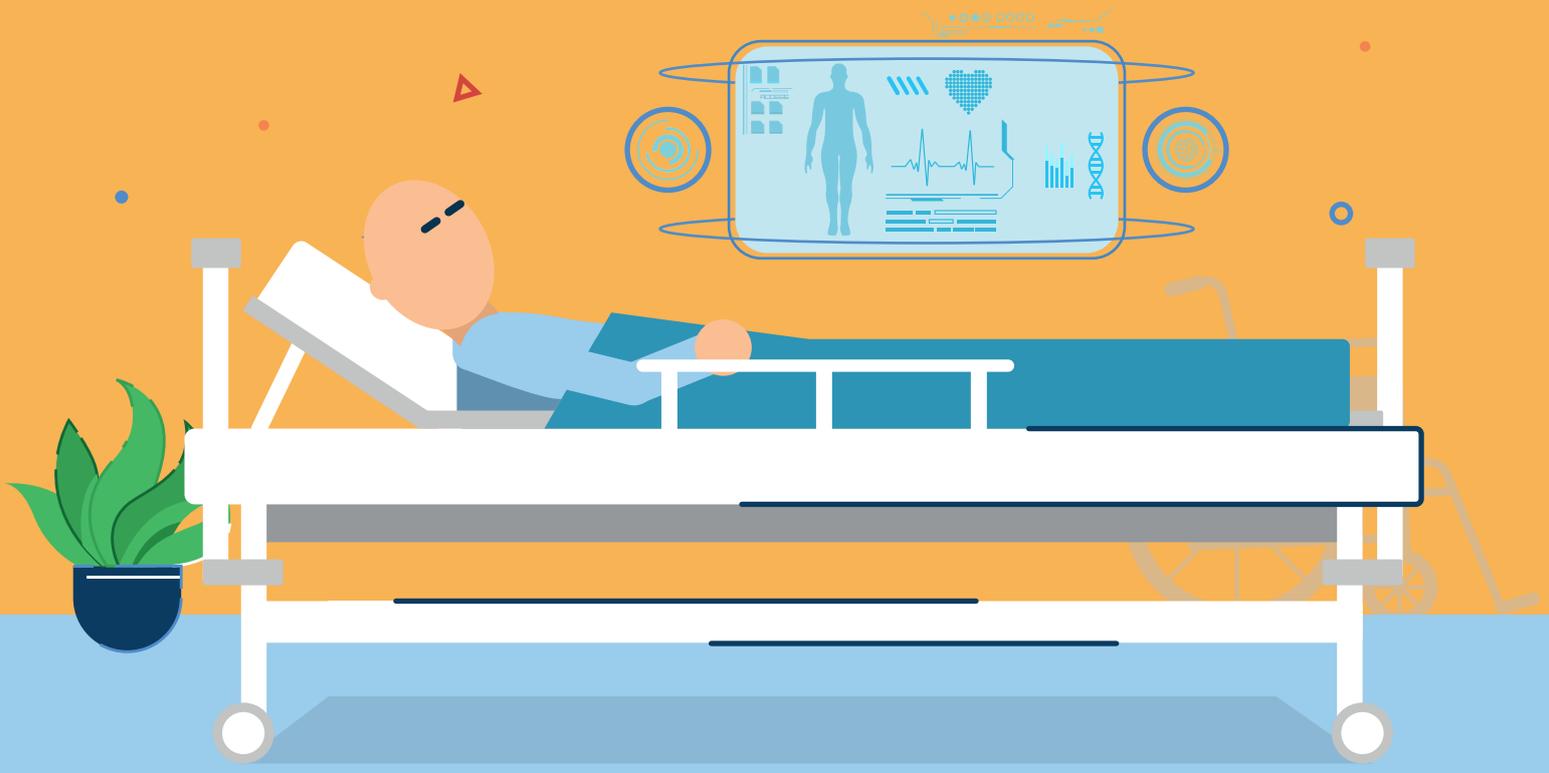
FIRST COMBINATION
THERAPY APPROVED
IN PATIENTS WITH AN AGGRESSIVE
FORM OF MELANOMA

DEVELOPMENT FROM 2001 TO 2018

FIRST MONOCLONAL ANTIBODY
AGAINST UNCONTROLLED
ALLERGIC ASTHMA

FIRST CELL THERAPY
AGAINST CANCER

FIRST ORAL TREATMENT
FOR RELAPSING-REMITTING
MULTIPLE SCLEROSIS



HUMAN CAPITAL

2,418

employees

32.4%

of workforce based in southern Italy

Total impact on employment

13,193

people

97.6%

of permanent contracts

31,100

hours of courses

Novartis' employees can rest safe in the knowledge that their employer is fully committed to their professional satisfaction and wellbeing.

32.4% of its 2,418 employees are located in the south of Italy, confirming the company's commitment to this part of the country. **Women make up 43.3% of the workforce**, slightly better than the average for the pharmaceutical sector and much higher than Italian industry overall; **97.6% of workers have a permanent contract** and **57.1% are educated to degree level**.

An essential part of the firm's strategy for championing its employees and aiding their development is its strong commitment to young graduates, including Novartis' **graduate program**, which invests in those who want to begin a career in one of the company's businesses. The firm's recognition of the importance of young people can also be seen in the statistics, which show that around **half of employees are aged under 45**, and a quarter of these have not yet turned 35. In 2017, 78.2% of new recruits began with a permanent contract, far above the Italian average of 19.9%.

There is also clear thought given to the **gender mix: the relationship between the employment rates of women aged 25 to 49 with children and those without is 89.8%**, 12 percentage points above the Italian average.

As well as the direct **employment** figures, it is also important to consider **indirect and**

induced jobs. For every direct employee, a further 4.6 roles are created across the entire Italian economy, making a total of **5.6 employees** when the impact both domestically and abroad is taken into account.

For **three years in a row**, Novartis has ranked first in the list of Italy's **Top Employers**, which rewards companies for excellence in the working conditions and opportunities for personal and professional development they offer their employees.

EMPLOYEE WELFARE

Novartis is committed to promoting the health and wellbeing of its employees through various campaigns and prevention services within the company, as well as by launching information and awareness-raising programs and encouraging healthy lifestyles. In addition, services are available to help employees or their families cope with illness.

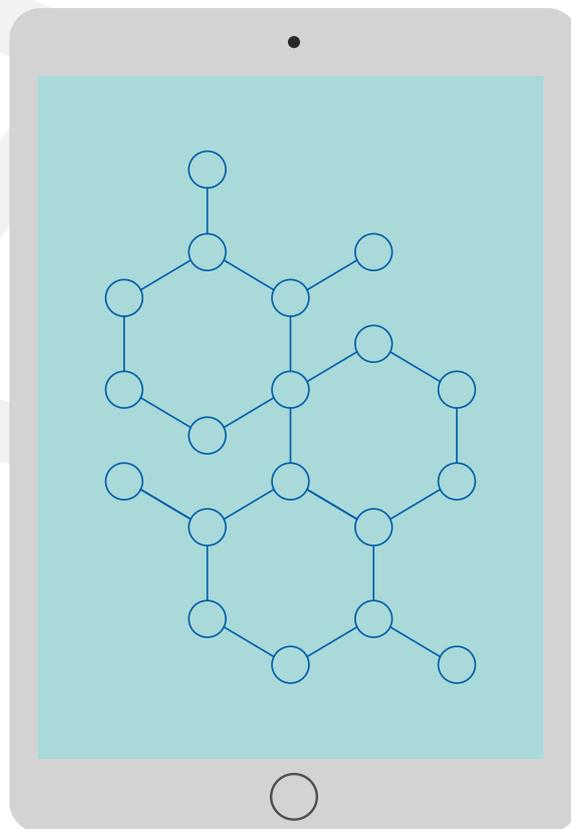


TRAINING

Over 31,100 hours of training were provided in 2017: this statistic alone shows Novartis' commitment to the development of its employees. At its two manufacturing sites, Novartis Italy is **above the average for Italian firms**, with an average of 35 hours of training per employee in Rovereto and 23 in Torre Anzianata. It is a high value-added company, where skills and productivity are strategic objectives, and the firm's com-

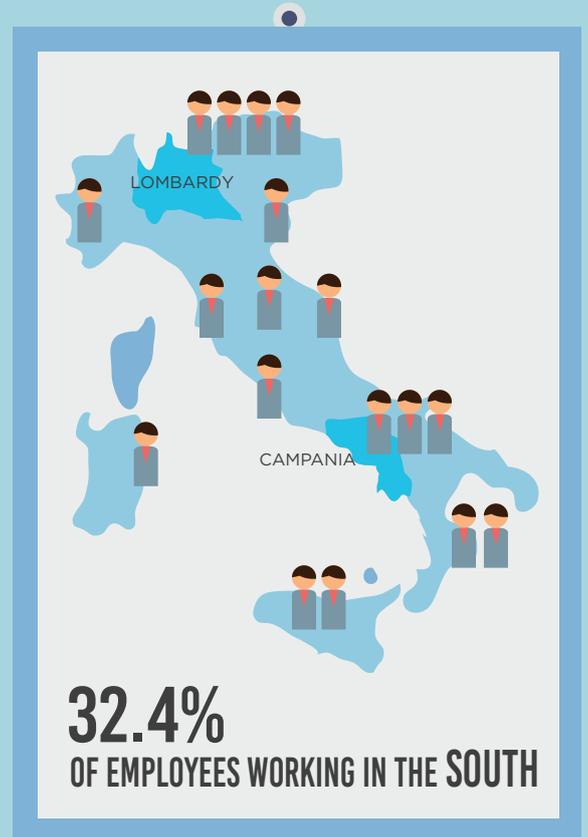
mitment to employees' active participation, including innovative training with a personal touch, sets Novartis apart from its competitors.

The Group's international policies and those of Novartis Italy are fully aligned: **listening to people and keeping them satisfied is at the heart of what we do**. This is confirmed by a periodic survey of the Group's entire workforce: in 2017, **associates** at Novartis Italy **were more satisfied** (in the 'engagement' and 'alignment' categories) **than the Group's global average**.



EMPLOYMENT

2,418 PEOPLE
ACROSS ITALY



EMPLOYMENT IMPACT IN ITALY
2017

13,193 A MULTIPLIER OF **5.6**



HOURS OF TRAINING

2017
OVER 31,100

97.6%
ON PERMANENT
CONTRACTS



ENVIRONMENTAL CAPITAL

Water saved

-26%
(~2.5 million m³)
measured against profits

Energy saved

-5.7%
(~47,000 GJ)
measured against profits

Reduction in waste

-7.5%
(~1,000 t)
measured against profits



Novartis is **unwavering in its attention to environmental sustainability** and the efficiency of its manufacturing processes. Conserving the local environment, reducing energy and water consumption and emissions and improving company processes and levels of workplace safety are all at the heart of our approach.

In 2017, the company **reduced its water consumption by 26.1% when measured against profits** (a reduction of approximately 2.5 million m³) compared to 2016, a volume equivalent to the amount used by 11.3 million people in a day; **energy consumption measured against profits fell 5.7%** (equivalent to 47,000 GJ), enough electricity to power 11,000 people's homes or light al-

most 2 Eiffel Towers for an entire year; and it reduced its **waste production by 7.5% when measured against profits**.

Over the last year, Novartis has cut the amount of waste produced at its plants by almost 1,000 tons, equivalent to the amount of household waste produced by 1,925 people. In addition, **approximately 80% of all non-hazardous waste** is currently recycled at the company's sites.

Novartis also treats **safety in the workplace** with the utmost importance. There have not been any serious work-related accidents at its plants in Torre Annunziata and Rovereto in recent years, giving it an accident rate of 1.8, compared to the average for the Italian manufacturing sector of 23.9.

ENERGY CONSUMPTION

2016-2017

-47,000 GJ

WATER CONSUMPTION

2016-2017

-2.5 MILLION M³

Energy consumption
-5.7%

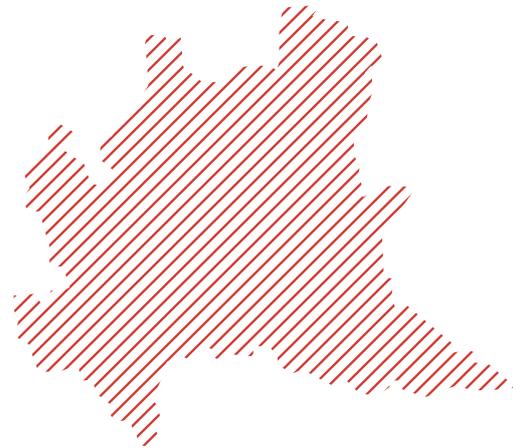
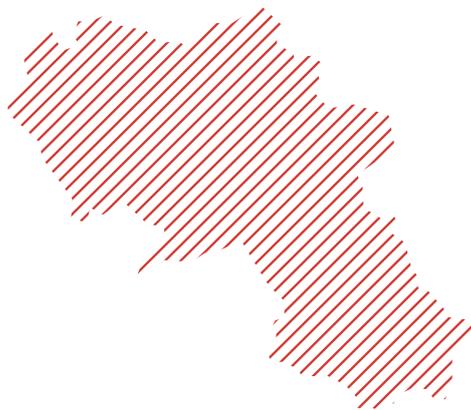
Water consumption
-26.1%

Recycling
of non-hazardous
waste
80%

WASTE REDUCTION

2016-2017

APPROX. 1,000 t LESS



ADDING VALUE IN CAMPANIA

Over the last 10 years, Novartis has **invested 134 million euros in the Torre Annunziata plant** to make it even more efficient and equip it with the latest technology. Here, and across all of its other production sites, Novartis has introduced safety measures and quality standards that exceed Italian minimum requirements.

Employees at the Torre Annunziata factory represent roughly **49%** of those employed producing basic pharmaceutical products and medicines in the whole of Campania. There is a strong drive towards female employment: 22% of the workforce are women, compared to a regional average in the industry of 17%.

ADDING VALUE IN LOMBARDY

Lombardy is the region in Italy responsible for the greatest value of Novartis' products: over half of the products it supplies (54%) originate in the region, with an overall value of 143.1 million euros and 1,923 suppliers.

Almost **40% of Novartis' workforce** is based in Lombardy, a total of 938 people. It is also a key region for Novartis' clinical research: in 2017, an impressive 2,528 patients took part in clinical trials promoted by the company, 23.3% of all patients involved across Italy.

There are many acclaimed universities in Lombardy, and Novartis has entered into **major partnerships** with numerous institutions, including **Bocconi University and the Politecnico di Milano**.

LOOKING TO THE FUTURE

A **positive trend** emerges from the analysis of the impact of Novartis' activities on the Italian economy and Italian society, meaning we can predict further growth in the amount of value generated, to the benefit of both Italy and patients.

This is backed up by various factors. In the short- and medium-term, we can point to the investment and reinforcement plans that are already in place in the fields of manufacturing and research. From a more strategic, long-term perspective, meanwhile, the anticipated innovative developments connected to the recent acquisitions and partnerships forged by the global Group should also be borne in mind, particularly the major commitment announced by Novartis in the area of **digital health**.

improvement programmes, with the aim of improving efficiency and productivity.

This commitment will continue in the years to come. New Packaging on Demand (POD) technology, recently launched in Torre Annunziata, will allow the firm to become even more flexible in its response to the demands of the market. POD will also be used to package the innovative drug for chronic symptomatic heart failure produced in the Torre Annunziata factory, which is reaching an ever-greater number of patients. By 2024, it is predicted that we will achieve a maximum level of 35.6 million packs of this medicine for the global market, with the exception of the United States and Japan.

PRODUCTION

In recent years, Novartis' Italian sites have undergone **major reinforcement and im-**

RESEARCH & DEVELOPMENT

Novartis' investment in clinical trials in Italy is set to continue at the same high lev-

els seen in latest years. **Over 200 million euros of investment is planned** over the next three years, which will support a large number of studies throughout the extensive R&D pipeline, in the various areas of treatment covered by the company.

INNOVATIVE TREATMENT PLATFORMS

Over the last year, Novartis' program to bolster cutting-edge medicine and science has been accelerated, with acquisitions and partnerships announced in a range of areas that will lead to profound changes in traditional treatment paradigms.

In radiopharmaceuticals, thanks to its acquisition of Advanced Accelerator Applications (AAA), Novartis can now offer **the first couple of theragnostic drugs in nuclear medicine and oncology**. Italy will play an important role in this field, as AAA has four different manufacturing and research premises in the country. Another development in radiopharmaceuticals is the announced acquisition of Endocyte, which will enable the development of an experimental radioligand for treating prostate cancer. In the field of gene therapy, meanwhile, the planned merger with AveXis, a company that develops solutions for pa-

tients with rare genetic neurological conditions, aims to fully explore the potential of AVXS-101, **the first gene therapy treatment for spinal muscular atrophy (SMA)**.

DIGITAL HEALTH

Novartis is rapidly positioning itself as one of the key players in the digital revolution currently underway in medicine, and its Italian branches are actively involved in this new, pioneering work. At a global level, the Group is implementing wide-ranging plans, from the development of apps drawing on artificial intelligence to handling Big Data. This commitment is already bearing fruit in a new generation of solutions for patients, which prevent illness, monitor health and manage conditions. Another major shift on the horizon is the revolution in clinical research, an area in which Italy plays a key role for Novartis. The potential to access a large quantity of data means productivity in the sector will increase significantly, as the clinical development process is likely to become even safer, faster and more reliable.

METHODOLOGICAL NOTE

The European House - Ambrosetti applied its multi-dimensional model for measuring and assessing the value created by a company for the development of regional capital, known as the 'Four Capital' model, to Novartis. Applying the '**Four Capital**' model, the contribution to the Italian economy and society stemming from Novartis' presence and activities in Italy² was assessed in four different areas:

- **Economic capital**, including the contribution made to the following: generating economic value (direct impact), developing business activity in connected industries (indirect impact) and driving consumption (induced impact); attracting foreign investment; exports; increasing productivity; ensuring sustainable public finances and cost avoidance for the Italian National Health Service; etc.
- **Societal Capital**, looking at society as a whole and concentrating on the contribution to the following: research and innovation; generating scientific knowledge; spreading open innovation; sharing collective values; solidarity and corporate social responsibility; improving the health-care system; etc.

- **Human capital**, which together with Societal Capital makes up the wider-ranging Social Capital, focusing on the contribution to the following: employment (direct and indirect) and the wellbeing of employees and their families; quality of life; employees' professional education and training, etc.
- **Environmental Capital**, which assesses the contribution to the following: conserving the local region and ecosystem; reducing energy consumption and emissions; improving company processes and workplace safety measures; etc.

Applying the 'Four Capital' model involves identifying specific key performance indicators (KPIs) based on data and information taken from the company's financial statements, reports, presentations and documents and from meetings and interviews carried out with Novartis' management and experts from the sector, as well as analyzing/comparing data extracted from national and regional statistical databases and running specific econometric models.

2. The combined total of all Novartis' activities in Italy was taken into account, and in particular the company's three divisions: Innovative Medicines (which includes Novartis Pharmaceuticals - producing innovative drugs for the most important therapeutic areas - and Novartis Oncology - treatments for cancer and hematological conditions), Sandoz (equivalent and biosimilar drugs) and Alcon (eyecare products) and the two large manufacturing plants (Novartis Technical Operations) in Torre Annunziata, in the province of Naples, and Rovereto, in the province of Trento.

