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# Novartis Q3 and 9M 2017 Condensed Interim Financial Report – Supplementary Data

# GROUP AND DIVISIONAL OPERATING PERFORMANCE

| Key figures[1] | Q3 2017 | Q3 2016 | % change | | 9M 2017 | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc[1] | USD m | USD m | USD | cc[1] |
| **Net sales to third parties** | **12 413** | **12 126** | ***2*** | ***2*** | **36 194** | **36 196** | ***0*** | ***1*** |
| Divisional operating income | 2 519 | 2 324 | *8* | *11* | 6 926 | 7 134 | *- 3* | *0* |
| Corporate income & expense, net | - 162 | - 55 | *nm* | *nm* | - 367 | - 321 | *- 14* | *- 24* |
| **Operating income** | **2 357** | **2 269** | ***4*** | ***6*** | **6 559** | **6 813** | ***- 4*** | ***- 1*** |
| *As % of net sales* | *19.0%* | *18.7%* | | | *18.1%* | *18.8%* | | |
| Income from associated companies | 262 | 217 | *21* | *21* | 692 | 547 | *27* | *26* |
| Interest expense | - 197 | - 174 | *- 13* | *- 17* | - 569 | - 539 | *- 6* | *- 8* |
| Other financial income and expense | 14 | - 38 | *nm* | *nm* | 16 | - 82 | *nm* | *nm* |
| Taxes | - 353 | - 329 | *- 7* | *- 10* | - 971 | - 977 | *1* | *- 2* |
| **Net income** | **2 083** | **1 945** | ***7*** | ***10*** | **5 727** | **5 762** | ***- 1*** | ***2*** |
| **Basic earnings per share (USD)** | **0.89** | **0.81** | ***10*** | ***12*** | **2.43** | **2.42** | ***0*** | ***3*** |
| **Cash flows from operating activities** | **3 586** | **3 231** | ***11*** | | **9 213** | **7 884** | ***17*** | |
| **Free cash flow[1]** | **3 064** | **2 591** | ***18*** | | **7 972** | **6 479** | ***23*** | |
| **Core[1]** | | | | | | | | |
| **Core operating income** | **3 382** | **3 381** | ***0*** | ***1*** | **9 627** | **9 974** | ***- 3*** | ***- 1*** |
| *As % of net sales* | *27.2%* | *27.9%* | | | *26.6%* | *27.6%* | | |
| **Core net income** | **3 017** | **2 938** | ***3*** | ***4*** | **8 573** | **8 656** | ***-1*** | ***1*** |
| **Basic core earnings per share (USD)** | **1.29** | **1.23** | ***5*** | ***6*** | **3.64** | **3.63** | ***0*** | ***2*** |

nm = not meaningful

## Third quarter

### Net sales

Net sales were USD 12.4 billion (+2%, +2% cc) in the third quarter, as volume growth of 7 percentage points, including growth from *Cosentyx, Entresto* and Alcon, was partly offset by the negative impacts of generic competition (-4 percentage points) and pricing (-1 percentage point).

### Corporate income and expense, net

Corporate income and expense, which includes the cost of Group management and central services, amounted to a net expense of USD 162 million in third quarter of 2017 compared to USD 55 million in prior year mainly due to lower gains from divestments of real estate, lower realized net gains from investments in the Novartis Venture Fund and a fair value adjustment to contingent liabilities.

### Operating income

Operating income was USD 2.4 billion (+4%, +6% cc) mainly driven by growth drivers, productivity and a gain from a Swiss pension plan amendment, which were partly offset by generic erosion. Operating income margin in constant currencies increased 0.7 percentage points; currency had a negative impact of 0.4 percentage points, resulting in a net increase of 0.3 percentage points to 19.0% of net sales.

Core adjustments amounted to USD 1.0 billion (2016: USD 1.1 billion). Core operating income was USD 3.4 billion (0%, +1% cc) as growth drivers and productivity offset generic erosion. Core operating income margin in constant currencies decreased 0.2 percentage points; currency had a negative impact of 0.5 percentage points, resulting in a net decrease of 0.7 percentage points to 27.2% of net sales.

### Income from associated companies

Income from associated companies amounted to USD 262 million, compared to USD 217 million in the prior year quarter. The increase is due to a higher estimated income contribution from GSK Consumer Healthcare Holdings Ltd. of USD 119 million compared to USD 91 million in prior year, as well as to an

[1] Constant currencies (cc), core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 44. Unless otherwise noted, all growth rates in this document refer to same period in prior year.

increased estimated income contribution from Roche Holding AG (Roche) of USD 142 million compared to USD 125 million in prior year.

Core income from associated companies increased to USD 359 million from USD 295 million in prior year, in line with reported income from associated companies and as core income contribution from both GSK Consumer Healthcare Holdings Ltd. and Roche increased compared to prior year.

**Interest expense and other financial income/expense**
Interest expense increased to USD 197 million from USD 174 million in prior year due to higher outstanding debt. Other financial income and expense amounted to an income of USD 14 million compared to an expense of USD 38 million in the prior year quarter, mainly due to lower currency losses of USD 11 million compared to USD 44 million in prior year.

**Taxes**
The tax rate was 14.5% in line with prior year. The core tax rate was 15.2% in line with prior year.

**Net income and EPS**
Net income was USD 2.1 billion (+7%, +10% cc), driven by the strong operating income and higher income from associated companies.

EPS was USD 0.89 (+10%, +12% cc), driven by growth in net income and the benefit from the share buyback program.

Core net income was USD 3.0 billion (+3%, +4% cc), driven by growth in core operating income and higher core income from associated companies.

Core EPS was USD 1.29 (+5%, +6% cc), driven by growth in core net income and the benefit from the share buyback program.

Free cash flow amounted to USD 3.1 billion (+18% USD) compared to USD 2.6 billion in prior year. The increase of USD 0.5 billion was mainly driven by improved cash flows from operating activities and lower net investments in intangible assets.

**Nine months**

**Net sales**
Net sales were USD 36.2 billion (0%, +1% cc) in the first nine months, as volume growth of 6 percentage points, including growth from *Cosentyx, Entresto, Promacta/Revolade* and *Tafinlar + Mekinist,* was offset by the negative impacts of generic competition (-3 percentage points) and pricing (-2 percentage points).

**Corporate income and expense, net**
Corporate income and expense, which includes the cost of Group management and central services, amounted to a net expense of USD 367 million compared to USD 321 million in prior year mainly due to lower gains from divestments of real estate.

**Operating income**
Operating income was USD 6.6 billion (-4%, -1% cc) as generic erosion and higher impairments were mostly offset by growth drivers, productivity and lower amortization. Core adjustments amounted to USD 3.1 billion (2016: USD 3.2 billion). Operating income margin in constant currencies decreased 0.4 percentage points; currency had a negative impact of 0.3 percentage points, resulting in a net decrease of 0.7 percentage points to 18.1% of net sales.

Core adjustments amounted to USD 3.1 billion (2016: USD 3.2 billion). Core operating income was USD 9.6 billion (-3%, -1% cc). Core operating income margin in constant currencies decreased 0.7 percentage points, mainly due to generic erosion of *Gleevec/Glivec* partly offset by growth drivers and productivity; currency had a negative impact of 0.3 percentage points, resulting in a net decrease of 1.0 percentage points to 26.6% of net sales.

**Income from associated companies**
Income from associated companies increased to USD 692 million from USD 547 million in prior year mainly due to higher income from the investment in GSK Consumer Healthcare Holdings Ltd. The share of income from GSK Consumer Healthcare Holdings Ltd. increased to USD 338 million from

USD 198 million in prior year. The increase was due to an estimated income from GSK Consumer Healthcare Holdings Ltd. of USD 291 million compared to USD 220 million in 2016, as well as the recognition of a positive prior year true up of USD 47 million based on the actual audited results for 2016, compared to a negative prior year true up of USD 22 million recognized in 2016 for 2015.

Core income from associated companies increased to USD 1.0 billion from USD 854 million in the prior year period. The core income contribution from GSK Consumer Healthcare Holdings Ltd. increased to USD 368 million from USD 282 million in the first nine months of 2016, and the core income contribution from Roche increased to USD 645 million from USD 567 million in the first nine months of 2016.

**Interest expense and other financial income/expense**
Interest expense increased to USD 569 million from USD 539 million in the prior year period due to higher outstanding debt. Other financial income and expense amounted to an income of USD 16 million compared to an expense of USD 82 million in the prior year period, mainly due to lower currency losses of USD 44 million compared to USD 117 million in prior year.

**Taxes**
The tax rate was 14.5% in line with prior year. The core tax rate was 15.2% in line with prior year.

**Net income and EPS**
Net income was USD 5.7 billion (-1%, +2% cc), due to higher income from associated companies.

EPS was USD 2.43 (0%, +3% cc), driven by net income growth and the benefit from the share buyback program.

Core net income was USD 8.6 billion (-1%, +1% cc), due to higher core income from associated companies.

Core EPS was USD 3.64 (0%, +2% cc), with growth in core net income and the benefit from the share buyback program.

Free cash flow amounted to USD 8.0 billion (+23% USD) compared to USD 6.5 billion in the prior year. The increase of USD 1.5 billion was mainly driven by improved cash flows from operating activities.

## Innovative Medicines

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| **Net sales** | **8 302** | **8 173** | **2** | **2** | **24 269** | **24 289** | **0** | **2** |
| **Operating income** | **2 179** | **2 020** | **8** | **11** | **5 975** | **6 066** | **-2** | **2** |
| As % of net sales | 26.2 | 24.7 | | | 24.6 | 25.0 | | |
| **Core operating income** | **2 657** | **2 676** | **-1** | **1** | **7 659** | **7 947** | **-4** | **-1** |
| As % of net sales | 32.0 | 32.7 | | | 31.6 | 32.7 | | |

### Third quarter

**Net sales**
Net sales were USD 8.3 billion (+2%, +2% cc) in the third quarter. Volume contributed 8 percentage points to sales growth. Generic competition had a negative impact of 6 percentage points largely due to *Gleevec/Glivec* genericization in Europe and the US. Pricing impact was negligible.

Regionally, US sales (USD 2.8 billion, +4% cc) grew as *Cosentyx*, *Entresto, Promacta/Revolade*, *Tasigna* and *Afinitor* more than offset the generic competition, largely for *Gleevec/Glivec*. Europe sales (USD 2.9 billion, -1% cc) slightly declined mainly driven by *Gleevec/Glivec* genericization, partly offset by *Cosentyx*, *Tafinlar + Mekinist*, *Jakavi*, and *Entresto* growth. Japan sales (USD 0.6 billion, +1% cc) grew slightly mainly driven by *Lucentis*. Emerging Growth Markets sales increased 5% (cc) to USD 2.1 billion.

Novartis Pharmaceuticals business unit sales were USD 5.2 billion (+6% cc). Immunology and Dermatology (USD 1.1 billion, +37% cc) sales increased, driven by strong growth of *Cosentyx* (USD 556 million, +83% cc) across all indications, mainly in US and Europe. In Cardio-Metabolic, *Entresto* (USD 128 million, +138% cc) continued to grow, benefitting from the impact of improved access and sales force expansion in the US and from broad reimbursement in Europe. Respiratory (USD 415 million, +6% cc) performance was driven by strong growth of *Xolair* (USD 245 million, +12% cc). In Neuroscience, *Gilenya* (USD 801 million, 0% cc) was in line with prior year. Ophthalmology sales (USD 1.3 billion, -3% cc) declined mainly driven by generic impact of *Pataday* in the US, partly offset by *Lucentis* (USD 481 million, +5% cc).

Novartis Oncology business unit sales were USD 3.1 billion (-4% cc) declining due to *Gleevec/Glivec* (USD 445 million, -47% cc) generic impact in Europe and the US. Excluding *Gleevec/Glivec*, sales grew 11% (cc) driven by *Promacta/Revolade* (USD 227 million, +36% cc), *Tasigna* (USD 482 million, +12% cc), *Tafinlar + Mekinist* (USD 224 million, +27% cc), *Jakavi* (USD 201 million, +31% cc), *Votrient* (USD 213 million, +15% cc), *Exjade* (USD 264 million, +11% cc) and *Kisqali* (USD 26 million).

**Operating income**
Operating income was USD 2.2 billion (+8%, +11% cc), mainly driven by higher sales, productivity, a gain from a Swiss pension plan amendment and lower amortization, which were partly offset by generic erosion, growth investments and lower divestment gains. Operating income margin in constant currencies increased 2.1 percentage points; currency had a negative impact of 0.6 percentage points, resulting in a net increase of 1.5 percentage points to 26.2% of net sales.

Core adjustments totaled USD 478 million, including USD 516 million for amortization of intangible assets, partly offset by a gain from a Swiss pension plan amendment. Prior year core adjustments were USD 656 million. Core operating income was USD 2.7 billion (-1%, +1% cc). Core operating income margin in constant currencies decreased by 0.3 percentage points; currency had a negative impact of 0.4 percentage points, resulting in a net decrease of 0.7 percentage points to 32.0% of net sales.

Core gross margin as a percentage of net sales increased by 0.3 percentage points (cc), mainly due to higher revenues from the *Xolair* profit sharing in the US. Core R&D expenses decreased by 0.9 percentage points (cc), mainly reflecting continued productivity and resource allocation from the creation of the Global Drug Development unit. Core SG&A expenses increased by 1.5 percentage points (cc), largely due to growth investments for *Kisqali*, *Cosentyx* and *Entresto*. Core Other Income and Expense impact was negligible.

## Nine months

### Net sales

Innovative Medicines delivered net sales of USD 24.3 billion (0%, +2% cc) in the first nine months, as volume growth (+7 percentage points) more than offset the negative impact of generic competition (-5 percentage points). Pricing impact was negligible.

In the US (USD 8.2 billion, +1% cc), the strong performance of *Cosentyx, Entresto*, and *Promacta/Revolade* was partly offset by generic competition, largely for *Gleevec/Glivec*. Europe sales (USD 8.3 billion, 0% cc) were in line with prior year as *Cosentyx*, *Jakavi*, *Tafinlar + Mekinist* and *Entresto* growth was fully offset by generic competition, largely for *Gleevec/Glivec*. Japan sales (USD 1.8 billion, -2% cc) declined versus the prior year, mainly due to generic competition. Emerging Growth Markets sales increased 7% (cc) to USD 6.2 billion.

### Operating income

Operating income was USD 6.0 billion (-2%, +2% cc) mainly due to higher sales, productivity, lower amortization, partly offset by generic erosion, growth investments and the RLX030 net charge. Operating income margin in constant currencies increased 0.1 percentage points; currency had a negative impact of 0.5 percentage points, resulting in a net decrease of 0.4 percentage points to 24.6% of net sales.

Core adjustments amounted to USD 1.7 billion, mainly due to USD 1.6 billion of amortization of intangible assets. Prior year core adjustments were USD 1.9 billion. Core adjustments decreased compared to prior year mainly due to lower amortization. Core operating income was USD 7.7 billion (-4%, -1% cc). Core operating income margin in constant currencies decreased by 0.8 percentage points; currency had a negative impact of 0.3 percentage points, resulting in a net decrease of 1.1 percentage points to 31.6% of net sales.

Core gross margin as a percentage of net sales increased by 0.5 percentage points (cc) mainly driven by higher revenues from the *Xolair* profit sharing in the US. Core R&D expenses decreased by 0.9 percentage points (cc), mainly reflecting continued productivity and resource allocation from the creation of the Global Drug Development unit. Core SG&A expenses increased by 1.8 percentage points (cc), largely due to launch investments. Core Other Income and Expense, net decreased the margin by 0.4 percentage points (cc).

## Innovative Medicines product review

All comments below focus on third quarter movements in constant currencies.

## ONCOLOGY BUSINESS UNIT

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Gleevec/Glivec* | 445 | 834 | -47 | -47 | 1 495 | 2 559 | -42 | -41 |
| *Tasigna* | 482 | 441 | 9 | 12 | 1 356 | 1 281 | 6 | 9 |
| *Sandostatin* | 402 | 413 | -3 | -1 | 1 191 | 1 238 | -4 | -2 |
| *Afinitor/Votubia* | 389 | 393 | -1 | 0 | 1 118 | 1 125 | -1 | 1 |
| *Exjade/Jadenu* | 264 | 242 | 9 | 11 | 778 | 719 | 8 | 10 |
| *Tafinlar + Mekinist*[1] | 224 | 172 | 30 | 27 | 627 | 494 | 27 | 28 |
| *Promacta/Revolade* | 227 | 168 | 35 | 36 | 612 | 457 | 34 | 35 |
| *Votrient* | 213 | 183 | 16 | 15 | 595 | 537 | 11 | 11 |
| *Jakavi* | 201 | 149 | 35 | 31 | 549 | 419 | 31 | 32 |
| *Kisqali* | 26 | 0 | nm | nm | 41 | 0 | nm | nm |
| Other | 228 | 240 | -5 | -3 | 669 | 754 | -11 | -9 |
| **Total Oncology business unit** | **3 101** | **3 235** | **-4** | **-4** | **9 031** | **9 583** | **-6** | **-4** |

[1]Majority of sales for *Tafinlar* and *Mekinist* are combination, but both can be used as a monotherapy
nm = not meaningful

***Tasigna*** (USD 482 million, +12% cc) showed solid growth driven by the US and phasing in Emerging Growth Markets. *Tasigna* is approved for the treatment of adult patients newly diagnosed with Philadelphia chromosome-positive (Ph+) chronic myeloid leukemia (CML) in the chronic phase, and is also approved for the treatment of adult patients with Ph+ CML in the chronic or accelerated phase who are resistant or intolerant to at least one prior therapy including *Gleevec/Glivec*. In Q2, the European Commission approved the inclusion of Treatment-free Remission (TFR) data in the *Tasigna*

Summary of Product Characteristics (SmPC). In Q3, a supplemental New Drug Application (sNDA) for *Tasigna* (nilotinib) in TFR was accepted for review by the FDA and granted priority review.

***Gleevec/Glivec*** (USD 445 million, -47% cc) continued to decline, driven by generic imatinib competition in most major markets. *Gleevec/Glivec* is approved in more than 110 countries for the treatment of adult patients in all phases of Ph+ CML, for the treatment of patients with KIT (CD117)-positive gastrointestinal tumors (KIT+ GIST), which cannot be surgically removed and/or have metastasized, and for the treatment of adult patients following complete surgical removal of KIT+ GIST. Not all indications are available in every country.

***Sandostatin*** (USD 402 million, -1% cc) declined slightly due to competitive pressure. *Sandostatin* is a somatostatin analogue available in immediate and long-acting release injectable formulations and is indicated for the treatment of acromegaly and NET. In NET, *Sandostatin LAR* is used for patients with symptoms of carcinoid syndrome from gastro-entero-pancreatic NET as well as for tumor control in patients with advanced NET of the midgut or unknown primary tumor location.

***Afinitor/Votubia*** (USD 389 million, 0% cc) were in line with prior year as competitive pressure in the breast cancer and renal cell carcinoma indications was offset by growth in NET and TSC. *Afinitor* is approved in combination with exemestane for the treatment of postmenopausal women with hormone receptor positive, human epidermal growth factor receptor-2 negative (HR+/HER2-) advanced breast cancer after recurrence or progression following a non-steroidal aromatase inhibitor (in the US, specifically after failure of treatment with letrozole or anastrozole), for patients with advanced renal cell carcinoma whose disease has progressed on or after treatment with VEGF-targeted therapy (in the US, specifically after failure of treatment with sunitinib and sorafenib), for progressive, metastatic or unresectable well- or moderately-differentiated pancreatic NET, and for the treatment of progressive, metastatic or unresectable, well-differentiated, nonfunctional GI or lung NET. *Afinitor* is also approved for treatment of patients with subependymal giant cell astrocytoma associated with TSC that requires therapeutic intervention but cannot be curatively resected and for treatment of patients with renal angiomyolipoma associated with TSC who do not require immediate surgery. Everolimus, the active ingredient in *Afinitor/Votubia*, is available under the trade names *Zortress/Certican* for use in other non-oncology indications and is exclusively licensed to Abbott and sublicensed to Boston Scientific for use in drug-eluting stents.

***Exjade/Jadenu*** (USD 264 million, +11% cc) showed solid growth in most major markets, driven by continued uptake of Film-Coated Tablet (FCT). *Exjade* is a once-daily dispersible tablet for chronic transfusional iron overload, as well as for chronic iron overload in patients with non-transfusion-dependent thalassemia. *Jadenu*, a once-daily oral film-coated tablet formulation, which provides a simpler administration for patients, is approved in the US, Canada, Switzerland and other markets for the same indications as *Exjade*. In the EU, the film-coated tablet formulation is approved as *Exjade* FCT. Regulatory applications for FCT have been submitted in several other countries worldwide. In addition to the FCT, the film-coated tablet formulation has been developed as Granules for patients who cannot swallow tablets, using the same composition as the FCT. *Jadenu* Sprinkle granules were approved by the US FDA in May 2017, and *Jadenu* granules were approved in Japan, in July 2017. A regulatory application for granules also has been submitted under the name *Exjade* in the EU and regulatory approval is expected in 2017.

***Promacta/Revolade*** (USD 227 million, +36% cc) grew at a strong double-digit rate in all regions, driven by continued worldwide uptake as well as growth of the thrombopoietin (TPO) class for chronic immune (idiopathic) thrombocytopenic purpura (ITP). It is the only approved once-daily oral TPO receptor agonist and the only TPO receptor agonist with multiple indications in different disease states and leads the market globally in the TPO class. It is approved in more than 100 countries for the treatment of thrombocytopenia in adult patients with chronic ITP who have had an inadequate response or are intolerant to other treatments. In the US and EU, *Promacta/Revolade* is approved for patients one year and older with chronic ITP who have had an insufficient response to other treatments. It is approved in Japan for aplastic anemia as first-line therapy and for patients who are refractory to other treatments. It is also approved in 45 countries for the treatment of patients with severe aplastic anemia who are refractory to other treatments, and in more than 50 countries for the treatment of thrombocytopenia in patients with chronic hepatitis C to allow them to initiate and maintain interferon-based therapy.

***Tafinlar + Mekinist*** (USD 224 million, +27% cc) performance was driven by double-digit growth across all regions. *Tafinlar + Mekinist* is the first combination of its kind for the treatment of patients with BRAF V600E/K mutation-positive unresectable or metastatic melanoma, as detected by a

validated test, and continues to be the market leader globally across targeted therapy options. It is also the first combination of BRAF and MEK inhibitors to report three years of follow-up survival data in a Phase III study and five years of follow up in a separate Phase II study in BRAF V600+ unresectable or metastatic melanoma patients. *Tafinlar* and *Mekinist* are also approved as single agents for the treatment of patients with unresectable or metastatic melanoma in more than 60 countries worldwide. The combination of *Tafinlar* + *Mekinist* is also approved for the treatment of metastatic non-small cell lung cancer (NSCLC) with a BRAF V600E mutation in the US and advanced NSCLC with a BRAF V600 mutation in the EU.

***Votrient*** (USD 213 million, +15% cc) showed solid growth driven mainly by the US and phasing in Emerging Growth Markets. *Votrient* is a small molecule tyrosine kinase inhibitor (TKI) that inhibits a number of intracellular proteins to limit tumor growth and cell survival, which is approved in the US for the treatment of patients with aRCC, and in the EU for first-line treatment of adult patients with aRCC as well as patients who have received prior cytokine therapy for advanced disease. *Votrient* is also indicated for the treatment of patients with selective subtypes of advanced soft tissue sarcoma (STS) who have received prior chemotherapy or have progressed within 12 months after neoadjuvant therapy (efficacy in adipocytic STS or gastrointestinal stromal tumors has not been demonstrated).

***Jakavi*** (USD 201 million, +31% cc) showed continued double-digit growth across all regions driven by myelofibrosis (MF) and reimbursement of the second-line polycythemia vera (PV) indication in additional countries. *Jakavi*, an oral inhibitor of the JAK 1 and JAK 2 tyrosine kinases, is the first JAK inhibitor indicated for the treatment of disease-related splenomegaly or symptoms in adult patients with primary MF (also known as chronic idiopathic MF), post-polycythemia vera MF or post-essential thrombocythemia MF. *Jakavi* is currently approved in 101 countries for the MF indication, including EU countries, Japan and Canada. More than 75 countries have also approved *Jakavi* for the treatment of adult patients with PV who are resistant to or intolerant of hydroxyurea, including EU countries, Switzerland, Canada and Japan, and regulatory applications have been submitted in other countries. Novartis licensed ruxolitinib from Incyte Corporation for development and commercialization in the areas of oncology, hematology and graft-versus-host disease outside the US. Ruxolitinib is marketed in the US by Incyte under the brand name Jakafi®.

***Kisqali*** (USD 26 million), US launch progressed in the third quarter and EU approval was obtained. The full US promotional launch occurred at the end of August, and by the end of September, the vast majority of patient lives had payor access. Germany is currently the only major market in the EU where the product is launched and reimbursed. Other major markets in the EU are expected to gain reimbursement over the next 12 months. Additional filings are underway with other health authorities worldwide. *Kisqali* is a selective cyclin-dependent kinase inhibitor, a class of drugs that help slow the progression of cancer by inhibiting the proteins cyclin-dependent kinase 4 and 6. *Kisqali* was approved in combination with an aromatase inhibitor by the FDA and launched in the US in March 2017 as initial endocrine-based therapy for the treatment of postmenopausal women with hormone receptor positive, human epidermal growth factor receptor-2 negative (HR+/HER2-) advanced or metastatic breast cancer. In May 2017, FDA approved *Kisqali Femara* Co-Pack (ribociclib tablets; letrozole tablets), the first-of-its-kind in Oncology, as initial endocrine-based therapy for the treatment of HR+/HER2- advanced or metastatic breast cancer in postmenopausal women.

## PHARMACEUTICAL BUSINESS UNIT

### OPHTHALMOLOGY

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Lucentis* | 481 | 456 | 5 | 5 | 1 403 | 1 383 | 1 | 4 |
| Travoprost Group | 149 | 151 | -1 | -1 | 439 | 458 | -4 | -3 |
| *Systane Group* | 100 | 96 | 4 | 2 | 292 | 277 | 5 | 5 |
| Topical Olopatadine Group | 49 | 81 | -40 | -39 | 225 | 280 | -20 | -19 |
| Other | 544 | 586 | -7 | -7 | 1 663 | 1 746 | -5 | -4 |
| **Total Ophthalmology** | **1 323** | **1 370** | **-3** | **-3** | **4 022** | **4 144** | **-3** | **-2** |

***Lucentis*** (USD 481 million, +5% cc) sales continued to grow driven by market expansion in Europe, Japan and Emerging Growth Markets, and reimbursement listing in China for nAMD indication. *Lucentis* is approved for six indications and is the only treatment available for all types of choroidal neovascularization (CNV). *Lucentis* is an anti-VEGF therapy specifically designed for the eye, minimizing systemic exposure. The *Lucentis* pre-filled syringe has launched in 33 countries so far. *Lucentis* is licensed from Genentech, and Novartis holds the rights to commercialize the product ex-US. Genentech holds the rights to commercialize *Lucentis* in the US.

**Travoprost Group** (USD 149 million, -1% cc) sales declined mainly due to loss of exclusivity in Europe. Travoprost Group includes ***Travatan***, ***TravatanZ*** and ***DuoTrav***, which are indicated for the reduction of elevated intraocular pressure in patients with open-angle glaucoma or who have ocular hypertension. Single agent travoprost products (*Travatan*, *TravatanZ*, *Travatan* BAK-Free and *Izba*) are prescribed as first-line agents. *DuoTrav* (travoprost and timolol) is a fixed-dose combination solution approved as a second-line treatment.

***Systane* Group** (USD 100 million, +2% cc) sales grew in the US, partly offset by a slowdown in Europe. The *Systane* portfolio is a group of ocular health products, most of which are indicated for the temporary relief of burning and irritation due to dryness of the eye. The *Systane* portfolio includes *Systane Ultra, Systane Balance,* and *Systane* Hydration, and includes treatments for daily and nighttime relief, as well as products for everyday lid hygiene, and for discomfort associated with contact lens wear.

**Topical Olopatadine Group** (USD 49 million, -39% cc) sales declined mainly due to the loss of exclusivity of *Pataday* in the US. *Patanol, Pataday* and *Pazeo* are olopatadine hydrochloride ophthalmic solutions of different concentrations that are approved to treat the signs and symptoms of allergic conjunctivitis (*Patanol*), as well as ocular itching associated with allergic conjunctivitis (*Pataday* and *Pazeo*).

### IMMUNOLOGY and DERMATOLOGY

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Cosentyx* | 556 | 301 | 85 | 83 | 1 456 | 737 | 98 | 98 |
| *Neoral/Sandimmun(e)* | 126 | 130 | -3 | -2 | 364 | 389 | -6 | -4 |
| *Zortress/Certican* | 107 | 101 | 6 | 6 | 298 | 294 | 1 | 3 |
| *Ilaris* | 107 | 73 | 47 | 47 | 287 | 208 | 38 | 39 |
| *Myfortic* | 94 | 97 | -3 | -1 | 274 | 292 | -6 | -1 |
| Other | 73 | 68 | 7 | 3 | 207 | 204 | 1 | 1 |
| **Total Immunology and Dermatology** | **1 063** | **770** | **38** | **37** | **2 886** | **2 124** | **36** | **38** |

*Xolair* sales for all indications are reported in the Respiratory franchise

***Cosentyx*** (USD 556 million, +83% cc) showed strong growth across all indications, driven by the US and Europe, with more than 100,000 patients treated since launch. *Cosentyx* is the first and only fully human monoclonal antibody that selectively neutralizes interleukin-17A (IL-17A), the key cytokine in the pathogenesis of psoriasis (PsO), ankylosing spondylitis (AS) and psoriatic arthritis (PsA), and is approved to treat PsO, AS, PsA and in Japan – pustular PsO. In clinical trials, *Cosentyx* has also shown superiority over Enbrel® and Stelara®, providing rapid and sustainable efficacy for patients with PsO. The *Cosentyx* EU label was also updated to include additional hard-to-treat areas including palmoplantar, nail and scalp PsO.

***Xolair*** continued its strong growth globally as a treatment for chronic spontaneous urticaria (CSU), also known as chronic idiopathic urticaria (CIU). CSU is a distressing skin condition that appears

spontaneously and causes persistent hives and/or painful deeper swelling of the skin for 6 weeks or more. *Xolair* is also a treatment for moderate-to-severe or severe persistent allergic asthma (SAA), which is addressed in the Respiratory section. All *Xolair* sales are booked in the Respiratory franchise. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of the operating income, but does not book US sales.

***Neoral/Sandimmun(e)*** (USD 126 million, -2% cc) is an immunosuppressant to prevent organ rejection following a kidney, liver, heart, lung or bone marrow transplant. It is also indicated for the treatment of selected autoimmune disorders, such as endogenous uveitis, nephrotic syndrome, psoriasis, rheumatoid arthritis and atopic dermatitis. Sales are declining slightly due to generic competition and mandatory price reductions, mainly in Europe and Japan. The decrease is not as rapid as has been the case in other therapeutic areas, due to the special characteristics of the solid organ transplant market.

***Zortress/Certican*** (USD 107 million, +6% cc), approved in more than 100 countries to prevent organ rejection in adult heart and kidney transplant patients, continued to show growth. It is also approved for liver transplant patients in over 70 countries, including EU countries and the US. Everolimus, the active ingredient in *Zortress*/*Certican*, is marketed for other indications under the trade names *Afinitor*/*Votubia*. For use in drug-eluting stents Everolimus is exclusively licensed to Abbott and sublicensed to Boston Scientific.

***Ilaris*** (USD 107 million, +47% cc) continued to grow strongly. *Ilaris* is a selective, high-affinity, fully human monoclonal antibody that inhibits IL-1β, a key cytokine in the inflammatory pathway, by blocking the action of IL-1β for a sustained period of time, therefore inhibiting inflammation that is caused by its over-production. *Ilaris* is approved in over 70 countries as a treatment for various inflammatory conditions, especially for adults and children with cryopyrin-associated periodic syndrome (CAPS), systemic juvenile idiopathic arthritis (SJIA), and the symptomatic treatment of refractory acute gouty arthritis. In 2016, *Ilaris* received approval for patients with Adult-Onset Still's Disease in Europe, and for three rare and distinct types of Periodic Fever Syndromes, also known as Hereditary Periodic Fevers, in the US and Japan. The European Commission approved *Ilaris* for the same three Periodic Fever Syndromes in February 2017.

***Myfortic*** (USD 94 million, -1% cc), a transplantation medicine, declined slightly due to loss of exclusivity in several markets. *Myfortic* continued to grow in geographies where generic competition has not yet begun.

**NEUROSCIENCE**

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Gilenya* | 801 | 790 | 1 | 0 | 2 360 | 2 299 | 3 | 3 |
| Other | 26 | 30 | -13 | -11 | 77 | 94 | -18 | -17 |
| **Total Neuroscience** | **827** | **820** | **1** | **0** | **2 437** | **2 393** | **2** | **3** |

***Gilenya*** (USD 801 million, 0% cc), was in line with prior year in the US, while Europe's solid growth was partly offset by phasing in Emerging Growth Markets. *Gilenya* is indicated to treat relapsing forms of multiple sclerosis (RMS) and is approved in over 80 countries. *Gilenya* has been used to treat more than 217,000 patients with long-term data now out to 10 years, with the total patient exposure now at more than 480,000 patient years. *Gilenya* is licensed from Mitsubishi Tanabe Pharma.

**RESPIRATORY**

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Ultibro Breezhaler* | 101 | 95 | 6 | 3 | 291 | 273 | 7 | 8 |
| *Seebri Breezhaler* | 37 | 37 | 0 | 2 | 109 | 111 | -2 | 2 |
| *Onbrez Breezhaler* | 27 | 37 | -27 | -16 | 83 | 107 | -22 | -15 |
| **COPD portfolio** | **165** | **169** | **-2** | **-1** | **483** | **491** | **-2** | **2** |
| *Xolair*[1] | 245 | 215 | 14 | 12 | 673 | 619 | 9 | 12 |
| Other | 5 | 6 | -17 | -29 | 16 | 23 | -30 | -18 |
| **Total Respiratory** | **415** | **390** | **6** | **6** | **1 172** | **1 133** | **3** | **7** |

[1]Revenue, which is ex-US only, reflects *Xolair* sales for all indications (including CSU/CIU, which is managed by the Immunology and Dermatology franchise)

The COPD portfolio, which consists of ***Ultibro Breezhaler***, ***Onbrez Breezhaler*** and ***Seebri Breezhaler***, declined -1% (cc) to USD 165 million. All three products in the COPD portfolio are delivered via the low-resistance *Breezhaler* inhalation device. In the US, Sunovion Pharmaceuticals Inc. has assumed as of December 21, 2016 US commercialization rights for these US products under the names *Utibron Neohaler, Arcapta Neohaler and Seebri Neohaler.* Novartis will continue to bring *Ultibro Breezhaler, Onbrez Breezhaler* and *Seebri Breezhaler* to patients with COPD outside of the US.

***Ultibro Breezhaler*** (USD 101 million, +3% cc), a LABA/LAMA, grew driven by positive FLAME study results and the GOLD guidelines, which recommended LABA/LAMA as the preferred option in the majority of symptomatic patients regardless of their exacerbation risk. *Ultibro Breezhaler*, a first-in-class dual bronchodilator, is approved in over 90 countries, including Japan and EU countries. It is a once-daily fixed-dose combination of indacaterol and glycopyrronium bromide, and in the EU is indicated as a maintenance bronchodilator treatment to relieve symptoms in adult patients with COPD.

***Seebri Breezhaler*** (USD 37 million, +2% cc), an inhaled LAMA is approved in over 100 countries and indicated as a maintenance bronchodilator treatment to relieve symptoms of patients with COPD. Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura.

***Onbrez Breezhaler*** (USD 27 million, -16% cc), an inhaled LABA, declined, due in part to a focus of resources on *Ultibro Breezhaler*. *Onbrez Breezhaler* is indicated as a maintenance of airflow obstruction in adult patients with COPD, and is approved in over 100 countries.

***Xolair*** (USD 245 million, +12% cc), currently approved in more than 90 countries as a treatment for moderate-to-severe or severe persistent allergic asthma, continued to grow strongly. In July 2016, the FDA approved an expanded age range for *Xolair* to include children six to 11 years of age with moderate to severe persistent asthma. Worldwide, *Xolair* is the first biologic approved for adults and children with moderate-to-severe allergic asthma. In August 2017, *Xolair* was approved in China for moderate to severe persistent allergic asthma in adults & adolescents > 12 years of age. This approval makes *Xolair* the first & only biologic approved for asthma in China. *Xolair* as a treatment for CSU/CIU is addressed earlier in the Immunology and Dermatology section. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of the operating income, but does not book US sales.

**CARDIO-METABOLIC**

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Entresto* | 128 | 53 | 142 | 138 | 322 | 102 | 216 | 215 |
| Other | 5 | 4 | 25 | 21 | 12 | 10 | 20 | 21 |
| **Total Cardio-Metabolic** | **133** | **57** | **133** | **130** | **334** | **112** | **198** | **198** |

***Entresto*** (USD 128 million, +138% cc) (sacubitril/valsartan) continued to grow, benefitting from the impact of improved access and sales force expansion in the US and from broad reimbursement in Europe. *Entresto* is now approved in 92 countries and launched in nearly 50 countries to date, and has been used to treat more than 360,000 patients with heart failure with reduced ejection fraction worldwide since July 2015. *Entresto*, a combination of valsartan, an angiotensin receptor blocker, and sacubitril, a neprilysin inhibitor, demonstrated significant superiority in mortality (20%) over and above enalapril in the PARADIGM-HF trial, representing the first major advance in heart failure in over two decades. *Entresto* has been granted a class I recommendation in both US and EU guidelines in 2016.

**ESTABLISHED MEDICINES**

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| *Galvus* | 310 | 306 | 1 | 3 | 906 | 895 | 1 | 3 |
| *Diovan/Co-Diovan* | 231 | 261 | -11 | -10 | 713 | 816 | -13 | -10 |
| *Exforge* | 244 | 232 | 5 | 4 | 711 | 689 | 3 | 5 |
| *Voltaren/Cataflam* | 118 | 131 | -10 | -2 | 346 | 389 | -11 | -1 |
| *Exelon/Exelon* Patch | 95 | 104 | -9 | -10 | 293 | 330 | -11 | -11 |
| *Ritalin/Focalin* | 44 | 62 | -29 | -32 | 162 | 209 | -22 | -24 |
| Other | 398 | 435 | -9 | -6 | 1 256 | 1 472 | -15 | -12 |
| **Total Established Medicines** | **1 440** | **1 531** | **-6** | **-4** | **4 387** | **4 800** | **-9** | **-6** |

***Galvus* Group** (USD 310 million, +3% cc) showed continued growth. The Group includes *Galvus*, an oral treatment for type-2 diabetes, and *Eucreas*, a single-pill combination of vildagliptin (the active ingredient in *Galvus*) and metformin. *Galvus* is mainly promoted for the treatment of patients whose diabetes is uncontrolled on metformin as well as for special patient segments, such as elderly and renal-impaired patients. Earlier this year, *Galvus* was listed in the National Reimbursement Drug List (NRDL) in China. The *Galvus* Group is currently approved in more than 125 countries.

***Diovan* Group** (USD 231 million, -10% cc), consisting of *Diovan* monotherapy and the combination product *Co-Diovan/Diovan HCT*, saw sales decline due to loss of exclusivity including in the US, EU and Japan.

***Exforge* Group** (USD 244 million, +4% cc), which includes *Exforge* and *Exforge HCT*, grew despite ongoing generic competition in the US and Japan, and beginning in Europe in 2017. Both *Exforge* and *Exforge HCT* grew strongly in Emerging Growth Markets.

***Voltaren/Cataflam*** (USD 118 million, -2% cc) is a leading international brand by sales in the non-steroidal anti-inflammatory drugs (NSAIDs) market for the relief of symptoms in rheumatic diseases, such as rheumatoid arthritis and osteoarthritis, and for various other inflammatory and pain conditions. This product is subject to generic competition.

***Exelon*/*Exelon* Patch** (USD 95 million, -10% cc) declined due to generic competition for *Exelon* Patch in the US and EU. *Exelon* Patch is approved for the treatment of mild-to-moderate Alzheimer's disease dementia (AD) in more than 85 countries, and severe AD in 14 countries, including the US. *Exelon* Patch is also indicated for the treatment of Parkinson's disease dementia in more than 20 countries.

***Ritalin/Focalin*** (USD 44 million, -32% cc) is a treatment for attention deficit hyperactivity disorder (ADHD). *Ritalin* and *Ritalin LA* are available in more than 70 and 30 countries, respectively, and are also indicated for narcolepsy. *Ritalin* and *Focalin* are subject to generic competition in the US.

## Sandoz

| | Q3 2017 | Q3 2016 | % change | | YTD 2017 | YTD 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| **Net sales** | **2 584** | **2 517** | **3** | **1** | **7 465** | **7 539** | **-1** | **-1** |
| **Operating income** | **390** | **354** | **10** | **9** | **1 063** | **1 080** | **-2** | **-3** |
| As % of net sales | 15.1 | 14.1 | | | 14.2 | 14.3 | | |
| **Core operating income** | **580** | **530** | **9** | **8** | **1 537** | **1 550** | **-1** | **-1** |
| As % of net sales | 22.4 | 21.1 | | | 20.6 | 20.6 | | |

### Third quarter

**Net sales**
Sandoz net sales were USD 2.6 billion (+3%, +1% cc) in the third quarter, as volume growth of 8 percentage points was partially offset by 7 percentage points of price erosion. Excluding the US, net sales grew by 9% (cc).

Sales in the US were USD 798 million (-13% cc), driven by increased pricing pressure from competition in retail generics and continued customer consolidation. Sales in Europe were USD 1.2 billion (+8% cc), driven by continuing strong growth in Italy, Russia, Switzerland and Turkey. Sales in Asia / Africa / Australasia were USD 354 million (+8% cc). Sales in Latin America were USD 110 million (+12% cc), mainly driven by Brazil.

Global sales of Biopharmaceuticals (biosimilars, biopharmaceutical contract manufacturing and *Glatopa* 20mg) grew 9% (cc) to USD 292 million. By region, Europe continued double-digit growth supported by the recent launches of biosimilars *Rixathon* (rituximab) and *Erelzi* (etanercept). US Biopharmaceuticals declined primarily due to competitive pressures on Glatopa 20mg from ongoing market conversion to the 40mg version of the reference medicine. *Zarxio*, the first US biosimilar approved under the BPCIA pathway, continues to grow after two years on the market.

Retail sales were USD 2.2 billion (0% cc), as the decline in the US (-13% cc) was offset by growth ex-US (+7% cc). Total Anti-Infectives franchise sales were USD 359 million (+3% cc). Growth in finished dosage forms sold under the Sandoz name (USD 221 million, +7% cc), was partly offset by a decline in Anti-Infectives sold to third parties for sale under their own name (USD 137 million -3% cc).

**Operating income**
Operating income was USD 390 million (+10%, +9% cc) mainly driven by higher sales and strong gross margin expansion from product mix and productivity, partly offset by higher M&S growth investments. Operating income margin in constant currencies increased by 1.1 percentage points; currency had a negative impact of 0.1 percentage points resulting in a net increase of 1.0 percentage points to 15.1% of net sales.

Core adjustments amounted to USD 190 million, mainly due to USD 184 million of amortization, and impairments of tangible and intangible assets. Prior year core adjustments were USD 176 million, including USD 167 million for amortization, and impairments of tangible and intangible assets. Core operating income was USD 580 million (+9%, +8% cc). Core operating income margin increased by 1.5 percentage points (cc); currency had a negative impact of 0.2 percentage points, resulting in a net increase of 1.3 percentage points to 22.4% of net sales.

Core gross margin as a percentage of net sales increased by 2.0 percentage points (cc), driven by a favorable sales mix and ongoing productivity improvements, which more than offset the impact of price erosion in the US. Core R&D expenses decreased by 0.4 percentage points (cc). Core SG&A expenses increased by 1.6 percentage points (cc) mainly due to higher M&S investments in key ex-US markets and biosimilars launches. Core Other Income and Expense, had a positive margin contribution of 0.7 points (cc) mainly due to gains from the divestment of non-strategic assets.

## Nine months

### Net sales

Sandoz net sales were USD 7.5 billion (-1%, -1% cc) in the first nine months, as volume growth of 6 percentage points was more than offset by 7 percentage points of price erosion.

Sales in the US were USD 2.5 billion (-10% cc) mainly due to increased pricing pressure in retail generics, partly offset by growth in Biopharmaceuticals. Sales in Europe were USD 3.4 billion (+4% cc), driven by growth in Italy and Switzerland partly offset by pressure on pricing in the Nordics. Sales in Asia / Africa / Australasia were USD 1.0 billion (0% cc).

Global sales of Biopharmaceuticals grew 14% (cc) to USD 826 million, driven by *Zarxio* (filgrastim), *Binocrit* (epoetin alfa) and the launch of *Rixathon* (rituximab) in selected European markets. Sandoz now has five approved and marketed biosimilars in Europe, more than any other company. Retail Generics sales were USD 6.3 billion (-2% cc), as the decline in the US (-12% cc) more than offset growth outside the US (+3% cc). Total Anti-Infectives franchise sales were USD 1.0 billion (+1% cc). Growth in finished dosage forms sold under the Sandoz name (USD 646 million, +5% cc), was offset by a decline in Anti-Infectives sold to third parties for sale under their own name (USD 379 million -5% cc), reflecting the discontinuation of low-margin products impacting the first quarter.

### Operating income

Operating income was USD 1.1 billion (-2%, -3% cc) mainly due to US pricing pressure and M&S growth investments, partly offset by sales growth in the rest of world and gross margin improvement due to sales mix and productivity. Operating income margin in constant currencies decreased 0.3 percentage points; currency had a positive impact of 0.2 percentage points, resulting in a net decrease of 0.1 percentage points to 14.2% of net sales.

Core adjustments amounted to USD 474 million, mainly due to USD 451 million of amortization, and impairments of tangible and intangible assets and USD 26 million of net restructuring charges. Prior year core adjustments were USD 470 million, including USD 415 million for amortization, and impairments of tangible and intangible assets and USD 61 million of net restructuring charges. Core operating income was USD 1.5 billion (-1%, -1% cc). Core operating income margin in constant currencies decreased by 0.1 percentage points, mainly due to higher M&S investment in key ex-US markets and biosimilars; currency had a positive impact of 0.1 percentage points, resulting in an unchanged ratio of 20.6% of net sales.

Core gross margin as a percentage of net sales increased by 1.3 percentage points (cc), driven by a favorable sales mix and ongoing productivity improvements, which more than offset the impact of price erosion in the US. Core R&D expenses decreased by 0.2 percentage points (cc). Core SG&A expenses increased by 1.5 percentage points (cc), due to higher M&S investments behind growth drivers. Core Other Income and Expense, net decreased the margin by 0.1 percentage points (cc).

## Alcon

| | **Q3 2017** | Q3 2016 | % change | | **9M 2017** | 9M 2016 | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| **Net sales** | **1 527** | **1 436** | **6** | **7** | **4 460** | **4 368** | **2** | **3** |
| **Operating loss** | **-50** | **-50** | **0** | **19** | **-112** | **-12** | **nm** | **nm** |
| As % of net sales | -3.3 | -3.5 | | | -2.5 | -0.3 | | |
| **Core operating income** | **238** | **206** | **16** | **23** | **636** | **687** | **-7** | **-2** |
| As % of net sales | 15.6 | 14.3 | | | 14.3 | 15.7 | | |

nm = not meaningful

### Third quarter

**Net sales**
Alcon net sales were USD 1.5 billion (+6%, +7% cc) in the third quarter, driven by growth in most market segments. Alcon delivered strong performance in the third quarter as a result of the actions taken to strengthen customer relationships and improve the efficiency and effectiveness of operations, along with increased promotional investment and new launches. The Alcon results of the third quarter partly benefit from stock in trade movements, contributing approximately 2% (cc) of growth.

All regions grew, with growth in both franchises. Sales in the US grew 3% (cc), Europe Middle East and Africa grew 4% (cc) and Asia sales, including Japan, grew double-digit (cc). Emerging Growth Markets grew 21% (cc).

**Operating loss/income**
Operating loss was USD 50 million, in line with prior year, as sales growth and gross margin improvements were offset by impairments related to business development activities. Operating income margin in constant currencies grew 1.1 percentage points; currency had a negative impact of 0.9 percentage points, resulting in a net increase of 0.2 percentage points to negative 3.3% of net sales.

Core adjustments amounted to USD 288 million, driven by amortization and impairments of intangible assets. Prior year core adjustments were USD 256 million mainly due to amortization of intangible assets and restructuring. Core operating income was USD 238 million (+16%, +23% cc), driven by higher sales. Core operating income margin in constant currencies increased by 2.1 percentage points; currency had a negative impact of 0.8 percentage points, resulting in a net increase of 1.3 percentage points to 15.6% of net sales.

Core gross margin as a percentage of net sales increased 1.0 percentage points (cc) versus the prior year quarter mainly driven by higher sales. Core R&D expenses increased by 0.1 percentage points (cc). Core SG&A expenses decreased by 1.7 percentage points (cc) driven by sales uptake. Core Other Income and Expense, net decreased the margin by 0.5 percentage points (cc).

### Nine months

**Net sales**
Alcon net sales were USD 4.5 billion (+2%, +3% cc) in the first nine months. Surgical sales grew +3% (cc), driven by strong performance of the vitreoretinal portfolio and cataract consumables. Vision Care sales grew +3% (cc), driven by continued double-digit growth of *Dailies Total1*.

**Operating loss/income**
Operating loss was USD 112 million in the first nine months, compared to a loss of USD 12 million in the prior year period, impacted by the growth plan and impairment charges related to business development activities. Operating income margin in constant currencies decreased 1.5 percentage points; currency had a negative impact of 0.7 percentage points, resulting in a net decrease of 2.2 percentage points to negative 2.5% of net sales.

Core adjustments amounted to USD 748 million, primarily due to amortization and impairments of intangible assets. Prior year core adjustments were USD 699 million mainly due to amortization of intangible assets and restructuring. Core operating income was USD 636 million (-7%, -2% cc), primarily impacted by continued investments behind the growth plan. Core operating income margin in constant currencies decreased by 0.9 percentage points; currency had a negative impact of 0.5 percentage points, resulting in a net decrease of 1.4 percentage points to 14.3% of net sales.

Core gross margin as a percentage of net sales was in line with prior year. Core R&D expenses decreased 0.2 percentage points (cc). Core SG&A expenses increased by 0.5 percentage points (cc) behind investments to drive growth. Core Other Income and Expense, net decreased the margin by 0.6 percentage points (cc).

## Alcon product review

All comments below focus on third quarter movements in constant currencies.

### SURGICAL

| | **Q3 2017** | **Q3 2016** | % change | | **9M 2017** | **9M 2016** | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| Cataract products | 667 | 648 | 3 | 4 | 2 006 | 2 016 | 0 | 1 |
| Consumables | 344 | 345 | 0 | 2 | 1 054 | 1 036 | 2 | 3 |
| IOLs | 243 | 234 | 4 | 4 | 723 | 747 | -3 | -1 |
| Equipment | 80 | 69 | 16 | 13 | 229 | 233 | -2 | -1 |
| Vitreoretinal products | 177 | 151 | 17 | 18 | 507 | 455 | 11 | 12 |
| Refractive/Other | 64 | 46 | 39 | 37 | 165 | 160 | 3 | 3 |
| **Total Surgical** | **908** | **845** | **7** | **9** | **2 678** | **2 631** | **2** | **3** |

Surgical sales were USD 908 million (+9% cc) in the third quarter, driven by continued growth of vitreoretinal (+18% cc), IOLs (+4% cc) and cataract consumables (+2% cc). Refractive/Other (+37% cc) included growth of *CyPass* Micro-Stent in the US. Surgical sales partly benefit from stock in trade movements, contributing approximately 3% (cc) of growth.

### VISION CARE

| | **Q3 2017** | **Q3 2016** | % change | | **9M 2017** | **9M 2016** | % change | |
|---|---|---|---|---|---|---|---|---|
| | USD m | USD m | USD | cc | USD m | USD m | USD | cc |
| Contact lenses | 481 | 456 | 5 | 5 | 1 390 | 1 342 | 4 | 4 |
| Contact lens care | 138 | 135 | 2 | 1 | 392 | 395 | -1 | -1 |
| **Total Vision Care** | **619** | **591** | **5** | **4** | **1 782** | **1 737** | **3** | **3** |

Vision Care sales were USD 619 million (+4% cc) in the third quarter. Contact lenses grew +5% (cc), as double-digit growth of *Dailies Total1* globally was partially offset by the weekly/monthly portfolio. Contact lens care grew +1% (cc), driven by growth in Europe and Asia.

# CASH FLOW AND GROUP BALANCE SHEET

## Cash flow

### Third quarter

Cash flows from operating activities amounted to USD 3.6 billion in the third quarter, compared to USD 3.2 billion in prior year. The increase of USD 0.4 billion was mainly driven by higher net income adjusted for non-cash items and favorable net working capital changes.

Cash flows used in investing activities from continuing operations amounted to USD 0.6 billion. This amount included cash outflows of USD 0.4 billion for the purchase of property, plant and equipment, USD 0.3 billion for intangible assets, USD 0.1 billion for financial and other non-current assets and USD 0.1 billion net for acquisitions and divestments of businesses offset by USD 0.3 billion proceeds from the sale of property, plant and equipment, intangible and financial assets.

In prior year, the cash flows used in investing activities from continuing operations amounted to USD 0.7 billion, primarily for the purchase of property, plant and equipment, intangible, financial and other non-current assets.

Cash flows used in investing activities from discontinued operations, which consists of payments out of provisions related to the portfolio transformation transactions, amounted to USD 40 million in the third quarter, compared to USD 63 million in prior year.

The cash flows used in financing activities amounted to USD 1.9 billion, compared to USD 0.3 billion in prior year. The current year quarter amount is mainly due to net cash outflows for treasury share transactions of USD 1.4 billion and for the net reduction in current financial debts of USD 0.6 billion.

The prior year amount included the issuance of two euro denominated bonds for total proceeds of USD 1.9 billion, reduction of short-term borrowings of USD 1.9 billion and cash outflows of USD 0.4 billion, net for treasury share transactions.

Free cash flow amounted to USD 3.1 billion (+18% USD) compared to USD 2.6 billion in prior year. The increase of USD 0.5 billion was mainly driven by improved cash flows from operating activities and lower net investments in intangible assets.

### Nine months

Cash flows from operating activities amounted to USD 9.2 billion in the first nine months, compared to USD 7.9 billion in prior year. The increase of USD 1.3 billion was mainly driven by favorable working capital changes and a higher dividend received from GSK Consumer Healthcare Holdings Ltd., more than offsetting the decrease in net income adjusted for non-cash items.

Cash flows used in investing activities from continuing operations amounted to USD 2.0 billion in the first nine months of 2017. This amount included cash outflows of USD 1.1 billion for the purchase of property, plant and equipment, USD 0.7 billion for intangible assets, USD 0.3 billion for financial and other non-current assets and USD 0.8 billion for acquisitions and divestments of businesses, net (mainly the Ziarco Group Limited and Encore Vision, Inc. acquisitions), offset by USD 0.9 billion proceeds from the sale of property, plant and equipment, intangible and financial assets.

In prior year, cash flows used in investing activities from continuing operations amounted to USD 1.8 billion. This amount included cash outflows of USD 1.3 billion for the purchase of property, plant and equipment, USD 0.8 billion for intangible assets, USD 0.3 billion for financial and other non-current assets, as well as a net amount of USD 0.5 billion for acquisitions and divestments of businesses, mainly for the acquisition of Transcend Medical, Inc., offset by USD 1.0 billion proceeds from the sale of property, plant and equipment, intangible and financial assets.

Cash flows used in investing activities from discontinued operations, which consists of payments out of provisions related to the portfolio transformation transactions, amounted to USD 0.1 billion, compared to USD 0.5 billion in prior year.

The cash flows used in financing activities amounted to USD 5.3 billion in the first nine months, compared to USD 3.0 billion in prior year. The current year amount included cash outflows of USD 6.5 billion for the dividend payment and USD 4.3 billion, net for treasury share transactions. The net cash inflows from the increase in current and non-current financial debts of USD 5.4 billion were mainly due

to the issuance of bonds denominated in US dollar and euro for a total notional amount of USD 5.0 billion and the increase in short-term borrowings of USD 0.7 billion. The repayment of a non-current financial debt amounted to USD 0.2 billion.

The prior year amount included mainly cash outflows of USD 6.5 billion for the dividend payment and USD 0.7 billion, net for treasury share transactions, offset by cash inflows from a USD 4.2 billion net increase in current and non-current financial debts.

Free cash flow amounted to USD 8.0 billion (+23% USD) compared to USD 6.5 billion in prior year. The increase of USD 1.5 billion was mainly driven by improved cash flows from operating activities, which included a higher dividend received from GSK Consumer Healthcare Holdings Ltd., as well as lower investments in property, plant and equipment.

## Balance sheet

### Assets

Total non-current assets of USD 107.5 billion at September 30, 2017 increased by USD 2.3 billion compared to December 31, 2016. Property, plant and equipment increased by USD 0.6 billion to USD 16.3 billion, mainly due to the favorable currency translation adjustments, as net additions were offset by depreciation. Goodwill increased by USD 0.7 billion to USD 31.7 billion, mainly due to USD 0.6 billion favorable currency translation adjustments. Intangible assets other than goodwill decreased by USD 0.5 billion to USD 30.8 billion, as net additions of USD 2.1 billion and favorable currency translation adjustments of USD 0.8 billion were more than offset by amortization and impairment charges totaling USD 3.4 billion. Financial and other non-current assets increased by USD 1.5 billion to USD 28.7 billion, mainly due to favorable currency translation adjustments.

Total current assets increased by USD 2.5 billion to USD 27.5 billion at September 30, 2017, compared to December 31, 2016 due to increase in cash and cash equivalents, marketable securities, commodities and derivatives of USD 1.6 billion and Inventories of USD 0.7 billion. Trade receivables and other current assets were broadly in line with prior year end.

### Liabilities

Total non-current liabilities of USD 37.2 billion at September 30, 2017 increased by USD 4.2 billion compared to December 31, 2016. Long-term financial debt increased by USD 5.3 billion to USD 23.2 billion at September 30, 2017, mainly due to the issuance, in the first quarter, of bonds denominated in US dollar and euro for a total notional amount of USD 3.0 billion and USD 2.0 billion respectively. Other non-current liabilities decreased by USD 1.1 billion to USD 14.1 billion at September 30, 2017, compared to December 31, 2016, mainly due to a reduction of the pension obligations of USD 1.2 billion resulting from actuarial gains and a change in the accounting for a component of the Swiss pension plan from defined benefit to defined contribution plan.

Total current liabilities increased by USD 3.2 billion to USD 25.4 billion at September 30, 2017. Trade payables at USD 4.7 billion were broadly in line with prior year end. Current financial debts and derivatives increased by USD 1.1 billion to USD 7.0 billion, mainly due to higher short-term borrowings. Other current liabilities increased by USD 2.3 billion to USD 13.7 billion, mainly due to the repurchase commitment under the share buyback trading plan of USD 1.3 billion, which will be credited to equity once the shares are repurchased or the obligation to repurchase own shares is settled.

### Group equity

The Group's equity decreased by USD 2.5 billion to USD 72.4 billion at September 30, 2017, compared to USD 74.9 billion at December 31, 2016. The decrease was mainly on account of USD 6.5 billion for the dividend payment, net treasury share purchases of USD 4.5 billion and the recognition of the repurchase commitment under the share buyback trading plan of USD 1.3 billion. These amounts resulting from transactions with shareholders were partially offset by net income of USD 5.7 billion, favorable currency translation differences of USD 2.3 billion, net actuarial gains from defined benefit plans of USD 1.1 billion and Equity-based compensation of USD 0.5 billion.

### Net debt and debt/equity ratio

The Group's liquidity amounted to USD 9.4 billion at September 30, 2017 compared to USD 7.8 billion at December 31, 2016, and the total of the non-current and current financial debt, including derivatives, amounted to USD 30.2 billion at September 30, 2017, compared to USD 23.8 billion at December 31, 2016. The net debt increased to USD 20.7 billion at September 30, 2017 compared to

USD 16.0 billion at December 31, 2016. The debt/equity ratio increased to 0.42:1 at September 30, 2017 compared to 0.32:1 at December 31, 2016.

## Innovation Review

Benefitting from our continued focus on innovation, Novartis has one of the industry's most competitive pipelines with more than 200 projects in clinical development.

Key developments from the third quarter of 2017 include:

### New approvals and regulatory opinions

- ***Kisqali*** (ribociclib), in combination with an aromatase inhibitor, was approved by the European Commission (EC) for treatment of postmenopausal women with hormone receptor positive, human epidermal growth factor receptor-2 negative (HR+/HER2-) locally advanced or metastatic breast cancer as initial endocrine-based therapy. *Kisqali* is the first CDK4/6 inhibitor approved in Europe based on a first-line Phase III trial that met its primary endpoint of progression-free survival (PFS) at interim analysis.

- ***Kymriah*** (tisagenlecleucel) suspension for intravenous infusion, formerly CTL019, the first chimeric antigen receptor T cell (CAR-T) therapy, was approved by the US Food and Drug Administration (FDA) for the treatment of patients up to 25 years of age with B-cell precursor acute lymphoblastic leukemia (ALL) that is refractory or in second or later relapse. *Kymriah* is a novel immunocellular therapy designed as a one-time treatment that uses a patient's own T cells to fight cancer. *Kymriah* is the first therapy based on gene transfer approved by the FDA.

- ***Rydapt*** (midostaurin) was approved by the EC for two indications in rare, hard-to-treat diseases. *Rydapt* is approved for use in combination with standard daunorubicin and cytarabine induction and high-dose cytarabine consolidation chemotherapy, and for patients in complete response followed by *Rydapt* single agent maintenance therapy, for adults with newly diagnosed acute myeloid leukemia (AML) who are FLT3 mutation-positive. It was also cleared for use as monotherapy for the treatment of adults with aggressive systemic mastocytosis (ASM), systemic mastocytosis with associated hematological neoplasm (SM-AHN) or mast cell leukemia.

- **Alcon *Clareon AutonoMe*** IOL was approved in the EU in October, with the most advanced optic material available in an automated, disposable and pre-loaded delivery system. *AutonoMe* IOL delivery system is easy, intuitive and enhances control for precise IOL insertion during cataract surgery.

### Regulatory submissions and filings

- The FDA confirmed that it has accepted for review the Biologics License Application (BLA) for **AMG 334** (erenumab) for the prevention of migraine in patients experiencing four or more migraine days per month. If approved, erenumab is expected to be the first and only fully human monoclonal antibody targeting the calcitonin gene-related peptide (CGRP) receptor, specifically designed for the prevention of migraine. Novartis and Amgen will co-commercialize erenumab in the US. Amgen has exclusive commercialization rights in Japan and Novartis has exclusive commercialization rights in rest of world. The companies will continue global co-development.

- A supplemental New Drug Application (sNDA) for ***Tasigna*** (nilotinib) was accepted for review by the FDA in September and granted priority review. The sNDA seeks the addition of attempting Treatment-Free Remission (TFR) into the product label. If added, *Tasigna* would be the first and only tyrosine kinase inhibitor to include information on stopping therapy in Ph+ CML-CP patients in the US product information.

- The FDA confirmed in September that it had accepted for regulatory review a Sandoz marketing authorization application for **biosimilar rituximab** (Roche's Rituxan®). The Sandoz biosimilar would be used, if approved, to treat blood cancers including non-Hodgkin's lymphoma (follicular lymphoma and diffuse large B-cell lymphoma) and chronic lymphocytic leukemia, as well as immunological diseases such as rheumatoid arthritis. The submission comprises a comprehensive data package including analytical, pre-clinical and clinical data. The European Commission approved Sandoz biosimilar rituximab in June 2017 for use in all indications of the reference medicine.

**Results from ongoing trials and other highlights**

- Results from a Phase III adjuvant study of ***Tafinlar*** (dabrafenib) + ***Mekinist*** (trametinib) in patients with stage III BRAF V600E/K mutation-positive melanoma after complete surgical resection were presented at ESMO. Findings from the COMBI-AD study, which met its primary endpoint, found a statistically significant 53% reduction in the risk of death or recurrence in patients treated with the BRAF and MEK inhibitor combination therapy versus placebo. The results were also simultaneously reported in NEJM. Additionally, *Tafinlar* + *Mekinist* received FDA Breakthrough Therapy designation for the adjuvant treatment of patients with Stage III melanoma with a BRAF V600 mutation following complete resection.

- Results from a Phase II study of ***Tafinlar*** + ***Mekinist***, showing efficacy for patients with BRAF V600E-mutant metastatic non-small cell lung cancer (NSCLC) without prior systemic therapy when treated with the combination were also presented at ESMO. Findings from the study demonstrated a 64% overall response rate and a median duration of response of 10.4 months (after a median follow-up of 15.9 months). Median overall survival was 24.6 months, with a two-year overall-survival rate of 51%. The study findings were simultaneously published in The Lancet Oncology.

- Data from CANTOS, a Phase III study evaluating quarterly injections of **ACZ885** (canakinumab) in people with a prior heart attack and inflammatory atherosclerosis, was presented in August at the European Society of Cardiology Congress. The results were published simultaneously in The New England Journal of Medicine and The Lancet. CANTOS met its primary endpoint with a statistically significant 15% reduction of Major Adverse Cardiovascular Events (MACE) in people with a prior heart attack and inflammatory atherosclerosis who were treated with 150mg of ACZ885 in addition to standard of care including lipid-lowering therapy. This effect was driven by 24% relative reduction in risk of heart attack. A non-significant 10% reduction in risk of cardiovascular death was also observed. A sub-group of study participants, in the 150 mg arm, whose inflammation was reduced below the median hsCRP, measured at three months after one dose of treatment, saw a 27% relative risk reduction on the primary MACE end-point. A review of a blinded, pre-planned oncology safety analyses revealed a 77% reduction in lung cancer mortality and 67% reduction in lung cancer cases in patients treated with 300 mg of ACZ885. Novartis is discussing the CANTOS study findings with health authorities and plans to submit the cardiovascular data for regulatory approval, as well as begin evaluation of the lung cancer findings in additional Phase III confirmatory studies.

- Phase III 5-year data for ***Cosentyx*** presented at EADV showed high and long-lasting skin clearance in patients with moderate-to-severe plaque psoriasis and demonstrating that the safety of this biologic was sustained over the 5-year treatment period. By specifically targeting interleukin-17A (IL-17A), *Cosentyx* addresses the key cytokine involved in the development of psoriasis, which plays a significant role in the pathogenesis of plaque psoriasis, PsA and AS.

- OPTIMA data for ***Xolair*** also presented at EADV re-confirmed that almost two thirds of chronic spontaneous urticaria (CSU) patients treated with *Xolair* 300 mg for 6 months are well-controlled. In addition, data showed that after a treatment pause almost 90% of patients – previously well controlled – regained effective symptom control within 12 weeks of re-treatment on *Xolair.*

- Novartis announced positive topline results from the Phase III PARADIGMS study, investigating the safety and efficacy of oral once-daily ***Gilenya*** (fingolimod) in children and adolescents (ages 10 to 17) with multiple sclerosis (MS). PARADIGMS is the first ever randomized, controlled Phase III study of a disease-modifying therapy (DMT) in pediatric MS. Data show that oral fingolimod resulted in a significant and clinically meaningful reduction in the number of relapses (annualized relapse rate) in this patient population over a period of up to two years, compared to interferon beta-1a intramuscular injections. The safety profile of fingolimod was consistent with that seen in other clinical trials, with overall more adverse events reported in the interferon group.

- A new analysis from a pivotal Phase II study of **AMG 334** (erenumab) presented at the Congress of the International Headache Society (IHC) showed reduced monthly migraine days in patients with chronic migraine for whom previous preventive treatments have failed. In these patients, erenumab cut the average number of migraine days by at least five days and up to a week per month, depending on treatment dose. Additionally presented at IHC, were new data assessing the safety of erenumab 140 mg IV in a cardiovascular population with stable angina who are at increased risk for myocardial ischemia. This is the only such study evaluating the safety of a

monoclonal antibody targeting the CGRP pathway. Results of this study showed that inhibition of the CGRP receptor with erenumab had no impact on exercise capacity as measured by an exercise stress test.

- Data from a long-term study of patients continuously treated with **Sandoz proposed biosimilar adalimumab** of reference medicine Humira® showed that efficacy and safety profiles of the two medicines matched throughout 51 weeks of treatment in patients with moderate-to-severe chronic plaque psoriasis. Results were presented in September at EADV. ADACCESS is a Phase III confirmatory randomized, double-blind, controlled, 51-week study to compare efficacy and safety between Sandoz biosimilar adalimumab and the reference medicine. The study consists of three treatment periods.

- Novartis and Medicines for Malaria Venture (MMV) launched a phase IIb trial of **KAF156**, a next-generation antimalarial compound with the potential to treat drug-resistant strains of the malaria parasite. The trial will test multiple dosing combinations and dosing schedules of KAF156 and lumefantrine, including the feasibility of a single dose therapy in adults, adolescents and children. Seventeen centers across nine countries in Africa and Asia will participate.

- Novartis exclusively licensed global commercial rights to **gevokizumab** from XOMA. Gevokizumab is a potent humanized, monoclonal antibody targeting IL1β with unique allosteric modulating properties and has the potential to treat patients in a variety of diseases where inflammation is a component. In a separate agreement, XOMA has granted Novartis a license to its intellectual property covering the use of IL1β antibodies.

- ***Promacta/Revolade*** data showed long-term disease control for chronic/persistent immune thrombocytopenia (ITP). Nearly 70% of patients maintained platelet counts of $\geq 30 \times 10^9$/L without rescue therapy for prolonged periods. More than one-third of patients permanently stopped one or more concomitant ITP medications. The data was published in Blood in October.

- Novartis' continuous manufacturing facility in Basel was granted a license by Swissmedic to produce drugs for the use in clinical trials, following a successful inspection by the Regional Drug Inspection Agency, RHI, on behalf of Swissmedic. Continuous manufacturing is an innovative process spearheaded by a Novartis collaboration with the Massachusetts Institute of Technology, in which medicines are manufactured in a single 'flow' with all steps of chemical and pharmaceutical production integrated into a seamless process. Novartis will look to implement continuous manufacturing in Novartis' development portfolio in a stepwise manner, with patients in clinical trials expected to start receiving medicines made by this method in 2018.

**Selected Innovative Medicines approvals: US, EU and Japan**

| Product | Active ingredient/ Descriptor | Indication | Approval date |
|---|---|---|---|
| *Kymriah* (CTL019) | tisagenlecleucel | Suspension for intravenous infusion, for the treatment of patients up to 25 years of age with B-cell precursor acute lymphoblastic leukemia (ALL) that is refractory or in second or later relapse. *Kymriah* is a novel immunocellular therapy and a one-time treatment that uses a patient's own T cells to fight cancer. | - US – Aug 2017 |
| *Rydapt* (PKC412) | midostaurin | FLT3-mutated acute myeloid leukemia (AML) and three types of advanced systemic mastocytosis (SM): aggressive systemic mastocytosis (ASM), systemic mastocytosis with associated hematological neoplasm (SM-AHN) or mast cell leukemia | - EU – Sep 2017 |
| *Kisqali* | ribociclib | In combination with an aromatase inhibitor for treatment of postmenopausal women with hormone receptor positive, human epidermal growth factor receptor-2 negative (HR+/HER2-) locally advanced or metastatic breast cancer as initial endocrine-based therapy. | - EU – Aug 2017 |
| *Signifor* | pasireotide | Long-acting release formulation approved in EU as a once-monthly treatment for adult patients with Cushing's disease for whom surgery is not an option or for whom surgery has failed | - EU – Sep 2017 |

## Selected Innovative Medicines projects awaiting regulatory decisions

| | | Completed submissions | | | |
|---|---|---|---|---|---|
| **Product** | **Indication** | **US** | **EU** | **Japan** | **News update** |
| AMG 334 | Migraine prophylaxis | Q3 2017 | Q2 2017 | | - First anti-CGRP monoclonal antibody to receive both FDA & EMA regulatory filing acceptance<br>- New analysis from a pivotal Phase II study presented at IHC (September) shows erenumab reduced monthly migraine days in patients with chronic migraine for whom previous preventive treatments have failed<br>- Results from dedicated cardiovascular safety study also presented at IHC and confirm erenumab has no impact on cardiovascular function |
| *Jadenu/Exjade* granules | Chronic iron overload | Approved | Q4 2016 | Approved | |
| *Promacta/ Revolade* | Aplastic anemia (moderate and severe) | | | Q4 2016 | |
| *Signifor LAR* | Cushing's disease | Q3 2017 | Approved | Q2 2017 | - Working with FDA on data formatting for planned resubmission. |
| *Tafinlar* + *Mekinist* | BRAF V600+ non-small cell lung cancer (NSCLC) | Approved | Approved | Q4 2016 | Results were published in The Lancet Oncology showing efficacy for patients with BRAF V600E-mutant metastatic non-small cell lung cancer (NSCLC) without prior systemic therapy when treated with the combination. The results were also presented at ESMO 2017. |

## Selected Innovative Medicines pipeline projects

| **Project/ Compound** | **Potential indication/ Disease area** | **First planned submissions** | **Current Phase** | **News update** |
|---|---|---|---|---|
| ABL001 | Chronic myeloid leukemia 1st line | 2025 | I | - Start of pivotal trials planned for 2017 |
| | Chronic myeloid leukemia 3rd line | 2020 | I | |
| ACZ885 (canakinumab) | Secondary prevention of cardiovascular events | 2017 | III | - Positive Phase III results (CANTOS) announced in June<br>- An anti-inflammatory therapy trial with canakinumab published in NEJM showed that anti-inflammatory therapy with canakinumab (150 mg) resulted in a statistically lower rate of CV events in comparison to placebo.<br>- Analysis published in *The Lancet* revealed canakinumab (300 mg) reduced lung cancer mortality by 77% in the CANTOS study with further studies planned |
| | Adjuvant NSCLC | ≥2021 | III | |
| | 1st Line NSCLC | ≥2021 | III | |
| | 2nd Line NSCLC | ≥2021 | III | |
| *Arzerra* | Non-Hodgkin's lymphoma (refractory) | 2019 | III | - Study endpoint is event driven |
| BAF312 | Secondary Progressive Multiple Sclerosis | 2018 | III | |

| | | | | |
|---|---|---|---|---|
| BYL719 + fulvestrant | HR+/HER2- postmenopausal aBC 2nd line | 2018 | III | |
| BYM338 | Hip fracture recovery | ≥2021 | II | |
| | Sarcopenia | ≥2021 | II | |
| CAD106 | Alzheimer's disease | ≥2021 | II / III | - Generation study 1 ongoing<br>- Phase II/III in cognitively healthy people at risk of Alzheimer's disease |
| CFZ533 | Kidney and Liver Transplantation | ≥2021 | II | |
| CNP520 | Alzheimer's disease | ≥2021 | II / III | - Generation study 1 ongoing<br>- Generation study 2 opened enrollment in June 2017<br>- Phase II/III in cognitively healthy people at risk of Alzheimer's disease<br>- In partnership with Amgen<br>- FDA Fast Track designation |
| *Cosentyx* | Non-radiographic axial spondyloarthritis | 2019 | III | |
| | Psoriatic arthritis head-to-head vs. adalimumab | 2020 | III | - First Patient, First Visit (FPFV) achieved in April 2017 |
| | Ankylosing spondylitis head-to-head vs. adalimumab | ≥2021 | III | |
| ECF843 | Dry eye | ≥2021 | II | - Acquired worldwide ophthalmic rights (ex-EU) from Lubris in April 2017 |
| EMA401 | Peripheral neuropathic pain | ≥2021 | II | - Phase IIb initiated |
| *Entresto* | Chronic heart failure with preserved ejection fraction | 2019 | III | - PARAGON-HF trial enrollment completed |
| | Post-acute myocardial infarction | 2020 | III | |
| FTY720 (fingolimod) | Pediatric multiple sclerosis | 2017 | III | - Positive topline results from Phase III PARADIGMS study announced<br>- Full results will be presented at the 7th joint ECTRIMS-ACTRIMS meeting |
| INC280 | NSCLC (cMET amp and mut) | 2018 | II | |
| | NSCLC (EGFRm) | ≥2021 | II | - FPFV achieved in 2017 |
| *Jakavi* | Acute graft-versus-host disease (GvHD) | 2020 | III | |
| | Chronic graft-versus-host disease (GvHD) | 2020 | III | |
| KAE609 | Malaria | ≥2021 | II | |
| KAF156 | Malaria | ≥2021 | II | |
| *Kisqali* (LEE011) + tamoxifen + goserelin or NSAI + goserelin | HR+/HER2- premenopausal aBC 1st line | 2018 | III | - Fully enrolled |
| *Kisqali* (LEE011) + fulvestrant | HR+/HER2- postmenopausal aBC 1st/2nd line | 2018 | III | - Fully enrolled |
| *Kisqali* (LEE011) + adjuvant endocrine therapy | HR+/HER2- BC (adjuvant, high risk) | ≥2021 | III | - FPFV achieved in 2017 |
| | HR+/HER2- BC (adjuvant, intermediate risk) | ≥2021 | III | |
| *Kymriah* (CTL019, tisagenlecleucel) | Adult r/r DLBCL | Q4 2017 (US and EU) | II (pivotal) | |

| | | | | |
|---|---|---|---|---|
| | B-ALL (children/young adults) | Q4 2017 (EU) | II (pivotal) | - FDA approval received<br>- EU planned submission |
| | Folicular Lymphoma | 2020 | II | |
| LAM320 | Multi-drug resistant tuberculosis | 2018 | III | |
| LCI699 | Cushing's disease | 2018 | III | - Fully enrolled; additional registration trial for US currently enrolling |
| LHW090 | Resistant Hypertension | ≥2021 | II | |
| LIK066 | Weight loss | ≥2021 | II | |
| LJN452 | Non-alcoholic steatohepatitis (NASH) | ≥2021 | II | - FDA Fast Track designation |
| LMI070 | Spinal muscular atrophy | ≥2021 | II | |
| *Lucentis* | Retinopathy of prematurity | 2018 | III | - Phase III PIP study enrolling |
| MAA868 | Stroke prevention in atrial fibrillation | ≥2021 | II | |
| OMB157 (ofatumumab) | Relapsing multiple sclerosis | 2019 | III | - Trials ongoing |
| PDR001 + *Tafinlar* + *Mekinist* | Metastatic BRAF V600+ melanoma | 2019 | III | - COMBI-I study ongoing: Part 3 FPFV achieved in September 2017 |
| PDR001 | NET | 2019 | II | - Fully enrolled<br>- FDA orphan drug designation |
| PIM447 | Hematologic cancers | ≥2021 | I | |
| *Promacta / Revolade* | Severe aplastic anemia 1st line | 2018 | III | |
| QAW039 | Asthma | 2019 | III | - Phase III program recruiting |
| QBW251 | COPD | ≥2021 | II | |
| QGE031 | Chronic spontaneous urticaria / chronic idiopathic urticaria | 2020 | II | |
| QMF149 | Asthma | 2019 | III | |
| QVM149 | Asthma | 2019 | III | |
| RTH258 | nAMD | 2018 | III | - Positive Phase III results (HAWK, HARRIER) announced in June 2017<br>- Presentation at AAO planned for Nov 2017 |
| | Diabetic macular edema | 2020 | III | |
| *Rydapt* (PKC412) | Acute myeloid leukemia (FLT3 wild type) | ≥2021 | III | |
| SEG101 | Sickle cell pain crises | 2018 | II/III | |
| *Tafinlar* + *Mekinist* | BRAF V600+ melanoma (adjuvant) | 2017 | III | - Fully enrolled<br>- Positive results meeting Phase III adjuvant study endpoints were presented at ESMO and published in NEJM<br>- FDA Breakthrough Therapy designation received Oct 2017 |
| UNR844 | Presbyopia | ≥2021 | II | |
| VAY736 | Auto-Immune Hepatitis | ≥2021 | II | |
| | Primary Sjoegren's syndrome | ≥2021 | II | - FDA Fast Track designation |
| VAY785 (emricasan) | Non-alcoholic steatohepatitis (NASH) | ≥2021 | II | - Conatus transaction announced in May 2017 |
| *Xolair* | Nasal Polyps | 2020 | III | |
| ZPL389 | Atopic dermatitis | ≥2021 | II | |

**Selected Sandoz approvals and pipeline projects (biosimilars)**

| Project/ Compound | Potential indication/ Disease area | Submission status | Current Phase | News update |
|---|---|---|---|---|
| GP2015 (etanercept) | Arthritides (rheumatoid arthritis, ankylosing spondylitis, psoriatic arthritis), plaque psoriasis and others (same as originator) | US<br>EU | Approved<br>Approved | - EU approval for *Erelzi* in June 2017 |
| GP2013 (rituximab) | Follicular lymphoma, diffuse large B cell lymphoma, chronic lymphocytic leukemia, rheumatoid arthritis, granulomatosis with polyangiitis, and microscopic polyangiitis (same as originator) | US<br>EU | Submitted<br>Approved | - ASSIST-FL results presented at ASH<br>- EU approval for *Rixathon* in June 2017<br>- US filed September 2017 |
| GP2017 (adalimumab) | Arthritides (rheumatoid arthritis, ankylosing spondylitis, psoriatic arthritis), plaque psoriasis and others (same as originator) | US<br>EU | III<br>Submitted | - EU filing in May 2017 |
| GP1111 (infliximab) | Autoimmune diseases including rheumatoid arthritis and psoriasis (same as originator) | EU | Submitted | - EU filing in May 2017 |
| LA-EP2006 (pegfilgrastim) | Chemotherapy-induced neutropenia and others (same as originator) | | III | - Resubmission planned for 2019 to address FDA complete response letter<br>- Withdrawal of EU filing in January 2017 with planned re-filing in 2017 |

## Selected Alcon pipeline projects

| Project/ Compound | Potential indication/ Disease area | Planned submissions | Current Phase | News update |
|---|---|---|---|---|
| **SURGICAL** | | | | |
| *AcrySof IQ PanOptix* IOL | Trifocal IOL | US 2019 | Advanced | - Received CE Mark in Europe in Q2 2015 |
| *AcrySof IQ PanOptix* Toric IOL | Trifocal IOL for astigmatism | US 2019 | Advanced | - Received CE Mark in Europe in Q4 2016 |
| A02238 | Mid-tier phacoemulsification device | US 2018<br>EU 2018 | Advanced<br>Advanced | |
| *Clareon* Monofocal IOL | Next-generation IOL | US 2019<br>JP 2017 | Advanced<br>Submitted | - Received CE Mark in Europe in Q2 2017 |
| *CyPass* Micro-Stent | Minimally invasive surgical glaucoma device for implant during cataract surgery | JP 2018 | Advanced | - Received US approval in Q3 2016<br>- Received CE Mark in Europe in Q1 2017 |
| **VISION CARE** | | | | |
| A00717 | Daily disposable line extension | EU 2018<br>JP 2018 | Advanced<br>Advanced | |
| A01660 | New daily disposable lens | US 2018<br>EU 2018<br>JP 2019 | Advanced<br>Advanced<br>Advanced | |

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated income statements

### **Third quarter** (unaudited)

| (USD millions unless indicated otherwise) | **Q3 2017** | Q3 2016 | Change |
|---|---|---|---|
| **Net sales** | **12 413** | **12 126** | **287** |
| Other revenues | 279 | 215 | 64 |
| Cost of goods sold | -4 323 | -4 368 | 45 |
| **Gross profit** | **8 369** | **7 973** | **396** |
| Marketing & Sales | -3 168 | -2 944 | -224 |
| Research & Development | -2 239 | -2 224 | -15 |
| General & Administration | -510 | -456 | -54 |
| Other income | 424 | 530 | -106 |
| Other expense | -519 | -610 | 91 |
| **Operating income** | **2 357** | **2 269** | **88** |
| Income from associated companies | 262 | 217 | 45 |
| Interest expense | -197 | -174 | -23 |
| Other financial income and expense, net | 14 | -38 | 52 |
| **Income before taxes** | **2 436** | **2 274** | **162** |
| Taxes | -353 | -329 | -24 |
| **Net income** | **2 083** | **1 945** | **138** |
| *Attributable to:* | | | |
| *Shareholders of Novartis AG* | *2 081* | *1 940* | *141* |
| *Non-controlling interests* | *2* | *5* | *-3* |
| **Weighted average number of shares outstanding – Basic (million)** | **2 335** | **2 379** | **-44** |
| **Basic earnings per share (USD)** [1] | **0.89** | **0.81** | **0.08** |
| Weighted average number of shares outstanding – Diluted (million) | 2 359 | 2 401 | -42 |
| Diluted earnings per share (USD) [1] | 0.88 | 0.81 | 0.07 |

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## Consolidated income statements

### Nine months to September 30 (unaudited)

| (USD millions unless indicated otherwise) | **9M 2017** | 9M 2016 | Change |
|---|---|---|---|
| **Net sales** | **36 194** | **36 196** | **-2** |
| Other revenues | 777 | 634 | 143 |
| Cost of goods sold | -12 686 | -13 031 | 345 |
| **Gross profit** | **24 285** | **23 799** | **486** |
| Marketing & Sales | -9 397 | -8 752 | -645 |
| Research & Development | -6 470 | -6 455 | -15 |
| General & Administration | -1 559 | -1 602 | 43 |
| Other income | 1 349 | 1 546 | -197 |
| Other expense | -1 649 | -1 723 | 74 |
| **Operating income** | **6 559** | **6 813** | **-254** |
| Income from associated companies | 692 | 547 | 145 |
| Interest expense | -569 | -539 | -30 |
| Other financial income and expense, net | 16 | -82 | 98 |
| **Income before taxes** | **6 698** | **6 739** | **-41** |
| Taxes | -971 | -977 | 6 |
| **Net income** | **5 727** | **5 762** | **-35** |
| *Attributable to:* | | | |
| *Shareholders of Novartis AG* | *5 727* | *5 755* | *-28* |
| *Non-controlling interests* | *0* | *7* | *-7* |
| **Weighted average number of shares outstanding – Basic (million)** | **2 353** | **2 380** | **-27** |
| **Basic earnings per share (USD)** [1] | **2.43** | **2.42** | **0.01** |
| Weighted average number of shares outstanding – Diluted (million) | 2 375 | 2 402 | -27 |
| Diluted earnings per share (USD) [1] | 2.41 | 2.40 | 0.01 |

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## Condensed consolidated statements of comprehensive income

### **Third quarter** (unaudited)

| (USD millions) | **Q3 2017** | Q3 2016 | Change |
|---|---|---|---|
| **Net income** | **2 083** | **1 945** | **138** |
| *Other comprehensive income to be eventually recycled into the consolidated income statement:* | | | |
| Fair value adjustments on financial instruments, net of taxes | 153 | 66 | 87 |
| Novartis share of other comprehensive income recognized by associated companies, net of taxes | 7 | -96 | 103 |
| Net investment hedge | -69 | | -69 |
| Translation effects | 55 | 732 | -677 |
| *Total of items to eventually recycle* | *146* | *702* | *-556* |
| *Other comprehensive income never to be recycled into the consolidated income statement:* | | | |
| Net actuarial gains from defined benefit plans, net of taxes | 359 | 281 | 78 |
| **Comprehensive income** | **2 588** | **2 928** | **-340** |
| *Attributable to:* | | | |
| *Shareholders of Novartis AG* | *2 587* | *2 922* | *-335* |
| *Non-controlling interests* | 1 | *6* | *-5* |

### **Nine months to September 30** (unaudited)

| (USD millions) | **9M 2017** | 9M 2016 | Change |
|---|---|---|---|
| **Net income** | **5 727** | **5 762** | **-35** |
| *Other comprehensive income to be eventually recycled into the consolidated income statement:* | | | |
| Fair value adjustments on financial instruments, net of taxes | 159 | -34 | 193 |
| Novartis share of other comprehensive income recognized by associated companies, net of taxes | 166 | -95 | 261 |
| Net investment hedge | -207 | | -207 |
| Translation effects | 2 309 | 198 | 2 111 |
| *Total of items to eventually recycle* | *2 427* | *69* | *2 358* |
| *Other comprehensive income never to be recycled into the consolidated income statement:* | | | |
| Net actuarial gains/(losses) from defined benefit plans, net of taxes | 1 081 | -1 251 | 2 332 |
| **Comprehensive income** | **9 235** | **4 580** | **4 655** |
| *Attributable to:* | | | |
| *Shareholders of Novartis AG* | *9 234* | *4 574* | *4 660* |
| *Non-controlling interests* | *1* | *6* | *-5* |

## Condensed consolidated balance sheets

| (USD millions) | **Sep 30, 2017 (unaudited)** | Dec 31, 2016 (audited) | Change |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant & equipment | 16 263 | 15 641 | 622 |
| Goodwill | 31 715 | 30 980 | 735 |
| Intangible assets other than goodwill | 30 836 | 31 340 | -504 |
| Financial and other non-current assets | 28 692 | 27 232 | 1 460 |
| **Total non-current assets** | **107 506** | **105 193** | **2 313** |
| **Current assets** | | | |
| Inventories | 6 954 | 6 255 | 699 |
| Trade receivables | 8 482 | 8 202 | 280 |
| Other current assets | 2 609 | 2 697 | -88 |
| Cash and cash equivalents, marketable securities, commodities and derivatives | 9 421 | 7 777 | 1 644 |
| **Total current assets** | **27 466** | **24 931** | **2 535** |
| **Total assets** | **134 972** | **130 124** | **4 848** |
| | | | |
| **Equity and liabilities** | | | |
| Equity attributable to Novartis AG shareholders | 72 311 | 74 832 | -2 521 |
| Non-controlling interests | 59 | 59 | 0 |
| **Total equity** | **72 370** | **74 891** | **-2 521** |
| **Non-current liabilities** | | | |
| Financial debts | 23 163 | 17 897 | 5 266 |
| Other non-current liabilities | 14 060 | 15 127 | -1 067 |
| **Total non-current liabilities** | **37 223** | **33 024** | **4 199** |
| **Current liabilities** | | | |
| Trade payables | 4 685 | 4 873 | -188 |
| Financial debts and derivatives | 6 997 | 5 905 | 1 092 |
| Other current liabilities | 13 697 | 11 431 | 2 266 |
| **Total current liabilities** | **25 379** | **22 209** | **3 170** |
| **Total liabilities** | **62 602** | **55 233** | **7 369** |
| **Total equity and liabilities** | **134 972** | **130 124** | **4 848** |

## Condensed consolidated changes in equity

### **Third quarter** (unaudited)

| (USD millions) | **Q3 2017** | Q3 2016 | Change |
|---|---|---|---|
| **Consolidated equity at July 1** | **69 978** | **72 532** | **-2 554** |
| Comprehensive income | 2 588 | 2 928 | -340 |
| Purchase of treasury shares | -1 336 | -492 | -844 |
| Equity-based compensation | 166 | 105 | 61 |
| Decrease of treasury share repurchase obligation under a share buyback trading plan | 975 | | 975 |
| Impact of change in ownership of consolidated entities | | -7 | 7 |
| Change in non-controlling interests | -1 | 0 | -1 |
| **Consolidated equity at September 30** | **72 370** | **75 066** | **-2 696** |

### **Nine months to September 30** (unaudited)

| (USD millions) | **9M 2017** | 9M 2016 | Change |
|---|---|---|---|
| **Consolidated equity at January 1** | **74 891** | **77 122** | **-2 231** |
| Comprehensive income | 9 235 | 4 580 | 4 655 |
| Purchase of treasury shares | -4 690 | -870 | -3 820 |
| Increase of treasury share repurchase obligation under a share buyback trading plan | -1 312 | | -1 312 |
| Exercise of options and employee transactions | 235 | 214 | 21 |
| Equity-based compensation | 507 | 502 | 5 |
| Dividends to shareholders of Novartis AG | -6 495 | -6 475 | -20 |
| Impact of change in ownership of consolidated entities | | -7 | 7 |
| Change in non-controlling interests | -1 | 0 | -1 |
| **Consolidated equity at September 30** | **72 370** | **75 066** | **-2 696** |

## Condensed consolidated cash flow statements

### **Third quarter** (unaudited)

| (USD millions) | **Q3 2017** | Q3 2016 | Change |
|---|---|---|---|
| **Net income** | **2 083** | **1 945** | **138** |
| Reversal of non-cash items | | | |
| Taxes | 353 | 329 | 24 |
| Depreciation, amortization and impairments | 1 478 | 1 508 | -30 |
| Change in provisions and other non-current liabilities | -29 | 249 | -278 |
| Income from associated companies | -262 | -217 | -45 |
| Net financial expense | 183 | 212 | -29 |
| Other | 103 | -195 | 298 |
| **Net income adjusted for non-cash items** | **3 909** | **3 831** | **78** |
| Interest and other financial receipts | 28 | 9 | 19 |
| Interest and other financial payments | -296 | -170 | -126 |
| Taxes paid [1] | -221 | -339 | 118 |
| **Cash flows before working capital changes** | **3 420** | **3 331** | **89** |
| Payments out of provisions and other net cash movements in non-current liabilities | -215 | -339 | 124 |
| Change in net current assets and other operating cash flow items | 381 | 239 | 142 |
| **Cash flows from operating activities** | **3 586** | **3 231** | **355** |
| Purchase of property, plant & equipment | -382 | -443 | 61 |
| Purchase of intangible assets | -287 | -478 | 191 |
| Proceeds from sales of intangible assets | 157 | 209 | -52 |
| Purchase of financial and other non-current assets | -123 | -58 | -65 |
| Proceeds from sales of property, plant & equipment and financial assets | 113 | 130 | -17 |
| Acquisitions and divestments of businesses, net | -105 | -104 | -1 |
| Change in marketable securities and commodities | -18 | 55 | -73 |
| **Cash flows used in investing activities from continuing operations** | **-645** | **-689** | **44** |
| Cash flows used in investing activities from discontinued operations [1] | -40 | -63 | 23 |
| **Total cash flows used in investing activities** | **-685** | **-752** | **67** |
| Change in current and non-current financial debts | -576 | 82 | -658 |
| Treasury share transactions, net | -1 398 | -410 | -988 |
| Impact of change in ownership of consolidated enities | | -6 | 6 |
| Other financing cash flows | 37 | -8 | 45 |
| **Cash flows used in financing activities** | **-1 937** | **-342** | **-1 595** |
| Effect of exchange rate changes on cash and cash equivalents | -10 | 1 | -11 |
| **Change in cash and cash equivalents** | **954** | **2 138** | **-1 184** |
| Cash and cash equivalents at July 1 | 7 856 | 5 036 | 2 820 |
| **Cash and cash equivalents at September 30** | **8 810** | **7 174** | **1 636** |

[1] In Q3 2016, the total tax payment amounted to USD 350 million, of which USD 11 million was included in the cash flows used in investing activities from discontinued operations.

## Condensed consolidated cash flow statements

### Nine months to September 30 (unaudited)

| (USD millions) | **9M 2017** | 9M 2016 | Change |
|---|---|---|---|
| **Net income** | **5 727** | **5 762** | **-35** |
| Reversal of non-cash items | | | |
| Taxes | 971 | 977 | -6 |
| Depreciation, amortization and impairments | 4 608 | 4 343 | 265 |
| Change in provisions and other non-current liabilities | 3 | 737 | -734 |
| Income from associated companies | -692 | -547 | -145 |
| Net financial expense | 553 | 621 | -68 |
| Other | -63 | -223 | 160 |
| **Net income adjusted for non-cash items** | **11 107** | **11 670** | **-563** |
| Interest and other financial receipts | 934 | 705 | 229 |
| Interest and other financial payments | -642 | -677 | 35 |
| Taxes paid [1] | -1 125 | -1 320 | 195 |
| **Cash flows before working capital changes** | **10 274** | **10 378** | **-104** |
| Payments out of provisions and other net cash movements in non-current liabilities | -505 | -1 352 | 847 |
| Change in net current assets and other operating cash flow items | -556 | -1 142 | 586 |
| **Cash flows from operating activities** | **9 213** | **7 884** | **1 329** |
| Purchase of property, plant & equipment | -1 058 | -1 276 | 218 |
| Purchase of intangible assets | -718 | -822 | 104 |
| Proceeds from sales of intangible assets | 540 | 668 | -128 |
| Purchase of financial and other non-current assets | -343 | -265 | -78 |
| Proceeds from sales of property, plant & equipment and financial assets | 338 | 290 | 48 |
| Acquisitions and divestments of businesses, net | -760 | -530 | -230 |
| Change in marketable securities, commodities and divestments of interests in associated companies | 5 | 89 | -84 |
| **Cash flows used in investing activities from continuing operations** | **-1 996** | **-1 846** | **-150** |
| Cash flows used in investing activities from discontinued operations [1] | -127 | -522 | 395 |
| **Total cash flows used in investing activities** | **-2 123** | **-2 368** | **245** |
| Dividends related to shareholders of Novartis AG | -6 495 | -6 475 | -20 |
| Change in current and non-current financial debts | 5 439 | 4 163 | 1 276 |
| Treasury share transactions, net | -4 331 | -690 | -3 641 |
| Impact of change in ownership of consolidated entities | | -6 | 6 |
| Other financing cash flows | 50 | -3 | 53 |
| **Cash flows used in financing activities** | **-5 337** | **-3 011** | **-2 326** |
| Effect of exchange rate changes on cash and cash equivalents | 50 | -5 | 55 |
| **Change in cash and cash equivalents** | **1 803** | **2 500** | **-697** |
| Cash and cash equivalents at January 1 | 7 007 | 4 674 | 2 333 |
| **Cash and cash equivalents at September 30** | **8 810** | **7 174** | **1 636** |

[1] In 9M 2016, the total tax payment amounted to USD 1 503 million, of which USD 183 million was included in the cash flows used in investing activities from discontinued operations.

## Notes to the Condensed Interim Consolidated Financial Statements for the three- and nine-month period ended September 30, 2017 (unaudited)

### 1. Basis of preparation

These Condensed Interim Consolidated Financial Statements for the three- and nine-month period ended September 30, 2017, were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and accounting policies set out in the 2016 Annual Report published on January 25, 2017.

### 2. Selected critical accounting policies

The Group's principal accounting policies are set out in Note 1 to the Consolidated Financial Statements in the Annual Report 2016 and conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The presentation of financial statements requires management to make subjective and complex judgments that affect the reported amounts. Because of the inherent uncertainties, actual outcomes and results may differ from management's assumptions and estimates.

As discussed in the 2016 Annual Report, goodwill, Alcon brand name and acquired In-Process Research & Development projects are reviewed for impairment at least annually and these, as well as all other investments in intangible assets, are reviewed for impairment whenever an event or decision occurs that raises concern about their balance sheet carrying value. The amount of goodwill and other intangible assets on the Group's consolidated balance sheet has risen significantly in recent years, primarily from acquisitions. Impairment testing under IFRS may lead to potentially significant impairment charges in the future that could have a materially adverse impact on the Group's results of operations and financial condition.

## 3. Significant transactions

## Significant transactions in 2017

**Innovative Medicines – Acquisition of Ziarco Group Limited**
On January 20, 2017, Novartis acquired Ziarco Group Limited, a privately held company focused on the development of novel treatments in dermatology. This acquisition adds a once daily oral H4 receptor antagonist in development for atopic dermatitis (AD), commonly known as eczema, to complement the Novartis dermatology portfolio and pipeline. The fair value of the total purchase consideration was USD 420 million. The amount consisted of an initial cash payment of USD 325 million and the net present value of the contingent consideration of USD 95 million, due to the Ziarco shareholders, which they are eligible to receive upon achievement of specified development milestones. The purchase price allocation resulted in net identifiable assets of USD 395 million and goodwill of USD 25 million. Results of operations since the date of acquisition were not material.

**Innovative Medicines – Acquisition of Encore Vision, Inc.**
On January 20, 2017, Novartis acquired Encore Vision, Inc., a privately-held company in Fort Worth, Texas, USA, focused on the development of a novel treatment in presbyopia. The fair value of the total purchase consideration was USD 456 million. The amount consisted of an initial cash payment of USD 366 million and the net present value of the contingent consideration of USD 90 million, due to the Encore shareholders, which they are eligible to receive upon achievement of specified development and commercialization milestones. The purchase price allocation resulted in net identifiable assets of USD 389 million and goodwill of USD 67 million. Results of operations since the date of acquisition were not material.

## Significant transactions in 2016

**Alcon – Acquisition of Transcend Medical, Inc.**
On February 17, 2016, Alcon entered into an agreement to acquire Transcend Medical, Inc. (Transcend), a privately-held, US-based company focused on developing minimally-invasive surgical devices to treat glaucoma. The transaction closed on March 23, 2016, and the fair value of the total purchase consideration was USD 332 million. The amount consisted of an initial cash payment of USD 240 million and the net present value of the contingent consideration of USD 92 million due to the Transcend shareholders, which they are eligible to receive upon achievement of specified development and commercialization milestones. The purchase price allocation resulted in net identifiable assets of USD 294 million and goodwill of USD 38 million. Results of operations since the date of acquisition were not material.

**Innovative Medicines – Acquisition of Reprixys Pharmaceuticals Corporation**
On November 18, 2016, Novartis acquired Reprixys Pharmaceuticals Corporation (Reprixys), a privately held, US-based company specializing in development of therapeutics in certain hematologic and inflammatory disorders following receipt of results of the SUSTAIN study. The initial interest of 19% was adjusted to its fair value of USD 64 million through the consolidated income statement at acquisition date. This re-measurement resulted in a gain of USD 53 million.

The fair value of the total purchase consideration for acquiring the 81% stake Novartis did not already own amounted to USD 268 million. The amount consisted of an initial cash payment of USD 194 million and the net present value of the contingent consideration of USD 74 million due to the Reprixys shareholders, which they are eligible to receive upon achievement of specified development and commercialization milestones. The purchase price allocation resulted in net identifiable assets of USD 332 million. No goodwill was recognized. Results of operations since the date of acquisition were not material.

## 4. Summary of equity attributable to Novartis AG shareholders

| | Number of outstanding shares (in millions) | | | Issued share capital and reserves attributable to Novartis AG shareholders (in USD millions) | | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | **9M 2017** | 9M 2016 | Change |
| **Balance at beginning of year** | **2 374.1** | **2 373.9** | **0.2** | **74 832** | **77 046** | **-2 214** |
| Shares acquired to be cancelled | -56.8 | -8.8 | -48.0 | -4 473 | -681 | -3 792 |
| Other share purchases | -2.8 | -2.4 | -0.4 | -217 | -189 | -28 |
| Exercise of options and employee transactions | 4.2 | 4.1 | 0.1 | 235 | 214 | 21 |
| Equity-based compensation | 8.6 | 8.7 | -0.1 | 507 | 502 | 5 |
| Increase of treasury share repurchase obligation under a share buyback trading plan | | | | -1 312 | | -1 312 |
| Dividends to shareholders of Novartis AG | | | | -6 495 | -6 475 | -20 |
| Net income of the period attributable to shareholders of Novartis AG | | | | 5 727 | 5 755 | -28 |
| Impact of change in ownership of consolidated entities | | | | | -7 | 7 |
| Other comprehensive income attributable to shareholders of Novartis AG | | | | 3 507 | -1 181 | 4 688 |
| **Balance at September 30** | **2 327.3** | **2 375.5** | **-48.2** | **72 311** | **74 984** | **-2 673** |

In 2017, Novartis entered into an irrevocable, non-discretionary arrangement with a bank to repurchase own shares on the second trading line under its up to USD 5 billion share buyback, as well as to mitigate dilution from equity-based participation plans. The commitment under this arrangement amounted to USD 1.3 billion as of September 30, 2017, reflecting the expected purchases by the bank under such trading plan over a rolling 90 days period.

## 5. Consolidated income statements – Segmentation

The businesses of Novartis are divided operationally on a worldwide basis into three identified reporting segments, Innovative Medicines, Sandoz and Alcon. In addition, we separately report Corporate activities.

Reporting segments are presented in a manner consistent with the internal reporting to the chief operating decision maker which is the Executive Committee of Novartis. The reporting segments are managed separately because they each research, develop, manufacture, distribute and sell distinct products that require differing marketing strategies.

The Executive Committee of Novartis is responsible for allocating resources and assessing the performance of the reporting segments.

Innovative Medicines researches, develops, manufactures, distributes and sells patented prescription medicines. The Innovative Medicines Division is organized into two global business units: Novartis Oncology, which consists of the global business franchises Oncology and Novartis Pharmaceuticals, which consists of the global business franchises Ophthalmology, Neuroscience, Immunology and Dermatology, Respiratory, Cardio-Metabolic and Established Medicines.

Sandoz develops, manufactures, distributes and sells prescription medicines, as well as pharmaceutical active substances, that are not protected by valid and enforceable third-party patents. Sandoz is organized globally in three franchises: Retail Generics, Anti-Infectives and Biopharmaceuticals. In Retail Generics, Sandoz develops, manufactures and markets active ingredients and finished dosage forms of pharmaceuticals to third parties. Retail Generics includes the areas of dermatology, respiratory, oncology, ophthalmics, cardiovascular, metabolism, central nervous system, pain, gastrointestinal, and hormonal therapies, as well as finished dosage form anti-infectives sold to third parties. In Anti-Infectives, Sandoz manufactures active pharmaceutical ingredients and intermediates, mainly antibiotics, for internal use by Retail Generics and for sale to third party customers. In Biopharmaceuticals, Sandoz develops, manufactures and markets protein or other biotechnology-based products, including biosimilars, and provides biotechnology manufacturing services to other companies.

Alcon researches, discovers, develops, manufactures, distributes and sells eye care products. Alcon is the global leader in eye care with product offerings in eye care devices and vision care. Alcon is organized into two global business franchises: Surgical and Vision Care. The Surgical franchise includes technologies and devices for cataract, retinal, glaucoma and refractive surgery, as well as intraocular lenses to treat cataract and refractive errors, like presbyopia and astigmatism. Alcon also provides viscoelastics, surgical solutions, surgical packs, and other disposable products for cataract and vitreoretinal surgery. The Vision Care franchise comprises daily disposable, monthly replacement, and color-enhancing contact lenses, as well as a complete line of contact lens care products including multi-purpose and hydrogen-peroxide based solutions, rewetting drops and daily protein removers.

The divisions are supported by Novartis Institute for BioMedical Research, Novartis Business Services, Global Drug Development and Novartis Technical Operations. Corporate activities include Group headquarter functions and items that are not specific to one segment. Further details are provided in Note 3 to the Consolidated Financial Statements of the Annual Report 2016.

## **Segmentation –Third quarter** (unaudited)

| (USD millions) | Innovative Medicines | | Sandoz | | Alcon | | Corporate (including eliminations) | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 |
| **Net sales to third parties** | **8 302** | **8 173** | **2 584** | **2 517** | **1 527** | **1 436** | | | **12 413** | **12 126** |
| Sales to other segments | 171 | 158 | 20 | 29 | 1 | | -192 | -187 | | |
| **Net sales** | **8 473** | **8 331** | **2 604** | **2 546** | **1 528** | **1 436** | **-192** | **-187** | **12 413** | **12 126** |
| Other revenues | 241 | 193 | 8 | 10 | 2 | | 28 | 12 | 279 | 215 |
| Cost of goods sold | -2 261 | -2 280 | -1 481 | -1 540 | -795 | -764 | 214 | 216 | -4 323 | -4 368 |
| **Gross profit** | **6 453** | **6 244** | **1 131** | **1 016** | **735** | **672** | **50** | **41** | **8 369** | **7 973** |
| Marketing & Sales | -2 227 | -2 047 | -438 | -399 | -503 | -498 | | | -3 168 | -2 944 |
| Research & Development | -1 861 | -1 889 | -195 | -204 | -183 | -131 | | | -2 239 | -2 224 |
| General & Administration | -232 | -246 | -74 | -60 | -94 | -86 | -110 | -64 | -510 | -456 |
| Other income | 247 | 264 | 70 | 62 | 17 | 19 | 90 | 185 | 424 | 530 |
| Other expense | -201 | -306 | -104 | -61 | -22 | -26 | -192 | -217 | -519 | -610 |
| **Operating income** | **2 179** | **2 020** | **390** | **354** | **-50** | **-50** | **-162** | **-55** | **2 357** | **2 269** |
| *as % of net sales* | *26.2%* | *24.7%* | *15.1%* | *14.1%* | *-3.3%* | *-3.5%* | | | *19.0%* | *18.7%* |
| Income from associated companies | | | | 1 | | | 262 | 216 | 262 | 217 |
| Interest expense | | | | | | | | | -197 | -174 |
| Other financial income and expense, net | | | | | | | | | 14 | -38 |
| **Income before taxes** | | | | | | | | | **2 436** | **2 274** |
| Taxes | | | | | | | | | -353 | -329 |
| **Net income** | | | | | | | | | **2 083** | **1 945** |

## Segmentation –Nine months to September 30 (unaudited)

| (USD millions) | Innovative Medicines | | Sandoz | | Alcon | | Corporate (including eliminations) | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 |
| **Net sales to third parties** | **24 269** | **24 289** | **7 465** | **7 539** | **4 460** | **4 368** | | | **36 194** | **36 196** |
| Sales to other segments | 502 | 464 | 82 | 71 | 3 | | -587 | -535 | | |
| **Net sales** | **24 771** | **24 753** | **7 547** | **7 610** | **4 463** | **4 368** | **-587** | **-535** | **36 194** | **36 196** |
| Other revenues | 678 | 559 | 27 | 31 | 3 | 4 | 69 | 40 | 777 | 634 |
| Cost of goods sold | -6 667 | -6 896 | -4 286 | -4 466 | -2 382 | -2 310 | 649 | 641 | -12 686 | -13 031 |
| **Gross profit** | **18 782** | **18 416** | **3 288** | **3 175** | **2 084** | **2 062** | **131** | **146** | **24 285** | **23 799** |
| Marketing & Sales | -6 619 | -6 133 | -1 320 | -1 236 | -1 458 | -1 383 | | | -9 397 | -8 752 |
| Research & Development | -5 468 | -5 465 | -576 | -605 | -426 | -385 | | | -6 470 | -6 455 |
| General & Administration | -715 | -744 | -225 | -218 | -300 | -309 | -319 | -331 | -1 559 | -1 602 |
| Other income | 804 | 870 | 121 | 136 | 38 | 46 | 386 | 494 | 1 349 | 1 546 |
| Other expense | -809 | -878 | -225 | -172 | -50 | -43 | -565 | -630 | -1 649 | -1 723 |
| **Operating income** | **5 975** | **6 066** | **1 063** | **1 080** | **-112** | **-12** | **-367** | **-321** | **6 559** | **6 813** |
| *as % of net sales* | *24.6%* | *25.0%* | *14.2%* | *14.3%* | *-2.5%* | *-0.3%* | | | *18.1%* | *18.8%* |
| Income from associated companies | -1 | | 22 | 5 | | | 671 | 542 | 692 | 547 |
| Interest expense | | | | | | | | | -569 | -539 |
| Other financial income and expense, net | | | | | | | | | 16 | -82 |
| **Income before taxes** | | | | | | | | | **6 698** | **6 739** |
| Taxes | | | | | | | | | -971 | -977 |
| **Net income** | | | | | | | | | **5 727** | **5 762** |

## 6. Financial instruments

The following table illustrates the three hierarchical levels for valuing financial instruments at fair value and also those measured at amortized cost or at cost as of September 30, 2017 and December 31, 2016. For additional information on the hierarchies and other matters, please refer to the Consolidated Financial Statements in the 2016 Annual Report, published on January 25, 2017.

| | Level 1 | | Level 2 | | Level 3 | | Valued at amortized cost or cost | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| (USD millions) | **Sep 30, 2017** | Dec 31, 2016 | **Sep 30, 2017** | Dec 31, 2016 | **Sep 30, 2017** | Dec 31, 2016 | **Sep 30, 2017** | Dec 31, 2016 | **Sep 30, 2017** | Dec 31, 2016 |
| Debt securities | 304 | 284 | 24 | 22 | | | | | 328 | 306 |
| Equity securities | 5 | | | | | | | | 5 | |
| Fund investments | 33 | 31 | | | | | | | 33 | 31 |
| **Total available-for-sale marketable securities** | **342** | **315** | **24** | **22** | | | | | **366** | **337** |
| Time deposits with original maturity more than 90 days | | | | | | | 117 | 108 | 117 | 108 |
| Derivative financial instruments | | | 22 | 230 | | | | | 22 | 230 |
| Accrued interest on debt securities | | | | | | | 1 | 1 | 1 | 1 |
| **Total marketable securities, time deposits and derivative financial instruments** | **342** | **315** | **46** | **252** | | | **118** | **109** | **506** | **676** |
| **Financial investments and long-term loans** | | | | | | | | | | |
| Available-for-sale financial investments | 850 | 513 | | | 442 | 476 | | | 1 292 | 989 |
| Fund investments | | | | | 128 | 107 | | | 128 | 107 |
| Contingent consideration receivables | | | | | 609 | 586 | | | 609 | 586 |
| Long-term loans and receivables from customers and finance lease, advances, security deposits | | | | | | | 542 | 514 | 542 | 514 |
| **Financial investments and long-term loans** | **850** | **513** | | | **1 179** | **1 169** | **542** | **514** | **2 571** | **2 196** |
| **Associated companies at fair value through profit or loss** | **35** | | | | **158** | **188** | | | **193** | **188** |
| Contingent consideration payables | | | | | -889 | -889 | | | -889 | -889 |
| Other financial liabilities | | | | | -80 | -129 | | | -80 | -129 |
| Derivative financial instruments | | | -140 | -116 | | | | | -140 | -116 |
| **Total financial liabilities at fair value** | | | **-140** | **-116** | **-969** | **-1 018** | | | **-1 109** | **-1 134** |

There were no changes in the first nine months of the year in the valuation techniques used for financial instruments nor significant transfers from one level to the other nor significant transactions associated with level 3 financial instruments. During 2017, there were several individually non-significant transfers of equity securities from level 3 to level 1 for USD 73 million due to Initial Public Offerings.

The fair value of straight bonds amounted to USD 23.8 billion at September 30, 2017 (USD 17.9 billion at December 31, 2016) compared to the balance sheet value of USD 22.9 billion at September 30, 2017 (USD 17.3 billion at December 31, 2016). For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value. The carrying amount of financial assets included in the line financial investments and long-term loans of USD 2.6 billion at September 30, 2017 (USD 2.2 billion at December 31, 2016) is included in line “financial and other non-current assets” of the condensed consolidated balance sheets.

The Group’s exposure to financial risks has not changed significantly during the period and there have been no major changes to the risk management department or in any risk management policies.

## 7. Legal proceedings update

A number of Novartis companies are, and will likely continue to be, subject to various legal proceedings, including litigations, arbitrations and governmental investigations, that arise from time to time. Legal proceedings are inherently unpredictable. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance and may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow. Note 20 to the Consolidated Financial Statements in our 2016 Annual Report and 2016 Form 20-F contains a summary as of the date of these reports of significant legal proceedings to which Novartis or its subsidiaries were a party. The following is a summary as of October 23, 2017 of significant developments in those proceedings, as well as any new significant proceedings commenced since the date of the 2016 Annual Report and 2016 Form 20-F.

**Investigations and related litigations**

*Asia/Russia investigation*

In the second quarter of 2017, Novartis Group companies received document requests and subpoenas from the US Department of Justice and the US Securities and Exchange Commission requesting information concerning Alcon's business practices in Asia and Russia, both before and after Alcon became part of the Novartis Group. Novartis is cooperating with this investigation.

In addition to the matter described above, there have been other developments in the other legal matters described in Note 20 to the Consolidated Financial Statements contained in our 2016 Annual Report and 2016 Form 20-F. These do not significantly affect the assessment of management concerning the adequacy of the total provisions recorded for legal proceedings.

## **SUPPLEMENTARY INFORMATION** (unaudited)

### Non-IFRS disclosures

#### *Core results*

The Group's core results – including core operating income, core net income and core earnings per share – exclude fully the amortization and impairment charges of intangible assets, excluding software, and certain acquisition related items. The following items that exceed a threshold of USD 25 million are also excluded: integration and divestment related income and expenses, divestment gains and losses, restructuring charges/releases and related items, legal related items, impairments of property, plant and equipment and financial assets, as well as income and expense items that management deems exceptional and that are or are expected to accumulate within the year to be over a USD 25 million threshold.

Novartis believes that investor understanding of the Group's performance is enhanced by disclosing core measures of performance because, since they exclude items which can vary significantly from year to year, the core measures enable better comparison of business performance across years. For this same reason, Novartis uses these core measures in addition to IFRS and other measures as important factors in assessing the Group's performance.

The following are examples of how these core measures are utilized:

- In addition to monthly reports containing financial information prepared under International Financial Reporting Standards (IFRS), senior management receives a monthly analysis incorporating these core measures.
- Annual budgets are prepared for both IFRS and core measures.

Despite the use of these measures by management in setting goals and measuring the Group's performance, these are non-IFRS measures that have no standardized meaning prescribed by IFRS. As a result, such measures have limits in usefulness to investors.

Because of their non-standardized definitions, the core measures (unlike IFRS measures) may not be comparable to the calculation of similar measures of other companies. These core measures are presented solely to permit investors to more fully understand how the Group's management assesses underlying performance. These core measures are not, and should not be viewed as, a substitute for IFRS measures.

As an internal measure of Group performance, these core measures have limitations, and the Group's performance management process is not solely restricted to these metrics. A limitation of the core measures is that they provide a view of the Group's operations without including all events during a period, such as the effects of an acquisition, divestment, or amortization/impairments of purchased intangible assets and restructurings.

#### *Constant currencies*

Changes in the relative values of non-US currencies to the US dollar can affect the Group's financial results and financial position. To provide additional information that may be useful to investors, including changes in sales volume, we present information about our net sales and various values relating to operating and net income that are adjusted for such foreign currency effects.

Constant currency calculations have the goal of eliminating two exchange rate effects so that an estimate can be made of underlying changes in the consolidated income statement excluding the impact of fluctuations in exchanges rates:

- the impact of translating the income statements of consolidated entities from their non-USD functional currencies to USD; and
- the impact of exchange rate movements on the major transactions of consolidated entities performed in currencies other than their functional currency.

We calculate constant currency measures by translating the current year's foreign currency values for sales and other income statement items into USD using the average exchange rates from the prior year and comparing them to the prior year values in USD.

We use these constant currency measures in evaluating the Group's performance, since they may assist us in evaluating our ongoing performance from year to year. However, in performing our evaluation, we also consider equivalent measures of performance which are not affected by changes in the relative value of currencies.

### *Growth rate calculation*

For ease of understanding, Novartis uses a sign convention for its growth rates such that a reduction in operating expenses or losses compared to the prior year is shown as a positive growth.

### *Net debt and free cash flow*

Net debt and free cash flow are non-IFRS financial measures, which means they should not be interpreted as measures determined under IFRS. Net debt is presented as additional information because management believes it is a useful supplemental indicator of the Group's ability to pay dividends, to meet financial commitments and to invest in new strategic opportunities, including strengthening its balance sheet. Free cash flow is presented as additional information because management believes it is a useful supplemental indicator of the Group's ability to operate without reliance on additional borrowing or use of existing cash. Free cash flow is a measure of the net cash generated that is available for debt repayment, investment in strategic opportunities and for returning to shareholders. The definition of free cash flow used by Novartis does not include amounts related to changes in investments in associated companies nor related to acquisitions or divestments of subsidiaries. Free cash flow is not intended to be a substitute measure for cash flow from operating activities as determined under IFRS.

# CORE RESULTS – Reconciliation from IFRS results to core results – Group – Third quarter

| | Innovative Medicines | | Sandoz | | Alcon | | Corporate | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| (USD millions) | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 | **Q3 2017** | Q3 2016 |
| **IFRS Operating income** | **2 179** | **2 020** | **390** | **354** | **-50** | **-50** | **-162** | **-55** | **2 357** | **2 269** |
| **Amortization of intangible assets** | **516** | **612** | **117** | **115** | **227** | **225** | | | **860** | **952** |
| Impairments | | | | | | | | | | |
| Intangible assets | 63 | 84 | 20 | 54 | 57 | | | | 140 | 138 |
| Property, plant & equipment related to the Group-wide rationalization of manufacturing sites | -1 | | 46 | | | | | | 45 | |
| Other property, plant & equipment | 11 | 7 | 1 | -2 | | | | | 12 | 5 |
| Financial assets | | 1 | | | 20 | | 22 | 21 | 42 | 22 |
| **Total impairment charges** | **73** | **92** | **67** | **52** | **77** | | **22** | **21** | **239** | **165** |
| Acquisition or divestment of businesses and related items | | | | | | | | | | |
| - Income | -1 | -4 | | | | | -26 | -54 | -27 | -58 |
| - Expense | 5 | 17 | | | | | 30 | 51 | 35 | 68 |
| **Total acquisition or divestment of businesses and related items, net** | **4** | **13** | | | | | **4** | **-3** | **8** | **10** |
| Other items | | | | | | | | | | |
| Divestment gains | -28 | -232 | | -6 | | | | -48 | -28 | -286 |
| Restructuring and related items | | | | | | | | | | |
| - Income | -17 | -6 | -4 | -11 | -1 | -1 | | | -22 | -18 |
| - Expense | 36 | 82 | 13 | 26 | | 20 | 6 | 17 | 55 | 145 |
| Legal-related items | | | | | | | | | | |
| - Income | -1 | | | | | | | | -1 | |
| - Expense | 9 | 69 | | | 10 | | | | 19 | 69 |
| Additional income | -170 | | -3 | | -45 | | -37 | -10 | -255 | -10 |
| Additional expense | 56 | 26 | | | 20 | 12 | 74 | 47 | 150 | 85 |
| **Total other items** | **-115** | **-61** | **6** | **9** | **-16** | **31** | **43** | **6** | **-82** | **-15** |
| **Total adjustments** | **478** | **656** | **190** | **176** | **288** | **256** | **69** | **24** | **1 025** | **1 112** |
| **Core operating income** | **2 657** | **2 676** | **580** | **530** | **238** | **206** | **-93** | **-31** | **3 382** | **3 381** |
| *as % of net sales* | *32.0%* | *32.7%* | *22.4%* | *21.1%* | *15.6%* | *14.3%* | | | *27.2%* | *27.9%* |
| Income from associated companies | | | | 1 | | | 262 | 216 | 262 | 217 |
| Core adjustments to income from associated companies, net of tax | | | | | | | 97 | 78 | 97 | 78 |
| Interest expense | | | | | | | | | -197 | -174 |
| Other financial income and expense | | | | | | | | | 14 | -38 |
| Taxes (adjusted for above items) | | | | | | | | | -541 | -526 |
| **Core net income** | | | | | | | | | **3 017** | **2 938** |
| **Core net income attributable to shareholders of Novartis AG** | | | | | | | | | **3 015** | **2 933** |
| **Core basic EPS (USD)** [1] | | | | | | | | | **1.29** | **1.23** |

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## CORE RESULTS – Reconciliation from IFRS results to core results – Group – Nine months to September 30

| | Innovative Medicines | | Sandoz | | Alcon | | Corporate | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| (USD millions) | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 | **9M 2017** | 9M 2016 |
| **IFRS Operating income** | **5 975** | **6 066** | **1 063** | **1 080** | **-112** | **-12** | **-367** | **-321** | **6 559** | **6 813** |
| **Amortization of intangible assets** | **1 600** | **1 835** | **340** | **345** | **676** | **672** | | | **2 616** | **2 852** |
| Impairments | | | | | | | | | | |
| Intangible assets | 566 | 89 | 51 | 60 | 57 | 4 | | | 674 | 153 |
| Property, plant & equipment related to the Group-wide rationalization of manufacturing sites | -1 | | 46 | 2 | | | | | 45 | 2 |
| Other property, plant & equipment | 3 | 67 | 14 | 8 | | | | | 17 | 75 |
| Financial assets | | 11 | | | 20 | | 72 | 71 | 92 | 82 |
| **Total impairment charges** | **568** | **167** | **111** | **70** | **77** | **4** | **72** | **71** | **828** | **312** |
| Acquisition or divestment of businesses and related items | | | | | | | | | | |
| - Income | -2 | -14 | | | | | -95 | -184 | -97 | -198 |
| - Expense | 18 | 30 | | | | | 114 | 178 | 132 | 208 |
| **Total acquisition or divestment of businesses and related items, net** | **16** | **16** | | | | | **19** | **-6** | **35** | **10** |
| Other items | | | | | | | | | | |
| Divestment gains | -368 | -570 | | -6 | | | | -48 | -368 | -624 |
| Restructuring and related items | | | | | | | | | | |
| - Income | -32 | -26 | -6 | -31 | -2 | -2 | | -4 | -40 | -63 |
| - Expense | 197 | 280 | 32 | 92 | 17 | 26 | 19 | 42 | 265 | 440 |
| Legal-related items | | | | | | | | | | |
| - Income | -2 | -99 | | | | | | | -2 | -99 |
| - Expense | 25 | 205 | | | 10 | | | | 35 | 205 |
| Additional income | -513 | -11 | -3 | | -50 | -13 | -37 | -20 | -603 | -44 |
| Additional expense | 193 | 84 | | | 20 | 12 | 89 | 76 | 302 | 172 |
| **Total other items** | **-500** | **-137** | **23** | **55** | **-5** | **23** | **71** | **46** | **-411** | **-13** |
| **Total adjustments** | **1 684** | **1 881** | **474** | **470** | **748** | **699** | **162** | **111** | **3 068** | **3 161** |
| **Core operating income** | **7 659** | **7 947** | **1 537** | **1 550** | **636** | **687** | **-205** | **-210** | **9 627** | **9 974** |
| *as % of net sales* | *31.6%* | *32.7%* | *20.6%* | *20.6%* | *14.3%* | *15.7%* | | | *26.6%* | *27.6%* |
| Income from associated companies | -1 | | 22 | 5 | | | 671 | 542 | 692 | 547 |
| Core adjustments to income from associated companies, net of tax | 1 | | | | | | 343 | 307 | 344 | 307 |
| Interest expense | | | | | | | | | -569 | -539 |
| Other financial income and expense | | | | | | | | | 16 | -82 |
| Taxes (adjusted for above items) | | | | | | | | | -1 537 | -1 551 |
| **Core net income** | | | | | | | | | **8 573** | **8 656** |
| **Core net income attributable to shareholders of Novartis AG** | | | | | | | | | **8 573** | **8 649** |
| **Core basic EPS (USD)** [1] | | | | | | | | | **3.64** | **3.63** |

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## CORE RESULTS – Reconciliation from IFRS results to core results – Group – Third quarter

| (USD millions) | Q3 2017 IFRS results | Amortization of intangible assets [1] | Impairments [2] | Acquisition or divestment of businesses and related items [3] | Other items [4] | Q3 2017 Core results | Q3 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **8 369** | **844** | **20** | | **11** | **9 244** | **8 971** |
| **Operating income** | **2 357** | **860** | **239** | **8** | **-82** | **3 382** | **3 381** |
| **Income before taxes** | **2 436** | **944** | **239** | **8** | **-69** | **3 558** | **3 464** |
| Taxes [5] | -353 | | | | | -541 | -526 |
| **Net income** | **2 083** | | | | | **3 017** | **2 938** |
| **Basic EPS (USD) [6]** | **0.89** | | | | | **1.29** | **1.23** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -4 323 | 844 | 20 | | 11 | -3 448 | -3 370 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Research & Development | -2 239 | 16 | 140 | | 34 | -2 049 | -2 080 |
| Other income | 424 | | -1 | -27 | -268 | 128 | 158 |
| Other expense | -519 | | 80 | 35 | 141 | -263 | -296 |
| **The following are adjustments to arrive at Core Income before taxes** | | | | | | | |
| Income from associated companies | 262 | 84 | | | 13 | 359 | 295 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms; Income from associated companies includes USD 84 million for the Novartis share of the estimated Roche core items.

[2] Impairments: Cost of goods sold and Research & Development include impairment charges related to intangible assets; Research & Development and Other expense include impairment charges related to financial assets; Other income and Other expense include reversals and charges related to the impairment of property, plant and equipment.

[3] Acquisition or divestment of businesses and related items, including restructuring and integration charges: Other income and Other expense include transitional service-fee income and expenses and other items related to the portfolio transformation.

[4] Other items: Cost of goods sold and Other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; Research & Development includes fair value adjustments to contingent consideration liabilities; Research & Development, Other income and Other expense include other restructuring income and charges and related items; Other income also includes a gain from a Swiss pension plan amendment as well as product and financial asset divestment gains; Other expense also includes legal-related items, a provision for contract termination costs and a fair value adjustment to a contingent consideration liability; Income from associated companies includes an adjustment of USD 13 million for the Novartis share of the estimated GSK Consumer Healthcare Holdings Ltd. core items.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that will finally be applicable to the item based on the jurisdiction where the adjustment will finally have a tax impact. Generally, this results in amortization and impairment of intangible assets and acquisition-related restructuring and integration items having a full tax impact. There is usually a tax impact on other items although this is not always the case for items arising from legal settlements in certain jurisdictions. Adjustments related to income from associated companies are recorded net of any related tax effect. Due to these factors and the differing effective tax rates in the various jurisdictions, the tax on the total adjustments of USD 1.1 billion, to arrive at the core results before tax, amounts to USD 188 million. The average tax rate on the adjustments is 16.8%, since the estimated full year core tax charge of 15.2% has been applied to the pre-tax income of the period.

[6] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## CORE RESULTS – Reconciliation from IFRS results to core results – Group – Nine months to September 30

| (USD millions) | 9M 2017 IFRS results | Amortization of intangible assets [1] | Impairments [2] | Acquisition or divestment of businesses and related items [3] | Other items [4] | 9M 2017 Core results | 9M 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **24 285** | **2 559** | **82** | | **39** | **26 965** | **26 740** |
| **Operating income** | **6 559** | **2 616** | **828** | **35** | **-411** | **9 627** | **9 974** |
| **Income before taxes** | **6 698** | **2 929** | **829** | **35** | **-381** | **10 110** | **10 207** |
| Taxes [5] | -971 | | | | | -1 537 | -1 551 |
| **Net income** | **5 727** | | | | | **8 573** | **8 656** |
| **Basic EPS (USD) [6]** | **2.43** | | | | | **3.64** | **3.63** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -12 686 | 2 559 | 82 | | 39 | -10 006 | -10 090 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Research & Development | -6 470 | 57 | 612 | | -261 | -6 062 | -6 229 |
| Other income | 1 349 | | -10 | -97 | -672 | 570 | 531 |
| Other expense | -1 649 | | 144 | 132 | 483 | -890 | -769 |
| **The following are adjustments to arrive at Core Income before taxes** | | | | | | | |
| Income from associated companies | 692 | 313 | 1 | | 30 | 1 036 | 854 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms; Income from associated companies includes USD 313 million for the Novartis share of the estimated Roche core items.

[2] Impairments: Cost of goods sold and Research & Development include impairment charges related to intangible assets; Research & Development and Other expense include impairment charges related to financial assets; Other income and Other expense include reversals and charges related to the impairment of property, plant and equipment.

[3] Acquisition or divestment of businesses and related items, including restructuring and integration charges: Other income and Other expense include transitional service-fee income and expenses and other items related to the portfolio transformation.

[4] Other items: Cost of goods sold and Other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; Research & Development, Other income and Other expense include other restructuring income and charges and related items; Other income and Other expense include legal-related items; Research & Development includes fair value adjustments to contingent consideration liabilities; Other income also includes a gain from a Swiss pension plan amendment, product and financial asset divestment gains, a partial reversal of a prior period charge and an income from a settlement of a contract dispute; Other expense also includes a charge for onerous contracts, a provision for contract termination costs and a fair value adjustment to a contingent consideration liability; Income from associated companies includes an adjustment of USD 30 million for the Novartis share of the estimated GSK Consumer Healthcare Holdings Ltd. core items.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that will finally be applicable to the item based on the jurisdiction where the adjustment will finally have a tax impact. Generally, this results in amortization and impairment of intangible assets and acquisition-related restructuring and integration items having a full tax impact. There is usually a tax impact on other items although this is not always the case for items arising from legal settlements in certain jurisdictions. Adjustments related to income from associated companies are recorded net of any related tax effect. Due to these factors and the differing effective tax rates in the various jurisdictions, the tax on the total adjustments of USD 3.4 billion, to arrive at the core results before tax, amounts to USD 566 million. The average tax rate on the adjustments is 16.6%, since the estimated full year core tax charge of 15.2% has been applied to the pre-tax income of the period.

[6] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## CORE RESULTS – Reconciliation from IFRS results to core results – Innovative Medicines – Third quarter

| (USD millions) | Q3 2017 IFRS results | Amortization of intangible assets [1] | Impairments [2] | Acquisition or divestment of businesses and related items [3] | Other items [4] | Q3 2017 Core results | Q3 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **6 453** | **503** | | | **7** | **6 963** | **6 850** |
| **Operating income** | **2 179** | **516** | **73** | **4** | **-115** | **2 657** | **2 676** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -2 261 | 503 | | | 7 | -1 751 | -1 674 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Research & Development | -1 861 | 13 | 63 | | 52 | -1 733 | -1 771 |
| Other income | 247 | | -1 | -1 | -216 | 29 | 22 |
| Other expense | -201 | | 11 | 5 | 42 | -143 | -132 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Research & Development includes impairment charges related to intangible assets; Other income and Other expense include reversals and charges related to the impairment of property, plant and equipment.
[3] Acquisition or divestment of businesses and related items, including restructuring and integration charges: Other income and Other expense includes transitional service-fee expenses and other items related to the portfolio transformation.
[4] Other items: Cost of goods sold and Other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; Research & Development, Other income and Other expense include other restructuring income and charges and related items; Research & Development includes fair value adjustments to contingent consideration liabilities; Other income also includes a gain from a Swiss pension plan amendment, as well as product and financial asset divestment gains; Other expense also includes a provision for contract termination costs, legal-related items and other charges.

## CORE RESULTS – Reconciliation from IFRS results to core results – Innovative Medicines – Nine months to September 30

| (USD millions) | 9M 2017 IFRS results | Amortization of intangible assets [1] | Impairments [2] | Acquisition or divestment of businesses and related items [3] | Other items [4] | 9M 2017 Core results | 9M 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **18 782** | **1 551** | **31** | | **30** | **20 394** | **20 264** |
| **Operating income** | **5 975** | **1 600** | **568** | **16** | **-500** | **7 659** | **7 947** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -6 667 | 1 551 | 31 | | 30 | -5 055 | -5 048 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Research & Development | -5 468 | 49 | 535 | | -243 | -5 127 | -5 277 |
| Other income | 804 | | -10 | -2 | -612 | 180 | 150 |
| Other expense | -809 | | 12 | 18 | 325 | -454 | -313 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.

[2] Impairments: Cost of goods sold and Research & Development include impairment charges related to intangible assets; Other income and Other expense include reversals and charges related to the impairment of property, plant and equipment.

[3] Acquisition or divestment of businesses and related items, including restructuring and integration charges: Other income and Other expense includes transitional service-fee income and expenses and other items related to the portfolio transformation.

[4] Other items: Cost of goods sold and Other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; Research & Development, Other income and Other expense include other restructuring income and charges and related items; Other income and Other expense include legal-related items; Research & Development includes fair value adjustments to contingent consideration liabilities; Other income also includes a gain from a Swiss pension plan amendment, an income from a settlement of a contract dispute, as well as product and financial asset divestment gains; Other expense also includes a provision for contract termination costs, a charge for onerous contracts and other charges.

## CORE RESULTS – Reconciliation from IFRS results to core results – Sandoz – Third quarter

| (USD millions) | Q3 2017 IFRS results | Amortization of intangible assets[1] | Impairments[2] | Acquisition or divestment of businesses and related items | Other items[3] | Q3 2017 Core results | Q3 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **1 131** | **117** | **20** | | **4** | **1 272** | **1 187** |
| **Operating income** | **390** | **117** | **67** | | **6** | **580** | **530** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -1 481 | 117 | 20 | | 4 | -1 340 | -1 369 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Other income | 70 | | | | -7 | 63 | 45 |
| Other expense | -104 | | 47 | | 9 | -48 | -47 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets.
[2] Impairments: Cost of goods sold includes impairment charges related to intangible assets; Other expense includes impairment charges related to property, plant and equipment.
[3] Other items: Cost of goods sold and Other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; Other income and Other expense include other restructuring income and charges and related items. Other income also includes a gain from a Swiss pension plan amendment.

## CORE RESULTS – Reconciliation from IFRS results to core results – Sandoz – Nine months to September 30

| (USD millions) | 9M 2017 IFRS results | Amortization of intangible assets[1] | Impairments[2] | Acquisition or divestment of businesses and related items | Other items[3] | 9M 2017 Core results | 9M 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **3 288** | **340** | **51** | | **9** | **3 688** | **3 619** |
| **Operating income** | **1 063** | **340** | **111** | | **23** | **1 537** | **1 550** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -4 286 | 340 | 51 | | 9 | -3 886 | -4 022 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Other income | 121 | | | | -9 | 112 | 99 |
| Other expense | -225 | | 60 | | 23 | -142 | -119 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets.
[2] Impairments: Cost of goods sold includes impairment charges related to intangible assets; Other expense includes impairment charges related to property, plant and equipment.
[3] Other items: Cost of goods sold and Other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; Other income and Other expense include other restructuring income and charges and related items. Other income also includes a gain from a Swiss pension plan amendment.

## CORE RESULTS – Reconciliation from IFRS results to core results – Alcon – Third quarter

| (USD millions) | Q3 2017 IFRS results | Amortization of intangible assets [1] | Impairments [2] | Acquisition or divestment of businesses and related items | Other items [3] | Q3 2017 Core results | Q3 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **735** | **224** | | | | **959** | **893** |
| **Operating loss/income** | **-50** | **227** | **77** | | **-16** | **238** | **206** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -795 | 224 | | | | -571 | -543 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Research & Development | -183 | 3 | 77 | | -18 | -121 | -113 |
| Other income | 17 | | | | -8 | 9 | 18 |
| Other expense | -22 | | | | 10 | -12 | -8 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Research & Development includes impairment charges related to intangible and financial assets.
[3] Other items: Research & Development includes fair value adjustments to contingent consideration liabilities; Other income includes a gain from a Swiss pension plan amendment and restructuring income and related items; Other expense also includes legal-related items.

## CORE RESULTS – Reconciliation from IFRS results to core results – Alcon – Nine months to September 30

| (USD millions) | 9M 2017 IFRS results | Amortization of intangible assets [1] | Impairments [2] | Acquisition or divestment of businesses and related items | Other items [3] | 9M 2017 Core results | 9M 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **2 084** | **668** | | | | **2 752** | **2 711** |
| **Operating loss/income** | **-112** | **676** | **77** | | **-5** | **636** | **687** |
| **The following are adjustments to arrive at Core Gross Profit** | | | | | | | |
| Cost of goods sold | -2 382 | 668 | | | | -1 714 | -1 661 |
| **The following are adjustments to arrive at Core Operating Income** | | | | | | | |
| Research & Development | -426 | 8 | 77 | | -18 | -359 | -357 |
| Other income | 38 | | | | -14 | 24 | 44 |
| Other expense | -50 | | | | 27 | -23 | -19 |

[1] Amortization of intangible assets: Cost of goods sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Research & Development includes impairment charges related to intangible and financial assets.
[3] Other items: Research & Development includes fair value adjustments to contingent consideration liabilities and other items; Other income and Other expense include restructuring income and charges and related items; Other income also includes a gain from a Swiss pension plan amendment and the partial reversal of a prior period charge; Other expense also includes legal-related items.

## CORE RESULTS – Reconciliation from IFRS results to core results – Corporate – Third quarter

| (USD millions) | Q3 2017 IFRS results | Amortization of intangible assets | Impairments [1] | Acquisition or divestment of businesses and related items [2] | Other items [3] | Q3 2017 Core results | Q3 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **50** | | | | | **50** | **41** |
| **Operating loss** | **-162** | | **22** | **4** | **43** | **-93** | **-31** |
| **The following are adjustments to arrive at Core Operating Loss** | | | | | | | |
| Other income | 90 | | | -26 | -37 | 27 | 73 |
| Other expense | -192 | | 22 | 30 | 80 | -60 | -109 |

[1] Impairments: Other expense includes impairment charges related to financial assets.
[2] Acquisition or divestment of businesses and related items, including restructuring and integration charges: Other income and Other expense include transitional service-fee income and expenses and other items related to the portfolio transformation.
[3] Other items: Other income includes a gain from a Swiss pension plan amendment and other items; Other expense includes a fair value adjustment to a contingent consideration liability, restructuring charges and related items, and other costs.

## CORE RESULTS – Reconciliation from IFRS results to core results – Corporate – Nine months to September 30

| (USD millions) | 9M 2017 IFRS results | Amortization of intangible assets | Impairments [1] | Acquisition or divestment of businesses and related items [2] | Other items [3] | 9M 2017 Core results | 9M 2016 Core results |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **131** | | | | | **131** | **146** |
| **Operating loss** | **-367** | | **72** | **19** | **71** | **-205** | **-210** |
| **The following are adjustments to arrive at Core Operating Loss** | | | | | | | |
| Other income | 386 | | | -95 | -37 | 254 | 238 |
| Other expense | -565 | | 72 | 114 | 108 | -271 | -318 |

[1] Impairments: Other expense includes impairment charges related to financial assets.
[2] Acquisition or divestment of businesses and related items, including restructuring and integration charges: Other income and Other expense include transitional service-fee income and expenses and other items related to the portfolio transformation.
[3] Other items: Other income includes a gain from a Swiss pension plan amendment and other items; Other expense includes a fair value adjustment to a contingent consideration liability, restructuring charges and related items, and other costs.

## Condensed consolidated changes in net debt

### Third quarter

| (USD millions) | **Q3 2017** | Q3 2016 |
|---|---|---|
| **Change in cash and cash equivalents** | **954** | **2 138** |
| Change in marketable securities, commodities, financial debt and financial derivatives | 431 | -291 |
| **Reduction in net debt** | **1 385** | **1 847** |
| Net debt at July 1 | -22 124 | -20 628 |
| **Net debt at September 30** | **-20 739** | **-18 781** |

### Nine months to September 30

| (USD millions) | **9M 2017** | 9M 2016 |
|---|---|---|
| **Change in cash and cash equivalents** | **1 803** | **2 500** |
| Change in marketable securities, commodities, financial debt and financial derivatives | -6 517 | -4 797 |
| **Increase in net debt** | **-4 714** | **-2 297** |
| Net debt at January 1 | -16 025 | -16 484 |
| **Net debt at September 30** | **-20 739** | **-18 781** |

### Components of net debt

| (USD millions) | **Sep 30, 2017** | Sep 30, 2016 |
|---|---|---|
| Current financial debts and derivative financial instruments | -6 997 | -8 307 |
| Non-current financial debts | -23 163 | -18 259 |
| **Less liquidity:** | | |
| Cash and cash equivalents | 8 810 | 7 174 |
| Marketable securities, commodities and derivative financial instruments | 611 | 611 |
| **Net debt at September 30** | **-20 739** | **-18 781** |

### Share information

| | **Sep 30, 2017** | Sep 30, 2016 |
|---|---|---|
| Number of shares outstanding | **2 327 339 772** | 2 375 517 359 |
| Registered share price (CHF) | **82.90** | 76.40 |
| ADR price (USD) | **85.85** | 78.96 |
| Market capitalization (USD billions) | **198.9** | 187.8 |
| Market capitalization (CHF billions) | **192.9** | 181.5 |

## Free cash flow

### Third quarter

| (USD millions) | **Q3 2017** | Q3 2016 | Change |
|---|---|---|---|
| **Operating income** | **2 357** | **2 269** | **88** |
| Reversal of non-cash items | | | |
| Depreciation, amortization and impairments | 1 478 | 1 508 | -30 |
| Change in provisions and other non-current liabilities | -29 | 249 | -278 |
| Other | 103 | -195 | 298 |
| **Operating income adjusted for non-cash items** | **3 909** | **3 831** | **78** |
| Interest and other financial receipts | 28 | 9 | 19 |
| Interest and other financial payments | -296 | -170 | -126 |
| Taxes paid | -221 | -339 | 118 |
| Payments out of provisions and other net cash movements in non-current liabilities | -215 | -339 | 124 |
| Change in inventory and trade receivables less trade payables | -100 | -140 | 40 |
| Change in other net current assets and other operating cash flow items | 481 | 379 | 102 |
| **Cash flows from operating activities** | **3 586** | **3 231** | **355** |
| Purchase of property, plant & equipment | -382 | -443 | 61 |
| Purchase of intangible assets | -287 | -478 | 191 |
| Proceeds from sales of intangible assets | 157 | 209 | -52 |
| Purchase of financial and other non-current assets | -123 | -58 | -65 |
| Proceeds from sales of property, plant & equipment and financial assets | 113 | 130 | -17 |
| **Free cash flow** | **3 064** | **2 591** | **473** |

### Nine months to September 30

| (USD millions) | **9M 2017** | 9M 2016 | Change |
|---|---|---|---|
| **Operating income** | **6 559** | **6 813** | **-254** |
| Reversal of non-cash items | | | |
| Depreciation, amortization and impairments | 4 608 | 4 343 | 265 |
| Change in provisions and other non-current liabilities | 3 | 737 | -734 |
| Other | -63 | -223 | 160 |
| **Operating income adjusted for non-cash items** | **11 107** | **11 670** | **-563** |
| Interest and other financial receipts | 934 | 705 | 229 |
| Interest and other financial payments | -642 | -677 | 35 |
| Taxes paid | -1 125 | -1 320 | 195 |
| Payments out of provisions and other net cash movements in non-current liabilities | -505 | -1 352 | 847 |
| Change in inventory and trade receivables less trade payables | -871 | -1 664 | 793 |
| Change in other net current assets and other operating cash flow items | 315 | 522 | -207 |
| **Cash flows from operating activities** | **9 213** | **7 884** | **1 329** |
| Purchase of property, plant & equipment | -1 058 | -1 276 | 218 |
| Purchase of intangible assets | -718 | -822 | 104 |
| Proceeds from sales of intangible assets | 540 | 668 | -128 |
| Purchase of financial and other non-current assets | -343 | -265 | -78 |
| Proceeds from sales of property, plant & equipment and financial assets | 338 | 290 | 48 |
| **Free cash flow** | **7 972** | **6 479** | **1 493** |

## Net sales of the top 20 Innovative Medicines products in 2017 – Third quarter

| | | | US | | Rest of world | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **Brands** | **Business Franchise** | **Indication** | **USD m** | **% change in constant currencies** | **USD m** | **% change in constant currencies** | **USD m** | **% change in USD** | **% change in constant currencies** |
| ***Gilenya*** | Neuroscience | Relapsing multiple sclerosis | 428 | 0 | 373 | 2 | **801** | **1** | **0** |
| ***Gleevec/Glivec*** | Oncology | Chronic myeloid leukemia and GIST | 141 | -53 | 304 | -43 | **445** | **-47** | **-47** |
| ***Cosentyx*** | Immunology and Dermatology | Psoriasis, ankylosing spondylitis and psoriatic arthritis | 346 | 69 | 210 | 110 | **556** | **85** | **83** |
| ***Lucentis*** | Ophthalmology | Age-related macular degeneration | | | 481 | 5 | **481** | **5** | **5** |
| ***Tasigna*** | Oncology | Chronic myeloid leukemia | 212 | 16 | 270 | 9 | **482** | **9** | **12** |
| ***Sandostatin*** | Oncology | Carcinoid tumors and Acromegaly | 203 | -3 | 199 | 1 | **402** | **-3** | **-1** |
| ***Afinitor/Votubia*** | Oncology | Breast cancer / TSC | 212 | 11 | 177 | -11 | **389** | **-1** | **0** |
| ***Galvus*** | Established Medicines | Diabetes | | | 310 | 3 | **310** | **1** | **3** |
| ***Exjade/Jadenu*** | Oncology | Chronic iron overload | 132 | 16 | 132 | 5 | **264** | **9** | **11** |
| ***Diovan/Co–Diovan*** | Established Medicines | Hypertension | 19 | -39 | 212 | -6 | **231** | **-11** | **-10** |
| ***Exforge*** | Established Medicines | Hypertension | 7 | 40 | 237 | 4 | **244** | **5** | **4** |
| ***Xolair***[1] | Respiratory | Asthma | | | 245 | 12 | **245** | **14** | **12** |
| ***Tafinlar + Mekinist*** | Oncology | Melanoma | 87 | 13 | 137 | 39 | **224** | **30** | **27** |
| ***Promacta/Revolade*** | Oncology | Immune thrombocytopenic purpura | 119 | 47 | 108 | 25 | **227** | **35** | **36** |
| ***Votrient*** | Oncology | Renal cell carcinoma | 109 | 21 | 104 | 10 | **213** | **16** | **15** |
| ***Jakavi*** | Oncology | Myelofibrosis | | | 201 | 31 | **201** | **35** | **31** |
| **Travoprost Group** | Ophthalmology | Reduction of elevated intraocular pressure | 55 | 20 | 94 | -11 | **149** | **-1** | **-1** |
| ***Neoral/Sandimmun(e)*** | Immunology and Dermatology | Transplantation | 11 | 22 | 115 | -3 | **126** | **-3** | **-2** |
| ***Voltaren/Cataflam*** | Established Medicines | Inflammation/pain | | | 118 | -2 | **118** | **-10** | **-2** |
| **Entresto** | Cardio-Metabolic | Chronic Heart Failure | 74 | 111 | 54 | 198 | **128** | **142** | **138** |
| **Top 20 products total** | | | **2 155** | **8** | **4 081** | **2** | **6 236** | **4** | **4** |
| Rest of portfolio | | | 651 | -8 | 1 415 | -1 | **2 066** | **-4** | **-3** |
| **Total Division sales** | | | **2 806** | **4** | **5 496** | **1** | **8 302** | **2** | **2** |

[1] Net sales reflect *Xolair* sales for all indications (e.g. including *Xolair* SAA and *Xolair* CSU, which is managed by the Immunology and Dermatology franchise).

nm = not meaningful

## Net sales of the top 20 Innovative Medicines products in 2017 – Nine months to September 30

| | | | US | | Rest of world | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **Brands** | **Business Franchise** | **Indication** | **USD m** | **% change in constant currencies** | **USD m** | **% change in constant currencies** | **USD m** | **% change in USD** | **% change in constant currencies** |
| ***Gilenya*** | Neuroscience | Relapsing multiple sclerosis | 1 276 | 3 | 1 084 | 4 | **2 360** | **3** | **3** |
| ***Gleevec/Glivec*** | Oncology | Chronic myeloid leukemia and GIST | 498 | -48 | 997 | -37 | **1 495** | **-42** | **-41** |
| ***Cosentyx*** | Immunology and Dermatology | Psoriasis, ankylosing spondylitis and psoriatic arthritis | 912 | 80 | 544 | 139 | **1 456** | **98** | **98** |
| ***Lucentis*** | Ophthalmology | Age-related macular degeneration | | | 1 403 | 4 | **1 403** | **1** | **4** |
| ***Tasigna*** | Oncology | Chronic myeloid leukemia | 599 | 13 | 757 | 7 | **1 356** | **6** | **9** |
| ***Sandostatin*** | Oncology | Carcinoid tumors and Acromegaly | 618 | -3 | 573 | -1 | **1 191** | **-4** | **-2** |
| ***Afinitor/Votubia*** | Oncology | Breast cancer / TSC | 603 | 5 | 515 | -3 | **1 118** | **-1** | **1** |
| ***Galvus*** | Established Medicines | Diabetes | | | 906 | 3 | **906** | **1** | **3** |
| ***Exjade/Jadenu*** | Oncology | Chronic iron overload | 376 | 10 | 402 | 10 | **778** | **8** | **10** |
| ***Diovan/Co–Diovan*** | Established Medicines | Hypertension | 63 | -43 | 650 | -5 | **713** | **-13** | **-10** |
| ***Exforge*** | Established Medicines | Hypertension | 23 | nm | 688 | 3 | **711** | **3** | **5** |
| ***Xolair***[1] | Respiratory | Asthma | | | 673 | 12 | **673** | **9** | **12** |
| ***Tafinlar + Mekinist*** | Oncology | Melanoma | 246 | 11 | 381 | 41 | **627** | **27** | **28** |
| ***Promacta/Revolade*** | Oncology | Immune thrombocytopenic purpura | 318 | 45 | 294 | 26 | **612** | **34** | **35** |
| ***Votrient*** | Oncology | Renal cell carcinoma | 305 | 16 | 290 | 7 | **595** | **11** | **11** |
| ***Jakavi*** | Oncology | Myelofibrosis | | | 549 | 32 | **549** | **31** | **32** |
| **Travoprost Group** | Ophthalmology | Reduction of elevated intraocular pressure | 161 | 5 | 278 | -7 | **439** | **-4** | **-3** |
| ***Neoral/Sandimmun(e)*** | Immunology and Dermatology | Transplantation | 31 | 3 | 333 | -5 | **364** | **-6** | **-4** |
| ***Voltaren/Cataflam*** | Established Medicines | Inflammation/pain | | | 346 | -1 | **346** | **-11** | **-1** |
| **Entresto** | Cardio-Metabolic | Chronic Heart Failure | 197 | 190 | 125 | 269 | **322** | **216** | **215** |
| **Top 20 products total** | | | **6 226** | **6** | **11 788** | **3** | **18 014** | **2** | **4** |
| Rest of portfolio | | | 1 975 | -12 | 4 280 | -1 | **6 255** | **-6** | **-5** |
| **Total Division sales** | | | **8 201** | **1** | **16 068** | **2** | **24 269** | **0** | **2** |

[1] Net sales reflect *Xolair* sales for all indications (e.g. including *Xolair* SAA and *Xolair* CSU, which is managed by the Immunology and Dermatology franchise).

nm = not meaningful

# Innovative Medicines net sales by business franchise – Third quarter

| | Q3 2017 USD m | Q3 2016 USD m | % change USD | % change cc |
|---|---|---|---|---|
| **Oncology** | | | | |
| *Gleevec/Glivec* | 445 | 834 | -47 | -47 |
| *Tasigna* | 482 | 441 | 9 | 12 |
| *Sandostatin* | 402 | 413 | -3 | -1 |
| *Afinitor/Votubia* | 389 | 393 | -1 | 0 |
| *Exjade/Jadenu* | 264 | 242 | 9 | 11 |
| *Tafinlar + Mekinist* | 224 | 172 | 30 | 27 |
| *Promacta/Revolade* | 227 | 168 | 35 | 36 |
| *Votrient* | 213 | 183 | 16 | 15 |
| *Jakavi* | 201 | 149 | 35 | 31 |
| *Kisqali* | 26 | 0 | nm | nm |
| Other | 228 | 240 | -5 | -3 |
| **Total Oncology business unit** | **3 101** | **3 235** | **-4** | **-4** |
| **Ophthalmology** | | | | |
| *Lucentis* | 481 | 456 | 5 | 5 |
| Travoprost Group | 149 | 151 | -1 | -1 |
| *Systane* Group | 100 | 96 | 4 | 2 |
| Topical Olopatadine Group | 49 | 81 | -40 | -39 |
| Other | 544 | 586 | -7 | -7 |
| **Total Ophthalmology** | **1 323** | **1 370** | **-3** | **-3** |
| **Immunology and Dermatology** | | | | |
| *Cosentyx* | 556 | 301 | 85 | 83 |
| *Neoral/Sandimmun(e)* | 126 | 130 | -3 | -2 |
| *Zortress/Certican* | 107 | 101 | 6 | 6 |
| *Ilaris* | 107 | 73 | 47 | 47 |
| *Myfortic* | 94 | 97 | -3 | -1 |
| Other | 73 | 68 | 7 | 3 |
| **Total Immunology and Dermatology** | **1 063** | **770** | **38** | **37** |
| **Neuroscience** | | | | |
| *Gilenya* | 801 | 790 | 1 | 0 |
| Other | 26 | 30 | -13 | -11 |
| **Total Neuroscience** | **827** | **820** | **1** | **0** |
| **Respiratory** | | | | |
| *Ultibro Breezhaler* | 101 | 95 | 6 | 3 |
| *Seebri Breezhaler* | 37 | 37 | 0 | 2 |
| *Onbrez Breezhaler* | 27 | 37 | -27 | -16 |
| **Subtotal COPD[1] portfolio** | **165** | **169** | **-2** | **-1** |
| *Xolair*[2] | 245 | 215 | 14 | 12 |
| Other | 5 | 6 | -17 | -29 |
| **Total Respiratory** | **415** | **390** | **6** | **6** |
| **Cardio-Metabolic** | | | | |
| *Entresto* | 128 | 53 | 142 | 138 |
| Other | 5 | 4 | 25 | 21 |
| **Total Cardio-Metabolic** | **133** | **57** | **133** | **130** |
| **Established Medicines** | | | | |
| *Galvus* | 310 | 306 | 1 | 3 |
| *Diovan/Co-Diovan* | 231 | 261 | -11 | -10 |
| *Exforge* | 244 | 232 | 5 | 4 |
| *Voltaren/Cataflam* | 118 | 131 | -10 | -2 |
| *Exelon/Exelon* Patch | 95 | 104 | -9 | -10 |
| *Ritalin/Focalin* | 44 | 62 | -29 | -32 |
| Other | 398 | 435 | -9 | -6 |
| **Total Established Medicines** | **1 440** | **1 531** | **-6** | **-4** |
| **Total Pharmaceuticals business unit** | **5 201** | **4 938** | **5** | **6** |
| **Total Division net sales** | **8 302** | **8 173** | **2** | **2** |

[1] Chronic Obstructive Pulmonary Disease
[2] Net sales reflect *Xolair* sales for all indications (e.g. including *Xolair* SAA and *Xolair* CSU, which is managed by the Immunology and Dermatology franchise).

nm = not meaningful

# Innovative Medicines net sales by business franchise – Nine months to September 30

| | 9M 2017 USD m | 9M 2016 USD m | % change USD | % change cc |
|---|---|---|---|---|
| **Oncology** | | | | |
| *Gleevec/Glivec* | 1 495 | 2 559 | -42 | -41 |
| *Tasigna* | 1 356 | 1 281 | 6 | 9 |
| *Sandostatin* | 1 191 | 1 238 | -4 | -2 |
| *Afinitor/Votubia* | 1 118 | 1 125 | -1 | 1 |
| *Exjade/Jadenu* | 778 | 719 | 8 | 10 |
| *Tafinlar + Mekinist* | 627 | 494 | 27 | 28 |
| *Promacta/Revolade* | 612 | 457 | 34 | 35 |
| *Votrient* | 595 | 537 | 11 | 11 |
| *Jakavi* | 549 | 419 | 31 | 32 |
| *Kisqali* | 41 | 0 | nm | nm |
| Other | 669 | 754 | -11 | -9 |
| **Total Oncology business unit** | **9 031** | **9 583** | **-6** | **-4** |
| **Ophthalmology** | | | | |
| *Lucentis* | 1 403 | 1 383 | 1 | 4 |
| Travoprost Group | 439 | 458 | -4 | -3 |
| *Systane* Group | 292 | 277 | 5 | 5 |
| Topical Olopatadine Group | 225 | 280 | -20 | -19 |
| Other | 1 663 | 1 746 | -5 | -4 |
| **Total Ophthalmology** | **4 022** | **4 144** | **-3** | **-2** |
| **Immunology and Dermatology** | | | | |
| *Cosentyx* | 1 456 | 737 | 98 | 98 |
| *Neoral/Sandimmun(e)* | 364 | 389 | -6 | -4 |
| *Zortress/Certican* | 298 | 294 | 1 | 3 |
| *Ilaris* | 287 | 208 | 38 | 39 |
| *Myfortic* | 274 | 292 | -6 | -1 |
| Other | 207 | 204 | 1 | 1 |
| **Total Immunology and Dermatology** | **2 886** | **2 124** | **36** | **38** |
| **Neuroscience** | | | | |
| *Gilenya* | 2 360 | 2 299 | 3 | 3 |
| Other | 77 | 94 | -18 | -17 |
| **Total Neuroscience** | **2 437** | **2 393** | **2** | **3** |
| **Respiratory** | | | | |
| *Ultibro Breezhaler* | 291 | 273 | 7 | 8 |
| *Seebri Breezhaler* | 109 | 111 | -2 | 2 |
| *Onbrez Breezhaler* | 83 | 107 | -22 | -15 |
| **Subtotal COPD[1] portfolio** | **483** | **491** | **-2** | **2** |
| *Xolair*[2] | 673 | 619 | 9 | 12 |
| Other | 16 | 23 | -30 | -18 |
| **Total Respiratory** | **1 172** | **1 133** | **3** | **7** |
| **Cardio-Metabolic** | | | | |
| *Entresto* | 322 | 102 | 216 | 215 |
| Other | 12 | 10 | 20 | 21 |
| **Total Cardio-Metabolic** | **334** | **112** | **198** | **198** |
| **Established Medicines** | | | | |
| *Galvus* | 906 | 895 | 1 | 3 |
| *Diovan/Co-Diovan* | 713 | 816 | -13 | -10 |
| *Exforge* | 711 | 689 | 3 | 5 |
| *Voltaren/Cataflam* | 346 | 389 | -11 | -1 |
| *Exelon/Exelon* Patch | 293 | 330 | -11 | -11 |
| *Ritalin/Focalin* | 162 | 209 | -22 | -24 |
| Other | 1 256 | 1 472 | -15 | -12 |
| **Total Established Medicines** | **4 387** | **4 800** | **-9** | **-6** |
| **Total Pharmaceuticals business unit** | **15 238** | **14 706** | **4** | **6** |
| **Total Division net sales** | **24 269** | **24 289** | **0** | **2** |

[1] Chronic Obstructive Pulmonary Disease
[2] Net sales reflect *Xolair* sales for all indications (e.g. including *Xolair* SAA and *Xolair* CSU, which is managed by the Immunology and Dermatology franchise).

nm = not meaningful

## Net sales by region[1] – Third quarter

| | **Q3 2017** | Q3 2016 | % change | | **Q3 2017** | Q3 2016 |
|---|---|---|---|---|---|---|
| | **USD m** | USD m | USD | cc | **% of total** | % of total |
| **Innovative Medicines** | | | | | | |
| Europe | 2 887 | 2 797 | 3 | -1 | 35 | 34 |
| US | 2 806 | 2 710 | 4 | 4 | 34 | 33 |
| Asia/Africa/Australasia | 1 925 | 1 929 | 0 | 3 | 23 | 24 |
| Canada and Latin America | 684 | 737 | -7 | 1 | 8 | 9 |
| **Total** | **8 302** | **8 173** | **2** | **2** | **100** | **100** |
| *Of which in Established Markets* | 6 227 | 6 102 | 2 | 1 | 75 | 75 |
| *Of which in Emerging Growth Markets* | 2 075 | 2 071 | 0 | 5 | 25 | 25 |
| **Sandoz** | | | | | | |
| Europe | 1 233 | 1 087 | 13 | 8 | 48 | 43 |
| US | 798 | 917 | -13 | -13 | 31 | 36 |
| Asia/Africa/Australasia | 354 | 341 | 4 | 8 | 14 | 14 |
| Canada and Latin America | 199 | 172 | 16 | 14 | 7 | 7 |
| **Total** | **2 584** | **2 517** | **3** | **1** | **100** | **100** |
| *Of which in Established Markets* | 1 881 | 1 894 | -1 | -3 | 73 | 75 |
| *Of which in Emerging Growth Markets* | 703 | 623 | 13 | 12 | 27 | 25 |
| **Alcon** | | | | | | |
| Europe | 382 | 352 | 9 | 4 | 25 | 25 |
| US | 648 | 628 | 3 | 3 | 42 | 44 |
| Asia/Africa/Australasia | 379 | 333 | 14 | 16 | 25 | 23 |
| Canada and Latin America | 118 | 123 | -4 | 7 | 8 | 8 |
| **Total** | **1 527** | **1 436** | **6** | **7** | **100** | **100** |
| *Of which in Established Markets* | 1 176 | 1 138 | 3 | 3 | 77 | 79 |
| *Of which in Emerging Growth Markets* | 351 | 298 | 18 | 21 | 23 | 21 |
| **Group** | | | | | | |
| Europe | 4 502 | 4 236 | 6 | 2 | 36 | 35 |
| US | 4 252 | 4 255 | 0 | 0 | 34 | 35 |
| Asia/Africa/Australasia | 2 658 | 2 603 | 2 | 6 | 21 | 21 |
| Canada and Latin America | 1 001 | 1 032 | -3 | 4 | 9 | 9 |
| **Total** | **12 413** | **12 126** | **2** | **2** | **100** | **100** |
| *Of which in Established Markets* | 9 284 | 9 134 | 2 | 0 | 75 | 75 |
| *Of which in Emerging Growth Markets* | 3 129 | 2 992 | 5 | 8 | 25 | 25 |

[1] Net sales from operations by location of third party customer. Emerging Growth Markets comprise all markets other than the Established Markets of the US, Canada, Western Europe, Japan, Australia and New Zealand.

## Net sales by region[1] – Nine months to September 30

| | 9M 2017 | 9M 2016 | % change | | 9M 2017 | 9M 2016 |
|---|---|---|---|---|---|---|
| | **USD m** | USD m | USD | cc | **% of total** | % of total |
| **Innovative Medicines** | | | | | | |
| Europe | 8 280 | 8 385 | -1 | 0 | 34 | 35 |
| US | 8 201 | 8 101 | 1 | 1 | 34 | 33 |
| Asia/Africa/Australasia | 5 760 | 5 736 | 0 | 3 | 24 | 24 |
| Canada and Latin America | 2 028 | 2 067 | -2 | 6 | 8 | 8 |
| **Total** | **24 269** | **24 289** | **0** | **2** | **100** | **100** |
| *Of which in Established Markets* | 18 108 | 18 231 | -1 | 0 | 75 | 75 |
| *Of which in Emerging Growth Markets* | 6 161 | 6 058 | 2 | 7 | 25 | 25 |
| **Sandoz** | | | | | | |
| Europe | 3 398 | 3 241 | 5 | 4 | 46 | 43 |
| US | 2 482 | 2 747 | -10 | -10 | 33 | 36 |
| Asia/Africa/Australasia | 1 014 | 1 054 | -4 | 0 | 14 | 14 |
| Canada and Latin America | 571 | 497 | 15 | 12 | 7 | 7 |
| **Total** | **7 465** | **7 539** | **-1** | **-1** | **100** | **100** |
| *Of which in Established Markets* | 5 482 | 5 639 | -3 | -3 | 73 | 75 |
| *Of which in Emerging Growth Markets* | 1 983 | 1 900 | 4 | 4 | 27 | 25 |
| **Alcon** | | | | | | |
| Europe | 1 150 | 1 130 | 2 | 3 | 26 | 26 |
| US | 1 902 | 1 889 | 1 | 1 | 43 | 43 |
| Asia/Africa/Australasia | 1 069 | 995 | 7 | 8 | 24 | 23 |
| Canada and Latin America | 339 | 354 | -4 | 5 | 7 | 8 |
| **Total** | **4 460** | **4 368** | **2** | **3** | **100** | **100** |
| *Of which in Established Markets* | 3 482 | 3 479 | 0 | 1 | 78 | 80 |
| *Of which in Emerging Growth Markets* | 978 | 889 | 10 | 14 | 22 | 20 |
| **Group** | | | | | | |
| Europe | 12 828 | 12 756 | 1 | 1 | 35 | 35 |
| US | 12 585 | 12 737 | -1 | -1 | 35 | 35 |
| Asia/Africa/Australasia | 7 843 | 7 785 | 1 | 4 | 22 | 22 |
| Canada and Latin America | 2 938 | 2 918 | 1 | 7 | 8 | 8 |
| **Total** | **36 194** | **36 196** | **0** | **1** | **100** | **100** |
| *Of which in Established Markets* | 27 072 | 27 349 | -1 | 0 | 75 | 76 |
| *Of which in Emerging Growth Markets* | 9 122 | 8 847 | 3 | 7 | 25 | 24 |

[1] Net sales from operations by location of third party customer. Emerging Growth Markets comprise all markets other than the Established Markets of the US, Canada, Western Europe, Japan, Australia and New Zealand.

## Principal currency translation rates

### Third quarter

| | **Average rates Q3 2017** | Average rates Q3 2016 | **Period-end rates Sep 30, 2017** | Period-end rates Sep 30, 2016 |
|---|---|---|---|---|
| 1 CHF | **1.039** | 1.025 | **1.031** | 1.035 |
| 1 CNY | **0.150** | 0.150 | **0.150** | 0.150 |
| 1 EUR | **1.175** | 1.116 | **1.180** | 1.121 |
| 1 GBP | **1.309** | 1.314 | **1.342** | 1.295 |
| 100 JPY | **0.901** | 0.976 | **0.888** | 0.991 |
| 100 RUB | **1.696** | 1.548 | **1.725** | 1.577 |

### Nine months to September 30

| | **Average rates 9M 2017** | Average rates 9M 2016 | **Period-end rates Sep 30, 2017** | Period-end rates Sep 30, 2016 |
|---|---|---|---|---|
| 1 CHF | **1.017** | 1.020 | **1.031** | 1.035 |
| 1 CNY | **0.147** | 0.152 | **0.150** | 0.150 |
| 1 EUR | **1.113** | 1.116 | **1.180** | 1.121 |
| 1 GBP | **1.275** | 1.393 | **1.342** | 1.295 |
| 100 JPY | **0.893** | 0.923 | **0.888** | 0.991 |
| 100 RUB | **1.716** | 1.468 | **1.725** | 1.577 |

## Income from associated companies

| (USD millions) | **Q3 2017** | Q3 2016 | **9M 2017** | 9M 2016 |
|---|---|---|---|---|
| *Share of estimated Roche reported results* | *180* | *162* | *509* | *522* |
| *Prior-year adjustment* | | | *-67* | *-68* |
| *Amortization of additional intangible assets recognized by Novartis on initial accounting for the equity interest* | *-38* | *-37* | *-110* | *-110* |
| Net income effect from Roche Holding AG | 142 | 125 | 332 | 344 |
| *Share of estimated GSK Consumer Healthcare Holdings Ltd. reported results* | *120* | *95* | *296* | *229* |
| *Prior-year adjustment* | | | *47* | *-22* |
| *Amortization of additional intangible assets recognized by Novartis on initial accounting for the equity interest* | *-1* | *-4* | *-5* | *-9* |
| Net income effect from GlaxoSmithKline Consumer Healthcare Holdings Ltd. | 119 | 91 | 338 | 198 |
| Others | 1 | 1 | 22 | 5 |
| **Income from associated companies** | **262** | **217** | **692** | **547** |

## Core income from associated companies

| (USD millions) | **Q3 2017** | Q3 2016 | **9M 2017** | 9M 2016 |
|---|---|---|---|---|
| **Income from associated companies** | **262** | **217** | **692** | **547** |
| Share of estimated Roche core adjustments | 84 | 79 | 243 | 187 |
| Roche prior year adjustment | | | 70 | 36 |
| Share of estimated GSK Consumer Healthcare Holdings Ltd. core adjustments | 13 | -1 | 49 | 69 |
| GSK Consumer Healthcare Holdings Ltd. prior year adjustment | | | -19 | 15 |
| Others | | | 1 | |
| **Core income from associated companies** | **359** | **295** | **1 036** | **854** |

## Disclaimer

This press release contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, that can generally be identified by words such as “growing,” “driven,” “continued,” “growth drivers,” “momentum,” “progress,” “launches,” “launched,” “strategic review,” “outlook,” “on track,” “guidance,” “confidence,” “growth phase,” “expect,” “expected,” “growth plan,” “launch trajectory,” “launch,” “continued focus,” “pipelines,” “option,” “priority review,” “seeks,” “proposed,” “ongoing,” “discussing,” “plans,” “under review,” “to accelerate,” “to strengthen,” “for the future,” “continues,” “continue,” “priorities,” “improving,” “reviewing,” “strategies,” “enabling,” “strategy,” “remains a priority,” “to be executed,” “aims,” “re-confirm,” “would,” “estimated,” “will,” “potential,” “pipeline,” “initiate,” “recommended,” “recommendation,” “next-generation,” “investigating,” “evaluating,” “begin evaluation,” “commitment,” “planned,” “subject to,” “Fast Track designation,” “underway,” “submitted,” “can,” or similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products; potential shareholder returns or credit ratings; or regarding the potential outcome of the strategic review being undertaken to maximize shareholder value of the Alcon Division; or regarding the potential financial or other impact on Novartis or any of our divisions of the significant reorganizations of recent years, including the creation of the Pharmaceuticals and Oncology business units to form the Innovative Medicines Division, the creation of the Global Drug Development organization and Novartis Operations (including Novartis Technical Operations and Novartis Business Services), the transfer of the Ophthalmic Pharmaceuticals products of our Alcon Division to the Innovative Medicines Division, the transfer of selected mature, non-promoted pharmaceutical products from the Innovative Medicines Division to the Sandoz Division, and the transactions with GSK, Lilly and CSL; or regarding the potential impact of the share buyback plan; or regarding potential future sales or earnings of the Novartis Group or any of its divisions; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward looking statements are based on our current beliefs and expectations regarding future events, and are subject to significant known and unknown risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those set forth in the forward looking statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for any existing products in any market, or that any approvals which are obtained will be obtained at any particular time, or that any such products will achieve any particular revenue levels. Nor can there be any guarantee that the strategic review being undertaken to maximize shareholder value of the Alcon Division will reach any particular results, or at any particular time. Neither can there be any guarantee that Novartis will be able to realize any of the potential strategic benefits, synergies or opportunities as a result of the significant reorganizations of recent years, including the creation of the Pharmaceuticals and Oncology business units to form the Innovative Medicines Division, the creation of the Global Drug Development organization and Novartis Operations (including Novartis Technical Operations and Novartis Business Services), the transfer of the Ophthalmic Pharmaceuticals products of our Alcon Division to the Innovative Medicines Division, the transfer of selected mature, non-promoted pharmaceutical products from the Innovative Medicines Division to the Sandoz Division, and the transactions with GSK, Lilly and CSL. Neither can there be any guarantee that shareholders will achieve any particular level of shareholder returns. Nor can there be any guarantee that the Group, or any of its divisions, will be commercially successful in the future, or achieve any particular credit rating or financial results. In particular, our expectations could be affected by, among other things: regulatory actions or delays or government regulation generally; the potential that the strategic benefits, synergies or opportunities expected from the significant reorganizations of recent years, including the creation of the Pharmaceuticals and Oncology business units to form the Innovative Medicines Division, the creation of the Global Drug Development organization and Novartis Operations (including Novartis Technical Operations and Novartis Business Services), the transfer of the Ophthalmic Pharmaceuticals products of our Alcon Division to the Innovative Medicines Division, the transfer of selected mature, non-promoted pharmaceutical products from the Innovative Medicines Division to the Sandoz Division, and the transactions with GSK, Lilly and CSL may not be realized or may take longer to realize than expected; the inherent uncertainties involved in predicting shareholder returns or credit ratings; the uncertainties inherent in the research and development of new healthcare products, including clinical trial results and additional analysis of existing clinical data; our ability to obtain or maintain proprietary intellectual property protection, including the ultimate extent of the impact on Novartis of the loss of patent protection and exclusivity on key products which commenced in prior years and will continue this year; safety, quality or manufacturing issues; global trends toward health care cost containment, including government, payor and general public pricing and reimbursement pressures; the particular prescribing preferences of physicians and patients; uncertainties regarding actual or potential legal proceedings, including, among others, actual or potential product liability litigation, litigation and investigations regarding sales and marketing practices, intellectual property disputes and government investigations generally; general economic and industry conditions, including uncertainties regarding the effects of the persistently weak economic and financial environment in many countries; uncertainties regarding future global exchange rates; uncertainties regarding future demand for our products; and uncertainties regarding potential significant breaches of data security or data privacy, or disruptions of our information technology systems; and other risks and factors referred to in Novartis AG’s current Form 20-F on file with the US Securities and Exchange Commission. Novartis is providing the information in this press release as of this date and does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

**About Novartis**
Novartis provides innovative healthcare solutions that address the evolving needs of patients and societies. Headquartered in Basel, Switzerland, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic and biosimilar pharmaceuticals and eye care. Novartis has leading positions globally in each of these areas. In 2016, the Group achieved net sales of USD 48.5 billion, while R&D throughout the Group amounted to approximately USD 9.0 billion. Novartis Group companies employ approximately 121,000 full-time-equivalent associates. Novartis products are sold in approximately 155 countries around the world. For more information, please visit http://www.novartis.com.

**Important dates**

| | |
|---|---|
| November 13, 2017 | R&D update and investor event in London |
| January 24, 2018 | Fourth quarter and full year results 2017 |
| March 2, 2018 | Annual General Meeting |
| April 19, 2018 | First quarter results 2018 |
| May 15-16, 2018 | Meet Novartis Management investor event in Basel |
| July 18, 2018 | Second quarter results 2018 |
| October 18, 2018 | Third quarter results 2018 |