Novartis: Reimagining Medicine

Welcome to our third "Meet Novartis Management" event.

As in previous years, we hope to stimulate an open dialogue between investors, analysts, and senior leaders at Novartis. Our sessions will be focused on Q&A instead of formal presentations, so I wanted to take the opportunity here to reinforce our strategy for long term value creation and provide a perspective on the future prospects for the company.

Delivering value

Our mission at Novartis is to discover new ways to improve and extend people's lives. We are pursuing this mission with the vision to be a trusted leader in changing the practice of medicine. This is underpinned by a fierce commitment to science-based innovation, allowing us to deliver breakthrough treatments to as many people as possible. At our core, we are reimagining medicine.

We believe bringing sustainable innovation to the market is the best way to generate compelling long-term shareholder returns. Over the past 2 financial years, executing our strategy has led to continuing operations average annual sales growth of +4% p.a. (cc), despite generic headwinds, and a core margin expansion of +5 percentage points (cc), when including the impact of our portfolio transformation[1].

We are committed to disciplined capital allocation to return this value to shareholders, and have grown our dividend every year from 1996 to 2015 (+9% CAGR CHF and +12% CAGR USD). To continue to create value going forward we expect to grow the top line by establishing new breakthrough medicines; leverage productivity to improve profitability; and execute strong capex discipline and free cash flow management. We expect that this will allow us to continue to increase our dividend while growing the company in a sustainable way.

Focusing the company to drive growth and innovation

In order to achieve all this we must continuously adapt to the world around us. The industry is operating in an increasingly tough environment, with an aging population putting health systems under unprecedented pressure. We are seeing payor consolidation, more competition in the market and the emergence of disruptive new technologies. This is resulting in increasing pricing pressure and a fundamental shift in how payors evaluate new medicines. For companies to be successful in this environment, they must bring genuinely breakthrough treatments to market that demonstrate value, while also managing their cost base.

Three years ago, we saw these trends emerging and acted early to transform our portfolio. Since then we have divested our sub-scale businesses, created Novartis Business Services (NBS), initiated centralization of manufacturing and integrated some elements of drug development to manage our resources more efficiently. Our strategy is to sharpen our focus in areas where we are strongest; ensure that we have the global scale to compete profitably across geographies; and have the

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[1] For Sales, 2014 grew +3% cc vs. prior year, 2015 grew +5% cc vs. prior year, giving annual average growth of +4% (cc) for the 2 year period. For Core ROS%, +5.0pts cc compares 2015 continuing operations Core ROS% vs. 2013 excluding Diagnostics Core ROS%

innovation power to address unmet medical needs. These steps have led us to be a more flexible and resilient company, better equipped to navigate the challenges emerging in our industry.

Last week we announced a continuation of this strategy, creating two business units: Novartis Pharmaceuticals and Novartis Oncology. The new structure reflects the importance of oncology to Novartis following the successful integration of GSK's oncology assets. This move will increase management focus and speed decision-making, allowing the oncology business to capitalize on opportunities, confront challenges and accelerate growth. At the same time, it will free the leaders of our Pharmaceuticals business to focus on their priorities, including our major launches. I expect this increased focus will further improve execution and growth in both Novartis Oncology and Novartis Pharmaceuticals.

We also recently announced moves to further strengthen our innovation. We have created a single Global Head of Drug Development and elevated this position to our executive committee, alongside our Global Head of Research. As part of this move we are integrating certain enabling functions across divisions, such as pharmaco-vigilance, safety and regulatory. We expect this to improve resource allocation and standards across divisions, as well as improve collaboration with our research group. This strengthened R&D axis is the future of the company, and will help us build on an already impressive record of innovation. In 2015, we had over 20 major approvals and the most FDA approvals of New Molecular Entities (NMEs) of any company in the world. While much analyst focus has been on Entresto® and Cosentyx®, I believe our wider pipeline is underappreciated, with a number of potential blockbusters expected to read out in the near-term. These include OAP030, for neovascular age-related macular degeneration, LEE011 for advanced breast cancer and RLX030 in cardiovascular disease. Our strong portfolio is a product of our commitment to innovation and a testament to the merits of continued investment in R&D.

Increasing Productivity

In this context, we are focused on leveraging our Group scale to drive productivity and propel our long-term growth strategy. Productivity for Novartis is strategic: fueling R&D breakthrough innovation, investment in our growth priorities and generating core margin expansion. Our recently announced centralization of manufacturing is expected to enable us to lower our cost base. NBS will continue to help manage functional costs: expanding the five Novartis Global Service Centers, and optimizing our IT infrastructure. We are also expanding the NBS model at the local level, creating an in-country service platform that will deliver services to our sales, marketing and medical functions. We expect these new levers to generate over USD 1 billion in annual cost savings from 2020. Finally, procurement continues to contribute to savings in all P&L lines leveraging global vendor consolidation, standardization, outsourcing, and performance based contracting.

As a result of these changes, Novartis is becoming a more integrated company better able to excel regardless of the changing external environment. We will now benefit from a stronger development organization, integrated manufacturing, and more efficient support services. These groups will be better able to deliver functional excellence to support our commercial divisions, which in turn can focus on our customers and patients. This new structure has required hard decisions to be made, but I believe few companies have been able to position themselves better for the future.

Strong business performance

Turning to the short-term, 2016 is a transition year for Novartis. Overall, as previously announced, in 2016 we expect Sales and Core OpInc to be broadly in line with prior year (cc) as we invest in the launches of Cosentyx and Entresto and face a record USD 3.2bn generic impact, driven primarily by Gleevec®. While this is a challenge, it is also a testament to the sustainability of our innovation engine and I believe bodes well for our long-term value creation.

The fundamental performance of our business remains strong. Overall, our growth products grew 24% (USD) in Q1 and now represent 34% of Group net sales and while emerging markets have slowed, we still maintain a leading market position among our peers. Across divisions, we are prioritizing our resources and capital allocation in growing areas of healthcare, particularly those associated with chronic disease and aging.

In Pharmaceuticals, the Immunology & Dermatology business is performing exceptionally well, primarily based on the strong Cosentyx launch, which delivered 176m sales in the first quarter, equivalent to a full year run rate of 700m. Our Cardio-metabolic business has a strong portfolio and outlook. Although the Entresto US launch has been slow, we remain confident in our peak sales forecast, with countries outside of the US already performing well. We are also excited about the recent Class I recommendation, the strongest endorsement, in both the US and EU heart failure clinical guidelines for Entresto. This supports our belief that this will become a very important drug for Novartis as we change prescribing habits of cardiologists and primary care physicians. Our Neuroscience franchise has been strengthened significantly in the past 12 months through the Amgen collaboration in Alzheimer's and Migraine, while our Respiratory franchise has a strong portfolio with Xolair® in-market, and Ultibro® showing superiority to Seretide®.

In Oncology we have 30 new molecules in development, several near-term, and a growing immuno-oncology portfolio including our CAR-T technology. Our strategy is based on two pillars: targeted therapy and immuno-oncology. Highlights in targeted therapy include LEE011, for first line HR+/HER2- metastatic breast cancer (mBC), where the Phase III MONALEESA-2 trial was recently stopped early due to positive efficacy results. Other exciting therapies include PKC412, which has received FDA Breakthrough Therapy Designation in AML, and ABL001, a potent allosteric BCR-ABL inhibitor with a novel mechanism of action in CML. In immuno-oncology (IO), while it is true that we were late to the field, we have aggressively built our portfolio beyond first generation checkpoint inhibitors. We plan to have 26 IO studies by the end of 2016, of which 6 are potentially first-in-class as monotherapies and 11 as combinations. These include myeloid cell targeting agents; T cell stimulating factor IL-15; STING agonists to enhance immune system recognition of cancers; adenosine receptor antagonists; and TGF-beta blocking antibodies. In addition, we have collaborations with Aduro Biotech, Palobiofarma, Surface Oncology and XOMA on new compounds. This puts us in a powerful position to explore combinations and lead in next generation IO.

Sandoz continues to be the #2 generics player globally, #1 in "differentiated generics", has delivered against its promise of increased core margins, and is on track towards sustaining a leadership position in Biosimilars. We plan to make 10 regulatory filings for biosimilars of existing blockbusters, primarily in Oncology and Immunology, from 2015-2017, having already announced six. In addition, we continue to build our global franchises in anti-infectives and retail generics.

Alcon had a difficult 2015. To address this performance, we have focused the business on medical devices across Surgical and Vision Care. Under new leadership, our growth acceleration plan is underway and we've already seen progress in accelerating innovation. UltraSert™, our pre-loaded delivery system for our market leading AcrySof® IQ intraocular lens (IOL), and PanOptix™, our trifocal IOL, have been launched. This past quarter, Alcon also expanded its surgical presence in glaucoma by acquiring Transcend Medical. We're reinforcing our strong customer relationships by hiring additional people for customer service roles, and talking to physicians to better understand their needs. We remain committed to the Alcon business, which continues to be the undisputed Eye Care leader, in a market that will continue to grow as the population ages.

A trusted partner in sustainable healthcare

Novartis needs to play its part in creating a sustainable healthcare system. We believe that an important part of this is to move from a transactional relationship with payers, to one that incentivizes patient outcomes. For example, we have established outcomes-based contracts for Entresto with two US payors, Aetna and Cigna. These use heart failure hospitalization as an outcome measure. Novartis will reduce our price to payers, if the hospitalization of patients on Entresto exceeds a pre-specified threshold. As a result, Entresto will have preferred formulary tier status and patients in these plans will realize the lowest out of pocket costs available in their plan, which we expect will help lead to strong drug utilization. As a leader in this area, we believe we are well-placed to manage potential future pricing risks, and the experience we are gaining here as early adopters will be advantageous in the likely scenario that outcomes based pricing becomes more prevalent.

Finally, society's expectations of us are changing. To reach our aspiration of industry leadership and becoming the most trusted healthcare company, we need to successfully deliver high performance with high integrity. We are taking action to ensure Novartis is a leader in integrity through a global, company-wide effort to make a step change in compliance. We are limiting promotional speaker programs; stopping promotional gifts; reducing short-term variable compensation for our sales force; replacing existing medical engagement models, such as sponsoring clinician attendance at congresses, with digital education platforms; and reviewing all risk processes and controls in countries. By continuing to prioritize compliance, we expect to limit the financial and reputational risk of the company and ensure long-term sustainability.

Positioned well for the future

We believe that successful execution of our strategy will drive significant financial returns and position us well for the future. Our underlying business remains fundamentally strong and we have a solid foundation for growth in a world where the population is aging, and demand for healthcare is increasing. For shareholders, our capital allocation prioritizes value creation by investing in growing areas of healthcare, a strong dividend, and bolt-on acquisitions to strengthen our pipeline.

In a world in which innovation and global scale are critical to meet demand, we're building a more focused, more profitable company, which can grow faster. I believe that Novartis can become the world's most successful and trusted healthcare company. A company that is reimagining medicine.

Best regards,

Joe Jimenez