

Novartis 2015 Financials Updated Segment Reporting

Group Finance
March 31, 2016



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Summary – Updated 2015 Segment Financial Reporting

- **The following FY 2015 updated Segment Financials reflect the new division structure, as announced in the January 27, 2016 earnings release, as if the transfers had taken place from January 1, 2015.** The updated Segment Financials are provided in accordance with the requirements of IFRS, and to aid comparability of FY 2016 quarterly results which will be reported on the new division structure.
- **Updated Segment Financials reflect the transfer of:**
 - The **entire Alcon Ophthalmic Pharmaceuticals franchise** from the Alcon Division to the Pharmaceuticals Division (USD 3.8 billion of net sales in 2015)
 - **A portfolio of 19 mature products** from the Pharmaceuticals Division to the Sandoz Division (USD 0.9 billion of net sales in 2015)
- **The updated operating income for each segment reflects all costs attributable to operation of the transferred businesses.**
 - Allocation of attributable overhead costs is based on the direct activities that they support (e.g. manufacturing overhead, development overhead, G&A costs)
- **There is no change in the 2015 Audited Consolidated Financial Statements for the total Group.**
- **Changes to be reflected from Q1 2016 reporting and operational from April 1, 2016.**

Group 2015 – Updated Segment Consolidated Income Statement Reporting

No change in Group total results

	Pharmaceuticals ^① (unaudited) USDm	Alcon ^② (unaudited) USDm	Sandoz ^③ (unaudited) USDm	Corporate (including eliminations) ^④ (unaudited) USDm	Group (audited) USDm
Net sales to third parties from continuing operations	33 345	5 999	10 070		49 414
Sales to other segments	518		128	- 620	26
Net sales from continuing operations	33 863	5 999	10 198	- 620	49 440
Other revenues	792	23	25	107	947
Cost of Goods Sold	-9 204	-3 145	-5 844	789	-17 404
Gross profit from continuing operations	25 451	2 877	4 379	276	32 983
Marketing & Sales	-8 430	-1 663	-1 679		-11 772
Research & Development	-7 685	- 468	- 782		-8 935
General & Administration	-1 031	- 450	- 346	- 648	-2 475
Other income	1 149	54	109	737	2 049
Other expense	-1 639	- 69	- 381	- 784	-2 873
Operating income from continuing operations	7 815	281	1 300	- 419	8 977
Income from associated companies			2	264	266
Interest expenses					- 655
Other financial income and expense					- 454
Income before tax from continuing operations					8 134
Taxes					-1 106
Net income from continuing operations					7 028
Net income from discontinuing operations					10 766
Net income					17 794

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the internal reorganization announced on January 27, 2016.

1. Pharmaceuticals results include the transfer in of USD 3.8 billion sales and USD 513 million operating income from Alcon's Ophthalmic Pharmaceuticals franchise and the transfer out of USD 913 million sales and USD 295 million operating income from the 19 mature products to Sandoz. Pharmaceuticals sales to other segments increases by USD 381 million relating to intercompany product sales to other divisions.
2. Alcon results exclude the Ophthalmic Pharmaceuticals franchise, which is transferred to Pharmaceuticals.
3. Sandoz results include the 19 mature products, which are transferred from Pharmaceuticals.
4. Corporate elimination of sales to other segments increases from USD -284 million to USD -620 million due to the changes in sales to other segments between the divisions.

Pharmaceuticals 2015 – Updated Segment Income Statement Reporting

FY core margin improved +1.7%pts with higher margin Alcon Ophtha

(Unaudited)	Q1 2015 USDm	Q2 2015 USDm	Q3 2015 USDm	Q4 2015 USDm	FY 2015 USDm
Net sales to third parties	7 960	8 633	8 254	8 498	33 345
Sales to other segments	138	128	114	138	518
Net sales	8 098	8 761	8 368	8 636	33 863
Other revenues	207	172	189	224	792
Cost of Goods Sold	-1 990	-2 426	-2 340	-2 448	-9 204
Gross profit	6 315	6 507	6 217	6 412	25 451
Marketing & Sales	-1 894	-2 163	-2 061	-2 312	-8 430
Research & Development	-1 761	-1 898	-1 885	-2 141	-7 685
General & Administration	- 261	- 277	- 235	- 258	-1 031
Other income	253	174	462	260	1 149
Other expense	- 202	- 349	- 626	- 462	-1 639
Operating income	2 450	1 994	1 872	1 499	7 815
as % of net sales	30.8%	23.1%	22.7%	17.6%	23.4%
Core adjustments ⑥					
Other revenues	- 28				- 28
Cost of Goods Sold	465	789	653	645	2 552
Marketing & Sales		5	2	36	43
Research & Development	20	40	34	89	183
General & Administration					
Other income	- 141	- 128	- 382	- 174	- 825
Other expense	89	172	545	316	1 122
Core operating income	2 855	2 872	2 724	2 411	10 862
as % of net sales	35.9%	33.3%	33.0%	28.4%	32.6%

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the internal reorganization announced on January 27, 2016. Pharmaceuticals results include the transfer in of USD 3.8 billion sales and USD 513 million operating income from Alcon's Ophthalmic Pharmaceuticals franchise and the transfer out of USD 913 million sales and USD 295 million operating income from the 19 mature products to Sandoz.

- COGS increased by USD 2.0 billion related to the Ophthalmic Pharmaceuticals franchise (reported COGS includes USD 1.2 billion intangible asset amortization and USD 119 million intangible asset impairment; core COGS as a percent of sales broadly in line with the overall Pharmaceuticals Division), partly offset by the transfer of supply chain costs to Sandoz related to the 19 mature products.
- M&S increased by USD 735 million (19.3% of sales) related to Ophthalmic Pharmaceuticals partly offset by the transfer out of USD 94 million (10.3% of sales) for mature products.
- R&D increased by USD 458 million (12.0% of sales) related to Ophthalmic Pharmaceuticals (which includes pipeline development programs including RTH258, NIBR programs and country regulatory related activities) partly offset by the transfer out of USD 5 million (0.5% of sales) for mature products.
- G&A increased by USD 94 million (2.5% of sales) related to Ophthalmic Pharmaceuticals, as the Pharmaceuticals Division was able to leverage its scale.
- Reported margin declined 1.6% points mainly due to the Ophthalmic Pharmaceuticals intangible asset amortization. Core margin increased by 1.7% points mainly due to the addition of the Ophthalmic Pharmaceuticals franchise with lower core costs as a percent of sales compared with the overall Pharmaceuticals Division.
- Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Alcon 2015 – Updated Segment Income Statement Reporting

FY core margin 20.6% within range of medical device industry

(Unaudited)	Q1 2015 USDm	Q2 2015 USDm	Q3 2015 USDm	Q4 2015 USDm	FY 2015 USDm
Net sales to third parties	1 531	1 531	1 469	1 468	5 999
Sales to other segments					
Net sales	1 531	1 531	1 469	1 468	5 999
Other revenues	7	7	5	4	23
Cost of Goods Sold	- 786	- 817	- 753	- 789	-3 145
Gross profit	752	721	721	683	2 877
Marketing & Sales	- 389	- 428	- 425	- 421	-1 663
Research & Development	- 110	- 123	- 114	- 121	- 468
General & Administration	- 120	- 120	- 99	- 111	- 450
Other income	22	16	8	8	54
Other expense	- 14	- 12	- 34	- 9	- 69
Operating income	141	54	57	29	281
as % of net sales	9.2%	3.5%	3.9%	2.0%	4.7%
Core adjustments ^③					
Other revenues					
Cost of Goods Sold	223	224	225	215	887
Marketing & Sales					
Research & Development	3	3	3	4	13
General & Administration	7	9	6	10	32
Other income	- 1	- 6		- 2	- 9
Other expense	9	3	11	8	31
Core operating income	382	287	302	264	1 235
as % of net sales	25.0%	18.7%	20.6%	18.0%	20.6%

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the internal reorganization announced on January 27, 2016. Alcon transferred its Ophthalmic Pharmaceuticals franchise to the Pharmaceuticals Division resulting in a decrease in its net sales of USD 3.8 billion and its operating income of USD 513 million.

- G&A decreased by USD 94 million. As a percent of sales, core G&A of USD 418 million increased to 7.0% of sales (vs. 5.2% reported previously), as the Pharmaceuticals Division was able to leverage its scale and absorb Ophthalmic Pharmaceuticals without significant transfer of G&A.
- Core margin of 20.6% is within the range of medical device industry. Margins are lower than previously reported due to the transfer out of the higher margin Ophthalmic Pharmaceuticals franchise. We will look to optimize the G&A cost block while continuing to invest in M&S and Development with the Alcon growth plan. We expect sales growth to drive mid to long term margin expansion.
- Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Sandoz 2015 – Updated Segment Income Statement Reporting

FY core margin improved +2.2%pts with higher margin mature products

(Unaudited)	Q1 2015 USDm	Q2 2015 USDm	Q3 2015 USDm	Q4 2015 USDm	FY 2015 USDm
Net sales to third parties	2 444	2 530	2 542	2 554	10 070
Sales to other segments	38	32	31	27	128
Net sales	2 482	2 562	2 573	2 581	10 198
Other revenues	6	6	6	7	25
Cost of Goods Sold	-1 409	-1 433	-1 487	-1 515	-5 844
Gross profit	1 079	1 135	1 092	1 073	4 379
Marketing & Sales	- 408	- 425	- 404	- 442	-1 679
Research & Development	- 196	- 185	- 191	- 210	- 782
General & Administration	- 84	- 87	- 83	- 92	- 346
Other income	14	17	16	62	109
Other expense	- 65	- 174	- 42	- 100	- 381
Operating income	340	281	388	291	1 300
as % of net sales	13.9%	11.1%	15.3%	11.4%	12.9%
Core adjustments ^④					
Other revenues					
Cost of Goods Sold	108	116	133	149	506
Marketing & Sales					
Research & Development				1	1
General & Administration					
Other income		- 3	- 1	- 1	- 5
Other expense	35	143	8	57	243
Core operating income	483	537	528	497	2 045
as % of net sales	19.8%	21.2%	20.8%	19.5%	20.3%

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the internal reorganization announced on January 27, 2016. Sandoz added 19 mature products from the Pharmaceuticals Division, increasing net sales by USD 913 million and operating income by USD 295 million.

- COGS increases by USD 519 million related to the 19 mature products (reported COGS includes USD 91 million intangible asset amortization; core COGS as a percent of sales broadly in line with the overall Sandoz Division).
- M&S increases by USD 94 million (10.3% of sales) related to the 19 mature products.
- Core and reported margin both increase with the addition of the 19 mature products, which have lower cost as a percent of sales. The five largest brands are Aclasta®, Foradil®, HRT, Zofran® and Coartem®. Coartem® is part of the Novartis Malaria Initiative.
- Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Corporate 2015 – Updated Segment Income Statement Reporting

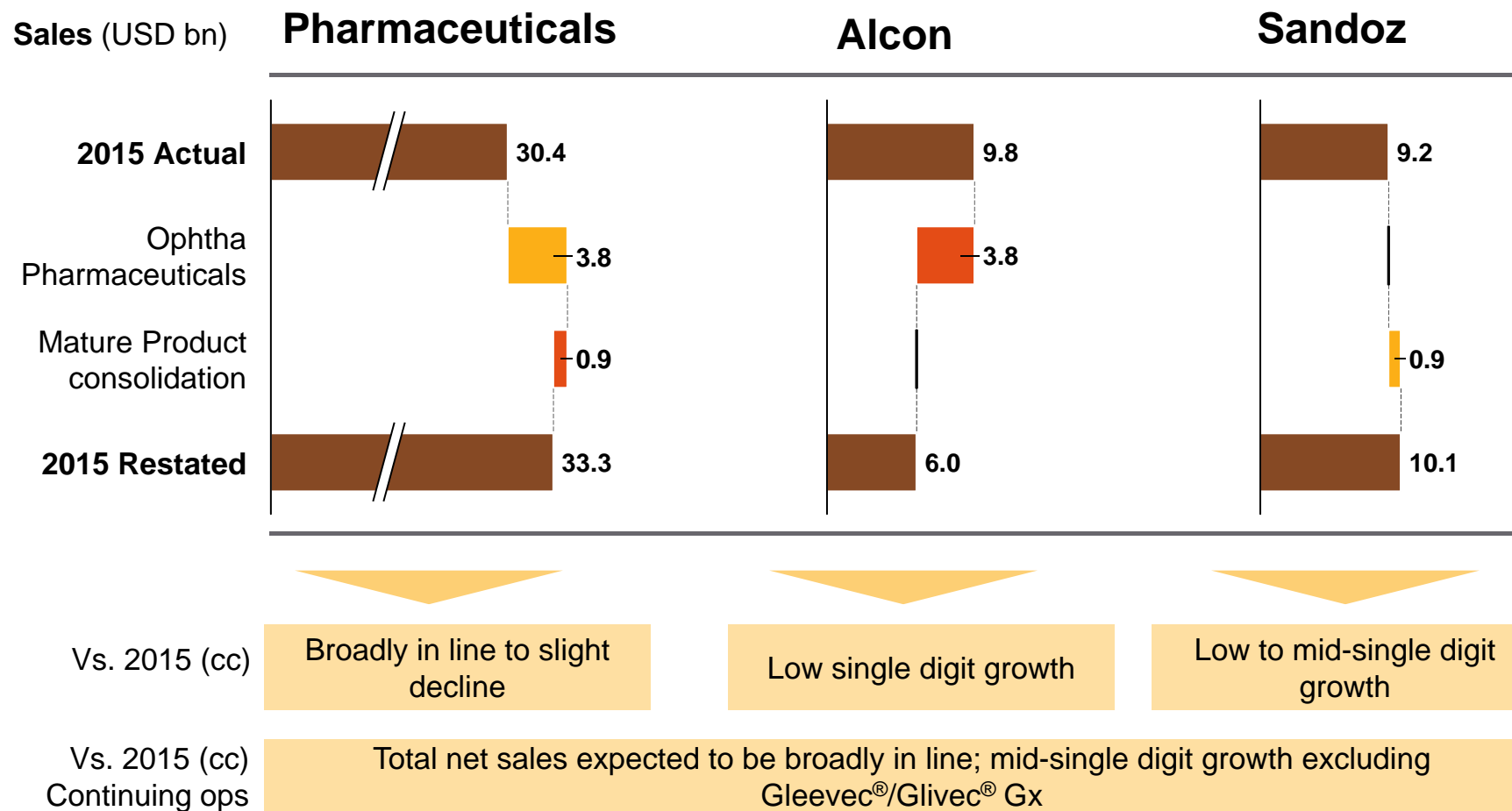
No change in OpInc; higher intercompany sales eliminations

(Unaudited)	Q1 2015 USDm	Q2 2015 USDm	Q3 2015 USDm	Q4 2015 USDm	FY 2015 USDm
Net sales to third parties					
Sales to other segments	- 150	- 160	- 145	- 165	- 620
Net sales	- 150	- 160	- 145	- 165	- 620
Other revenues	21	17	20	49	107
Cost of Goods Sold	205	189	192	203	789
Gross profit	76	46	67	87	276
General & Administration	- 126	- 117	- 156	- 249	- 648
Other income	125	150	196	266	737
Other expense	- 221	- 127	- 190	- 246	- 784
Operating income	- 146	- 48	- 83	- 142	- 419
Core adjustments ②					
General & Administration	7	7	14	26	54
Other income	- 26	- 115	- 83	- 163	- 387
Other expense	96	53	87	164	400
Core operating income	- 69	- 103	- 65	- 115	- 352

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the internal reorganization announced on January 27, 2016.

1. Corporate elimination of sales to other segments increases from USD -284 million to USD -620 million due to the changes in sales to other segments between the divisions.
2. Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Expected divisional sales outlook in 2016¹



1. Barring unforeseen events

Appendix

Group 2015 – Segment Consolidated Income Statement Reporting

As previously reported in 2015 Annual Report (audited)

	Pharmaceuticals USDm	Alcon USDm	Sandoz USDm	Corporate (including eliminations) USDm	Group USDm
Net sales to third parties from continuing operations	30 445	9 812	9 157		49 414
Sales to other segments	137	45	128	- 284	26
Net sales from continuing operations	30 582	9 857	9 285	- 284	49 440
Other revenues	790	25	25	107	947
Cost of Goods Sold	-7 379	-5 153	-5 325	453	-17 404
Gross profit from continuing operations	23 993	4 729	3 985	276	32 983
Marketing & Sales	-7 789	-2 398	-1 585		-11 772
Research & Development	-7 232	- 926	- 777		-8 935
General & Administration	- 937	- 544	- 346	- 648	-2 475
Other income	1 145	58	109	737	2 049
Other expense	-1 583	- 125	- 381	- 784	-2 873
Operating income from continuing operations	7 597	794	1 005	- 419	8 977
Income from associated companies			2	264	266
Interest expenses					- 655
Other financial income and expense					- 454
Income before tax from continuing operations					8 134
Taxes					-1 106
Net income from continuing operations					7 028
Net income from discontinuing operations					10 766
Net income					17 794

Pharmaceuticals 2015 – Segment Income Statement Reporting

As previously reported in 2015 Annual Report and quarterly earnings reports

	Q1 2015 ^① USDm	Q2 2015 ^① USDm	Q3 2015 ^① USDm	Q4 2015 ^① USDm	FY 2015 ^② USDm
Net sales to third parties	7 140	7 847	7 593	7 865	30 445
Sales to other segments	45	37	27	28	137
Net sales	7 185	7 884	7 620	7 893	30 582
Other revenues	207	171	188	224	790
Cost of Goods Sold	-1 537	-1 877	-1 930	-2 035	-7 379
Gross profit	5 855	6 178	5 878	6 082	23 993
Marketing & Sales	-1 734	-1 991	-1 898	-2 166	-7 789
Research & Development	-1 654	-1 782	-1 774	-2 022	-7 232
General & Administration	- 236	- 252	- 213	- 236	- 937
Other income	253	172	462	258	1 145
Other expense	- 185	- 339	- 614	- 445	-1 583
Operating income	2 299	1 986	1 841	1 471	7 597
<i>as % of net sales</i>	<i>32.2%</i>	<i>25.3%</i>	<i>24.2%</i>	<i>18.7%</i>	<i>25.0%</i>
Core adjustments ^{① ③}					
Other revenues	- 28				- 28
Cost of Goods Sold	190	404	388	376	1 358
Marketing & Sales		5	2	36	43
Research & Development	19	39	34	87	179
General & Administration					
Other income	- 141	- 126	- 382	- 172	- 821
Other expense	81	169	535	307	1 092
Core operating income	2 420	2 477	2 418	2 105	9 420
<i>as % of net sales</i>	<i>33.9%</i>	<i>31.6%</i>	<i>31.8%</i>	<i>26.8%</i>	<i>30.9%</i>

1. Unaudited

2. FY 2015 audited, except core adjustments which are unaudited

3. Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Alcon 2015 – Segment Income Statement Reporting

As previously reported in 2015 Annual Report and quarterly earnings reports

	Q1 2015 ^① USDm	Q2 2015 ^① USDm	Q3 2015 ^① USDm	Q4 2015 ^① USDm	FY 2015 ^② USDm
Net sales to third parties	2 558	2 559	2 346	2 349	9 812
Sales to other segments	10	12	13	10	45
Net sales	2 568	2 571	2 359	2 359	9 857
Other revenues	7	8	6	4	25
Cost of Goods Sold	-1 278	-1 415	-1 210	-1 250	-5 153
Gross profit	1 297	1 164	1 155	1 113	4 729
Marketing & Sales	- 572	- 625	- 611	- 590	-2 398
Research & Development	- 218	- 240	- 226	- 242	- 926
General & Administration	- 145	- 145	- 121	- 133	- 544
Other income	22	18	8	10	58
Other expense	- 31	- 22	- 46	- 26	- 125
Operating income	353	150	159	132	794
<i>as % of net sales</i>	<i>13.8%</i>	<i>5.9%</i>	<i>6.8%</i>	<i>5.6%</i>	<i>8.1%</i>
Core adjustments ^{① ③}					
Other revenues					
Cost of Goods Sold	514	635	514	509	2 172
Marketing & Sales					
Research & Development	4	4	3	6	17
General & Administration	7	9	6	10	32
Other income	- 1	- 8		- 4	- 13
Other expense	17	6	21	17	61
Core operating income	894	796	703	670	3 063
<i>as % of net sales</i>	<i>34.9%</i>	<i>31.1%</i>	<i>30.0%</i>	<i>28.5%</i>	<i>31.2%</i>

1. Unaudited

2. FY 2015 audited, except core adjustments which are unaudited

3. Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Sandoz 2015 – Segment Income Statement Reporting

As previously reported in 2015 Annual Report and quarterly earnings reports

	Q1 2015 ^① USDm	Q2 2015 ^① USDm	Q3 2015 ^① USDm	Q4 2015 ^① USDm	FY 2015 ^② USDm
Net sales to third parties	2 237	2 288	2 326	2 306	9 157
Sales to other segments	38	32	31	27	128
Net sales	2 275	2 320	2 357	2 333	9 285
Other revenues	6	6	6	7	25
Cost of Goods Sold	-1 287	-1 305	-1 366	-1 367	-5 325
Gross profit	994	1 021	997	973	3 985
Marketing & Sales	- 385	- 400	- 381	- 419	-1 585
Research & Development	- 195	- 184	- 190	- 208	- 777
General & Administration	- 84	- 87	- 83	- 92	- 346
Other income	14	17	16	62	109
Other expense	- 65	- 174	- 42	- 100	- 381
Operating income	279	193	317	216	1 005
<i>as % of net sales</i>	<i>12.5%</i>	<i>8.4%</i>	<i>13.6%</i>	<i>9.4%</i>	<i>11.0%</i>
Core adjustments ^{① ③}					
Other revenues					
Cost of Goods Sold	92	90	109	124	415
Marketing & Sales					
Research & Development				1	1
General & Administration					
Other income		- 3	- 1	- 1	- 5
Other expense	35	143	8	57	243
Core operating income	406	423	433	397	1 659
<i>as % of net sales</i>	<i>18.1%</i>	<i>18.5%</i>	<i>18.6%</i>	<i>17.2%</i>	<i>18.1%</i>

1. Unaudited

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3. Core results are non-IFRS measures. An explanation of these measures can be found on page 53 of the Q4 2015 Condensed Financial Report.

Corporate 2015 – Segment Income Statement Reporting

As previously reported in 2015 Annual Report and quarterly earnings reports

	Q1 2015 ^① USDm	Q2 2015 ^① USDm	Q3 2015 ^① USDm	Q4 2015 ^① USDm	FY 2015 ^② USDm
Net sales to third parties					
Sales to other segments	- 67	- 81	- 71	- 65	- 284
Net sales	- 67	- 81	- 71	- 65	- 284
Other revenues	21	17	20	49	107
Cost of Goods Sold	122	110	118	103	453
Gross profit	76	46	67	87	276
General & Administration	- 126	- 117	- 156	- 249	- 648
Other income	125	150	196	266	737
Other expense	- 221	- 127	- 190	- 246	- 784
Operating income	- 146	- 48	- 83	- 142	- 419
Core adjustments ^{① ③}					
General & Administration	7	7	14	26	54
Other income	- 26	- 115	- 83	- 163	- 387
Other expense	96	53	87	164	400
Core operating income	- 69	- 103	- 65	- 115	- 352

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